

**Board Report**

File #: 2022-0504, **File Type:** Program**Agenda Number:** 15.

**PLANNING AND PROGRAMMING COMMITTEE
NOVEMBER 16, 2022****SUBJECT: TRANSIT ORIENTED COMMUNITIES ECONOMIC DEVELOPMENT PROGRAM AND INVESTMENT FUND****ACTION: APPROVE RECOMMENDATIONS****RECOMMENDATION**

CONSIDER:

- A. APPROVING the Transit Oriented Communities Economic Development Program (EDP) and \$5 million for the implementation of the Transit Oriented Communities Economic Development Investment Fund ("Fund") with disbursement contingent upon the Metro Board of Directors (Board) approval of the Fund Guidelines; and
- B. AUTHORIZING the Chief Executive Officer or designee to enter into multiple agreements with financial institutions, the State of California, County of Los Angeles, cities, and other eligible entities to contribute to the Fund.

ISSUE

The EDP, including the Fund, was developed in response to direction from the Metro Board of Directors (Board) to support and prevent the displacement of small businesses near transit and in, or adjacent to, Equity Focused Communities (EFCs). The proposed program includes a two-year pilot for businesses within a ½-mile radius along the recently completed K-Line and the Little Tokyo community along the soon-to-be-completed Regional Connector (Attachment A - Pilot Corridor Maps). Board approval is required to implement the EDP and establish the Fund.

BACKGROUND

The Metro Board approved a \$1 million investment in the Small Business Assistance Loan Program in August 2016. There was limited interest in the original assistance program due to some of the lending parameters. The program was in the process of being restructured when the COVID-19 global pandemic occurred. The Board took immediate steps to assist impacted businesses and partnered with the Los Angeles County Development Authority to create the COVID-19 Recovery Loan Program in May 2020, with a directive for staff to return to the Board with revised program guidelines for a longer-term small business assistance program (Attachment B - Board Motions).

Approximately \$853,000 in Small Business Assistance Loan Program funding was reallocated for the Recovery Loan Program, with repayment proceeds reserved for future iterations of the Metro small business assistance program.

In 2021, staff began restructuring the small business assistance program, to ensure that the program met the needs of businesses in the community. Metro sponsored two (2) roundtable discussions with economic development stakeholders, including financial institutions, community development financial institutions (CDFIs), chambers of commerce, community-based organizations, local jurisdictions, and business source centers. Metro has continued outreach meetings and interviews with more than 100 financial institutions-including retail and commercial banks, credit unions, investment banks, and brokerage firms-and other economic development stakeholders, including business associations, business improvement districts, chambers of commerce, community development corporations, economic development corporations, small business development corporations, think tanks, and other public sector entities helping small businesses.

TOC staff reviewed and analyzed comments received from the roundtable discussions and stakeholder interviews and conferred with colleagues from the Offices of Management and Budget, Diversity and Economic Opportunity, Countywide Planning and Development, and the Office of the Chief of Staff regarding other Metro community serving economic development activities. Metro currently offers the Business Solution Center, Business Interruption Fund, and Eat Shop Play programs to support businesses during construction, but currently there is no Metro program to support businesses near transit post-construction.

DISCUSSION

To support Metro's infrastructure and transit investment and maintain community partnerships, Metro proposes the EDP, which includes 1) the Fund and 2) Station Area Activation. The EDP outlines a comprehensive strategy to support, sustain, and grow small businesses and eligible nonprofit organizations near transit consistent with Board directives and Metro's TOC Policy Goal to stabilize and enhance communities. The EDP, including the Fund, provides critical tools to prevent the displacement of small businesses and nonprofits near transit and in or adjacent to an EFC.

The goal of the EDP is to create a safe and pleasant environment to access transit and increase transit ridership by facilitating commercial revitalization, stimulating private investment, preserving and beautifying commercial corridors, and generating commerce with resulting sales tax benefits. The EDP and the Fund are consistent with the U.S. Department of Transportation Justice40 initiatives, and the responsibilities outlined in Metro's enabling statute in the California Public Utilities Code Section 130001 including:

“(h) Transportation planning should recognize that transportation systems have significant effect on the physical and socioeconomic characteristics of the area served, and emphasis should be given to the protection and enhancement of the environment and restoration of blighted neighborhoods near community centers.”

