



## Board Report

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### CONSTRUCTION COMMITTEE FEBRUARY 21, 2019

**SUBJECT: METRO PILOT BUSINESS INTERRUPTION FUND (BIF)**

**ACTION: APPROVE RECOMMENDATIONS**

#### **RECOMMENDATION**

AUTHORIZE the Chief Executive Officer (CEO) to:

- A. AWARD a two-year base period, firm fixed price Contract No. PS56079000 with Pacific Coast Regional Small Business Development Corporation (PCR) to serve as the fund administrator for Metro's Pilot Business Interruption Fund (BIF) in the amount of \$1,585,246 with two, one-year options, in the amounts of \$720,882 and \$650,306, respectively, with an optional start-up of \$391,576 for the inclusion of future new rail lines in this pilot, for a total amount of \$3,348,010;
- B. EXPAND the Pilot Business Interruption Fund to include eligible small "mom and pop" businesses directly impacted by construction of the Purple Line Extension, Section 3; and
- C. RECEIVE AND FILE the status report of the Pilot Business Interruption Fund (BIF).

#### **ISSUE**

In October 2014, Metro's Board issued Motion 57 (Attachment A) that authorized the CEO to establish a pilot program for a special Business Interruption Fund (BIF) for "mom and pop businesses" located along the Crenshaw Line, the Little Tokyo area along the Regional Connector and Phase I of the Purple Line Extension. Since the adoption of the Motion and the implementation of the BIF, Metro has expanded the program to include "mom and pop" businesses within the 2nd/Broadway segment of Regional Connector including Section 2 of the Purple Line Extension. Metro has continued to provide financial assistance to directly impacted eligible businesses through the contracted professional services of Pacific Coast Regional Small Business Development Corporation (PCR), a Community Development Financial Institution (CDFI) and Small Business Development Center (SBDC) serving as the BIF fund administrator.

The authorization of the professional services contract supports the ongoing implementation of the BIF as approved by Metro's Board of Directors.

## **BACKGROUND**

Upon Board authorization in 2014, Metro staff convened a cross-function team to develop a strategy for the implementation and administration of the BIF. Staff initiated several actions such as: conducted peer agency review of Houston Metro's Business Assistance Fund Program, retained the services of dedicated counsel to provide oversight for the development of business loss claims guidelines and procedures, conducted a meeting with the Design Build Contractors for Crenshaw/LAX and Regional Connector transit projects, identified two approaches for the administration and implementation of the BIF; and conducted a Measure R policy analysis and funding assessment.

The BIF had a soft-launched in February 2015 and formally launched in April 2015. In December 2015, Metro's Board authorized the expansion of the BIF to include "mom and pop" businesses directly impacted by unprecedented full street closures with a duration greater than six continuous months such as the 2nd/Broadway segment of the Regional Connector; and Metro's Board authorized the expansion of the BIF to include Section 2 of the Purple Line Extension in December 2016. The pilot program has been operational for four-years of the authorized eight-year term.

## **DISCUSSION**

As a result of staff's efforts, the agency has provided financial assistance and support to more than 300 "mom and pop" businesses directly impacted by transit rail construction. As of December 13, 2018, Metro has awarded 794 grants exceeding the total amount of \$18.5 million to "mom and pop" businesses throughout the project areas. The early successes of the pilot program are demonstrated in the measures of effectiveness of which 93% of businesses have remained in operation six months post grant award; 86% one-year post grant award; and 82% two years post grant award. Moreover, Metro has helped retain more than 1,200 jobs in the diverse business corridors through the award of BIF grants to "mom and pop" businesses.

This report provides a high-level update on the BIF in relation to small business outreach and engagement, overall performance and utilization including ongoing monitoring and oversight; and preparations for the pilot program assessment.

### **A. Small Business Outreach and Engagement**

Staff, along with PCR, continues to implement various outreach activities and methods to inform and educate small businesses about the BIF, provide direct support throughout the application process and link businesses to other small business support services such as Metro's Crenshaw/LAX Transit Project Pilot Business Solution Center (BSC); Metro's Little Tokyo Community Relations Office and/or the Little Tokyo Small Business Center co-located at Metro's Community Relations office including

PCR’s Small Business Development Corporation; and Metro’s Eat-Shop-Play program.

Recognizing many small businesses are independent and/or family owned and operated, direct proactive outreach and canvassing continues to be the most effective means in engaging small “mom and pop” businesses along each transit project corridor; and providing them with direct support during the BIF application process. Therefore, the following outreach activities are ongoing:

- Metro and PCR continue to advance coordinated outreach and communication strategies to reach businesses in each of the transit rail corridors; such as:
  - Hosting BIF workshops at business locations
  - Partnering with Metro’s BSC to co-host small business informational sessions and workshops
  - Collaborating with Metro’s Eat-Shop-Play to implement innovative strategies to engage small businesses.
- PCR’s Business Advisors continue direct canvassing and provide hands-on support and guidance to business owners.
- Metro staff continues to identify opportunities to collaborate with community leaders, business leaders and stakeholders for the implementation of customized outreach strategies; including participate in community and project meetings along each corridor.
- Staff also continues to leverage various platforms to publicize the pilot program and reach the business community such as: a dedicated BIF website, social media platforms such Facebook and Twitter including The Source and El Pasajero; and local print media publications.

The following table highlights outreach activities by project area.

<b>BIF Outreach Activities by Project Area - Reporting as of CY 2018 Q3</b>					
	<b>Crenshaw/LAX Transit Project</b>	<b>Purple Line Extension, Section 1</b>	<b>Purple Line Extension, Section 2</b>	<b>Little Tokyo Area, Regional Connector</b>	<b>2nd/Broadway Segment, Regional Connector*</b>
Canvassing	85	90	35	16	34
Community Meetings/Events	77	32	20	49	4
Legislative Briefings	8	6	4	2	9
Workshops	19	17	1	10	7
<b>Total</b>	<b>189</b>	<b>145</b>	<b>60</b>	<b>77</b>	<b>54</b>

\*Segment eligibility based on full street closure with duration greater than six continuous months.

**B. Performance and Utilization**

The level of commitment and effort of Metro staff to engage small businesses and achieve the Board of Director’s objective to support “mom and pop” businesses directly impacted by transit rail construction is demonstrated through the measurable outcomes of the pilot program. Eligible “mom and pop” businesses in each transit project area have received BIF grants in accordance to the BIF Administrative Guidelines (Attachment B).

Following summary of BIF grant application metrics through December 13, 2018:

- BIF Applications Submitted: 1,036
  - BIF Applications Awarded: 794
  - BIF Applications Pending Completion: 142
  - BIF Applications Deemed Ineligible: 92
  - BIF Applications Denied: 2
- BIF Grant Payments (total value): \$18,508,832.71

The following table summarizes the BIF application metrics by project area.

<b>BIF Application Metrics by Project Area - Reporting as of 12/13/18</b>					
	<b>Crenshaw/ LAX Transit Project</b>	<b>Purple Line Extension, Section 1</b>	<b>Purple Line Extension, Section 2</b>	<b>Little Tokyo Area, Regional Connector</b>	<b>2nd/ Broadway Segment, Regional Connector*</b>
BIF Applications Submitted	621	226	41	104	44
BIF Grants Awarded	460	180	27	91	36
BIF Applications Pending Completion	97	29	13	3	0
BIF Applications Deemed Ineligible	58	16	0	10	8
BIF Applications Denied	2	0	0	0	0
BIF Grant Amount Awarded	\$10,380,384.01	\$4,594,161.83	\$736,587.60	\$1,847,535.24	\$950,164.03
Business Count	185	70	19	33	23

Businesses Receiving Multiple Grants	125	43	7	29	10
Average BIF Grant Payment	\$22,566.05	\$25,523.12	\$27,281.02	\$20,302.59	\$26,393.44

\*Segment eligibility based on full street closure with duration greater than six continuous months.