Need

Small businesses are an important component of the economy and a key driver of production, employment, and growth. They employ approximately half of the private workforce in the U.S. There are more than 250,000 local small businesses and nearly 1.1 million sole proprietors in Los Angeles County. These businesses account for 43 percent of the local workforce and make L.A. County the country's largest small business economy. Access to capital has been a longstanding challenge for small businesses particularly those in historically disadvantaged communities. According to the National Bureau of Economic Research, since the start of the pandemic, Black-, Latino(a)-, and Asian-owned businesses have had higher closure rates than White-owned businesses nationwide. JPMorgan Chase Institute reported that over the same period, Black, Indigenous and People of Color (BIPOC) owned firms have faced larger cash balance and revenue declines than non-Latino(a) and White-owned firms, with the impact of the crisis particularly severe among Black- and Asian-owned businesses.

The Los Angeles County Small Business Ecosystem Assessment indicates that there has been a historic unmet demand of \$60 billion in capital for small businesses in L.A. County annually, with pronounced gaps of traditional and alternative lending in BIPOC neighborhoods. This unmet demand has been magnified through the COVID-19 crisis and exacerbated in BIPOC communities surrounding the K Line and Little Tokyo. The K Line opened on October 7, 2022, and the Regional Connector is scheduled to open in the coming months. Inflation is on the rise, and time is of the essence to create a program that positively integrates Metro's goal of transit expansion and the consideration of community impacts, including impacts to small businesses and nonprofits with social enterprises related to economic development.

Pilot Corridor(s)

Staff recommends launching the EDP and establishing the Fund as a two-year pilot program for businesses within a 1/2-mile radius of the K Line alignment and Little Tokyo segment of the Regional Connector (Attachment A) to maximize business preservation after construction of new rail lines. These culturally rich and vibrant communities are recognized as cultural destinations and points of interest that draw visitors. They are comprised of resilient family, women, BIPOC owned businesses and nonprofits that serve their surrounding communities. According to Civic Economics, approximately 68 percent of revenue generated by local businesses stays within the community through employment of community residents, compared to 43 percent of revenue generated by non-local businesses. The two-year pilot Fund will provide ample time to review and assess best practices, challenges, the transit experience, and ridership. It will also provide an opportunity to refine and enhance the program where challenges have been identified. The diversity of business types, sizes, and need along these corridors create an excellent opportunity to creatively address a plethora of financing challenges.

TOC Economic Development Program Components

In response to stakeholder feedback and research, the EDP includes two critical program elements: the Fund and Station Area Activation:

1. The **Fund** will be managed by a Program Administrator and provide financial resources and technical assistance to small businesses and eligible nonprofit organizations along the pilot

corridors. Metro is proposing a one-time \$5 million investment and up to \$816,000 in repayment proceeds anticipated from the COVID-19 Recovery Loan Program to establish the Fund. Metro's contribution will be leveraged with private investment and public partners to maximize the Fund's ability to assist small businesses and nonprofit organizations and transform transit-oriented communities. The Fund is intended to provide access to capital through the following products:

- *Fixed Asset Loans*
 - o Real Estate Acquisition Loans (\$25,000 to \$5 million)
 - o Commercial Façade and Tenant Improvement Loans (\$25,000 to \$250,000)
- *Short-Term and Long-Term Working Capital Loans* (\$500 to \$500,000)

Underwriting should: (1) be commensurate with the loan types and terms offered; (2) consider the nature of the markets where the loans are made; (3) consider the borrower's willingness and ability to repay; (4) establish a credit review process; (5) take adequate account of concentration risk; and (6) be appropriate for the institution's size, nature, and business activity.

Eligibility criteria, funding partners and their respective contributions, metric-based results, and underwriting guidelines ("Fund Guidelines") will be refined in consultation with the Program Administrator and presented to the Board prior to program launch and Metro's \$5 million contribution.

Technical Assistance

Technical assistance is a vital component of the Fund. Business technical assistance efforts develop sustainable and financially stronger businesses. It helps small businesses compete. Lenders require substantial documentation reflecting the borrower's management capacity, business track record and most importantly, showing that the business can generate the income needed to repay the debt. While the existing Metro construction mitigation programs offer general technical assistance to businesses during construction, the technical assistance proposed here is specifically intended to assist businesses in accessing the resources of the proposed Fund going forward, such as application preparation, credit counseling, reporting requirements, etc.