The following data summarizes the BIF Measures of Effectiveness.

BIF Measures of Effectiveness - Reporting as of CY 2018 Q3	Goal	Actual
Number of businesses referred to support services post grant award	75%	100%
Number of completed applications processed within 9 business days	100%	97%
Client satisfaction rating (via survey): <= 30 days after grant award	100%	87%
Number of businesses remaining in business post grant award/support for: 6 months (248 remain open out of 267)	100%	93%
Number of businesses remaining in business post grant award/support for: 12 months (187 remain open out of 220)	100%	86%
Number of businesses remaining in business post grant award/support for: 24 months (112 remain open out of 139)	100%	82%

### C. Program Monitoring and Oversight

Over the course of performing oversight and monitoring of the pilot program, Metro staff continues to assess lessons learned and the overall performance of the program. Recognizing the importance to maintain a fiscally prudent yet efficient program that meets the objective of providing access to financial assistance to directly impacted “mom and pop” businesses while maintaining a nexus to Metro’s construction activity; staff continues to maintain the integrity of the program through adherence to the BIF Administrative Guidelines. The BIF is a first-ever pilot program for Metro hence staff continues to assess construction impacts through the coordinated construction verification process including assess the applicability of the program guidelines; and gain lessons learned that have led to adjustments to the pilot program. Throughout the implementation of the pilot, staff has maintained the integrity of the program through consistent and equitable application of the guidelines.

Following are examples of adjustments made to the pilot program through administrative

amendments to the BIF Administrative Guidelines:

- Definition of “mom and pop” businesses: Staff clarified the definition of “mom and pop” businesses as 25 or fewer total full-time employees.
- Commercial property owners: The BIF Administrative Guidelines were amended to include two examples for the calculation of award amount for commercial property owners.
- Maximum grant amount: The guidelines were amended to clarify the language pertaining to maximum allowable annual grant amount.
- Loss of goodwill compensation: In coordination with Metro Real Estate and County Counsel the guidelines were amended to include language pertaining to business owners that receive loss of goodwill compensation.

Furthermore, Metro’s BIF Administrative Guidelines also require an annual audit of the program to be conducted by Metro’s Management Audit Services Department (MASD). The objective of the audit is to determine compliance with the Administrative Guidelines including the Fund Disbursement Procedures. MASD has performed three annual audits in May 2016, September 2017 and October 2018. In addition, the Inspector General (IG) conducted a program audit in July 2018. Although the audits concluded that the pilot program has been administered in accordance to the BIF Administrative Guidelines and Fund Disbursement Procedures, staff continues to perform ongoing oversight of the program and per the recommendation of MASD recently identified opportunities to strengthen the fund administrators’ Standard Operating Procedures (SOPs).

#### **D. Pilot Program Assessment**

Recognizing the BIF is Metro’s first-ever pilot program to provide financial grant assistance to small “mom and pop” businesses directly impacted by transit rail construction, the ability to assess the demonstrated outcomes and impacts to the supported business corridors and the local economy is essential. The opportunity to facilitate a comprehensive assessment of the pilot program will occur upon the completion of the first transit rail construction project for which the BIF provided financial assistance to small businesses; which is the Crenshaw/LAX Transit Project. Staff recognizes the Crenshaw/LAX Transit Project as the “anchor” project for the pilot BIF in that it was the first project in operational state with “mom and pop” businesses experiencing direct impact upon the initial implementation of the program. In addition, as staff continues to assess the construction impacts to the small businesses through the construction verification process, “mom pop businesses” located along Crenshaw/LAX transit corridor have demonstrated an elevated degree of impact based on the construction activity which is demonstrated through the increased number of BIF applications and grantees along the transit rail alignment.