Funding Partnerships

Staff is working with financial institutions, the State of California, County of Los Angeles, cities, and other eligible entities to contribute to the Fund. Metro's seed money establishes the Fund, but more resources are needed to implement the targeted two-year pilot program. A \$5 million commitment will allow Metro to attract additional investment into the Fund and have a measurable impact along the identified corridors. Partnering with existing programs to build on Metro's commitment can considerably increase the participation of financial institutions and

private investment.

The American Rescue Plan Act of 2021 reauthorized and expanded the State Small Business Credit Initiative (SSBCI) Program, providing \$10 billion to expand access to capital for small businesses emerging from the pandemic, build ecosystems of opportunity and entrepreneurship, and create high-quality jobs. California applied for funding and was awarded \$1.81 billion to help small businesses over the next 10 years. The funds have been equally distributed between the California Pollution Control Financing Authority (CPCFA) in the Office of the Treasurer and the *IBANK* in the Governor's Office. The funds will be used for a Collateral Support Program and Loan Guarantee Program that will offer up front assistance to businesses with gaps in collateral during the underwriting process as well as a mechanism for private lenders to capture funds from defaulted loans.

Metro has been in active conversations with the State about the Fund, and its compatibility with State programs. Should the Board approve the EDP and authorize the establishment of the Fund, Metro will seek to formalize partnerships with the State, which will better position the Fund for private investment. Those agreements would be contingent on Board approval of the Fund Guidelines.

Program Administrator

CDFIs will be requested to respond to a Program Administrator Request for Proposal (RFP). As mission-driven lenders, CDFIs are focused on helping communities that are underserved by traditional financial institutions to become participants in the economic mainstream. They inject capital into these communities by financing small businesses, nonprofits, microenterprises, commercial real estate, community facilities, and affordable housing with low-interest loans from public and private sources. The CDFI Fund at the U.S. Department of the Treasury certifies CDFIs and mandates that at least 60 percent of CDFI financing goes into low- and moderate-income (LMI) populations and other underserved communities. Large financial institutions realize the benefits of CDFIs and partner with them to ensure compliance with the Community Reinvestment Act. The SSBCI also identifies CDFIs as lenders for their programs.

Should the Board approve the EDP and establishment of the Fund, staff anticipates issuing an RFP in mid-2023 to secure a Program Administrator. While staff will require one point of contact for the program administration, the scope of work will include significant technical assistance and expert knowledge of several programs. Therefore, applicants will be allowed to submit alone or with entities that can assist in meeting program requirements.

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2. The **Station Area Activation** component of the EDP utilizes Metro real estate and plays a crucial role in small business sustainability and growth. Station Area Activation incorporates previous Board actions that stimulate economic activity, including the Small Scale Retail Pilot Program which will be initiated at the Willowbrook/Rosa Parks Station, restructuring of the Plaza Vending Program at the Westlake MacArthur Park Station, and facilitating activation at the Compton Station with consideration for additional sites. Additional opportunities may arise from ground floor commercial space in Metro Joint Development projects and resulting from

Metro's Housing Accelerator initiatives.

DETERMINATION OF SAFETY IMPACT

These recommendations have no adverse impacts on safety, but place, social, individual, and temporal characteristics impact perceived safety in rail-based station environments. Lighting, surveillance, other people's behaviors, time of day and one's gender are among the important characteristics impacting safety perceptions. Open environments and high visibility of and by others is important in several studies. The presence of activities such as cafes, kiosks, or shops to keep these areas busy creates visibility, and natural surveillance increases safety and transit ridership.

FINANCIAL IMPACT

The adopted FY 2023 budget includes \$200,000 in Cost Center 2210, Project 610025 (TOC Small Business) to initiate program administration. The \$5 million dollars requested to establish the pilot Fund represents a one-time investment used to secure additional financial resources, and to create a revolving lending program. Fund disbursement is contingent upon Board approval of the Fund Guidelines. Since this is a multi-year program, the Cost Center Manager and Chief Planning Officer will be responsible for budgeting in future years. Although it cannot be directly quantified at this time, helping small businesses thrive will result in additional sales tax dollars.

Impact to Budget

The funding for this program is General Funds. These funds are eligible for Metro bus and rail capital and operating expenditures.

EQUITY PLATFORM

The EDP's Fund has the potential to positively impact over 200 small, legacy and locally owned businesses, and nonprofit organizations with social enterprises that have 1 - 100 employees located within 1/2 mile of the K Line and the Little Tokyo segment of the Regional Connector, the surrounding community, and transit riders. Business ownership reflects several cultural backgrounds including, African American, Asian American, Latinx, and White. Women own 36 percent of the businesses, and only 30 percent of these businesses own the facility in which they operate.

The EDP will provide: 1) technical assistance and access to capital, 2) access to private equity financing to fund startups, early-stage, and emerging companies, and 3) a pipeline to sustainability and growth for small businesses and nonprofits with a social enterprise. A social enterprise is an organization or venture (within an organization) that advances a social mission through market-based strategies. These nonprofit organizations, entrepreneurs, and merchants with microbusinesses, such as those permitted to operate on Metro plazas as part of our station area activation activities will benefit from the EDP and the Fund.

The surrounding community and transit riders also benefit from the EDP with a safe and pleasant environment to access transit by facilitating commercial revitalization, stimulating private investment,

preserving and beautifying commercial corridors, and generating commerce. The EDP offers a comprehensive approach to help prevent displacement of small businesses and cultural displacement.

If the Fund is successful, the program may be expanded to other corridors throughout the county, and thus expand these opportunities to these communities and more as future transit corridors come online. Additionally, Metro's outreach will expand beyond the over 100 economic development stakeholders it has engaged to include local economic development organizations with expertise in these communities. The proposed actions mitigate lingering construction impacts and provide a strategy to address the challenges of small businesses in BIPOC communities facing rising inflation and rents while enhancing the ridership experience and areas surrounding Metro's stations.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

These recommendations support Vision 2028 Strategic Plan Goals 3 and 4. The EDP and the Fund are grounded in enhancing communities and lives through mobility and access to opportunity (Strategic Goal 3) by working with economic development stakeholders to leverage the public transportation system to create a safe and pleasant environment to access transit and increase transit ridership by facilitating commercial revitalization, stimulating private investment, and supporting the preservation and growth of small businesses near transit. Additionally, the need for transforming LA County through regional collaboration and national leadership (Strategic Goal 4) is greater than ever with the anticipation of the World Cup and Olympics. Metro is well-positioned to partner with LA County jurisdictions to create a national model for supporting small businesses in underrepresented communities by leveraging transportation assets to spur revitalization, enhance the ridership experience, and address safety concerns.

ALTERNATIVES CONSIDERED

The Board could choose to not approve the EDP and the establishment of the Fund. Staff does not recommend this. Gentrification and displacement are contrary to Metro's Equity Platform and Strategic Goals. With rising inflation, increasing rents, and the lack of access to capital, the consequences of non-action include the potential displacement of small, BIPOC, legacy businesses renting along the proposed corridors, and disinvestment in the communities surrounding Metro's multibillion-dollar transit investment.

NEXT STEPS

Should the Board approve these recommendations, staff will develop the RFP for a Program Administrator and finalize agreements with financial institutions, the State of California, County of Los Angeles, cities, and other eligible entities in early 2023. It is anticipated that the RFP will be issued in mid-2023 concluding with the launch of the Fund at the end of the year. Staff will return to the Board with the selected Program Administrator, and Fund Guidelines. Board approval of the Fund Guidelines will be required prior to launching the Fund and depositing Metro's Fund contribution.

ATTACHMENTS

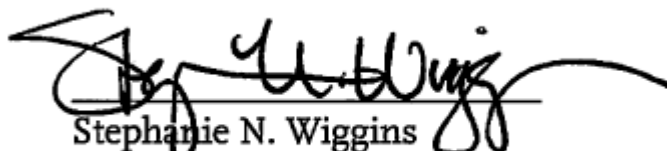
Attachment A - Pilot Corridor Maps

Attachment B - Metro Board Motions

- September 2015 Board Motion (File Number 2015-1479)
- April 2020 Board Motion (File Number 2020-0307)
- January 2021 Board Motion (File Number 2020-0910)

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