Metro staff will initiate a comprehensive case study assessment of the pilot program upon the completion of the “anchor” transit rail project. Through a comprehensive assessment staff seeks to demonstrate the measurable outcomes and effectiveness of the BIF through in-depth analysis of

economic and socio-economic indicators such as:

- Direct and indirect benefits: Recognizing the BIF compensates impacted businesses for loss of revenue, the compensation provided through the program is a direct benefit to businesses including the local and regional economy.
- Business resiliency: The program strives to help businesses, communities, and the local economy sustain the challenges of construction and remain operational to net the benefits of transit rail construction.
- Socio-cultural direct and indirect benefits: To understand the correlated benefits of the financial and supportive services provided through the program to diverse “mom and pop” businesses such as the South Los Angeles business community which is impacted by the Crenshaw/LAX transit project and includes the Little Tokyo community of the Regional Connector (which is an Environmental Justice community) among others.

Moreover, the comprehensive assessment of the pilot program will also serve as resource to support a policy determination regarding the future state of the BIF. Currently, the pilot program has Board of Directors authorization through October 2022.

### **DETERMINATION OF SAFETY IMPACT**

Approval of this recommendation will not impact the safety of Metro’s patrons or employees.

### **FINANCIAL IMPACT**

Metro Board of Directors directed staff to identify \$10 million in eligible annual funds to support the annually funded pilot program for an estimated forecast of eight-year (8) term thus \$80 million cost for the pilot program. The actual annual cost continues to be assessed based on the actual BIF claims for each existing BIF transit rail project. The administrative cost for the implementation of the pilot program are allocated from Measure R Administration funds, and the remaining for the grant fund are allocated from a combination of Proposition C 25% Direct funding (one third) and Measure R Transit Capital Improvement Sub-fund (two thirds) and/or appropriate sources as identified by Office of Management & Budget (OMB).

#### **Impact to Budget**

Measure R Administration funds were previously identified as eligible for this expense through prior Board of Directors authorization and approval. The annual appropriation of the funding source does not impact transit operations and/or capital projects/programs.

### **IMPLEMENTATION OF STRATEGIC PLAN GOALS**

The implementation of the Pilot Business Interruption Fund aligns to strategic goal 3 - enhance

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communities and lives through mobility and access to opportunity; and goal 5 - provide responsive, accountable, and trustworthy governance within the Metro organization.

**ALTERNATIVES CONSIDERED**

1. Utilize Metro staff to perform the fund administration services for BIF. This alternative is not recommended, because Metro does not have the required staffing availability, dedicated resources or expertise to serve as a financial administrator such as those possessed by a community development financial institution. In addition, the program is currently supported by one dedicated FTE that was authorized through the original Board authorization. Any future expansion and/or formulization of the pilot program will require additional Metro staffing.

**NEXT STEPS**

Upon Board approval, staff will execute the contract with Pacific Coast Regional Small Business Development Corporation and will continue to provide BIF status reports to Metro's Board of Directors.

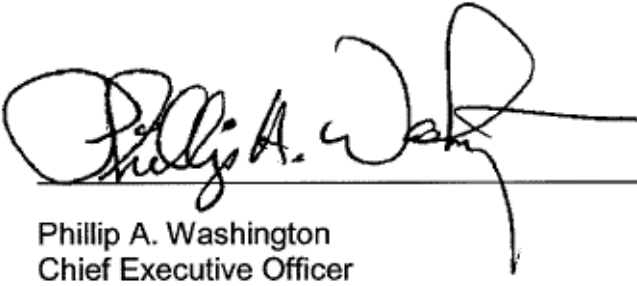
**ATTACHMENTS**

- Attachment A - Motion 57
- Attachment B - BIF Administrative Guidelines
- Attachment C - Procurement Summary
- Attachment D - DEOD Summary

Prepared by: Paula Carvajal-Paez, Business Interruption Fund Manager, Diversity and Economic Opportunity, (213) 922-4258  
Shalonda Baldwin, Deputy Executive Officer, Diversity and Economic Opportunity (213) 418-3265  
Miguel Cabral, Executive Officer, DEOD (213) 418-3270

Reviewed by: Debra Avila, Chief Vendor/Contract Management Officer, Vendor/Contract Management, (213) 418-3051





Phillip A. Washington  
Chief Executive Officer