

REVOLVING LOAN FUND WORKSESSION



City of Berkeley | Office of Economic Development
City Council Meeting
July 18, 2017

Agenda

1. Program Overview & History
2. Loan Portfolio
3. Marketing & Outreach
4. Loan Application and Review: Process & Timeline
5. Target Area: Current and Historic
6. Research Findings
7. Questions for Consideration
8. Discussion





PROGRAM OVERVIEW & HISTORY

Revolving Loan Fund (RLF): Program Overview

- Offers loans with attractive interest rates and terms.
- Facilitates small business expansion by funding equipment, working capital, inventory, and real estate.
- Designed as a tool for equitable economic development.
- Nonprofits & Arts organizations are also eligible.
- RLF Goals:
 - *Support the creation and retention of permanent full-time jobs*
 - *Facilitate investment and commercial growth and revitalize commercial corridors and businesses throughout the City of Berkeley.*

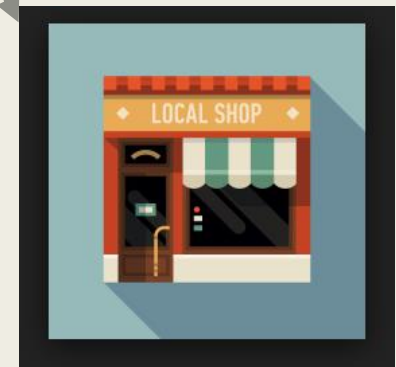
Loan Fund 101



Economic Development Administration (US Department of Commerce) seeds RLF program with \$500,000 (1980).

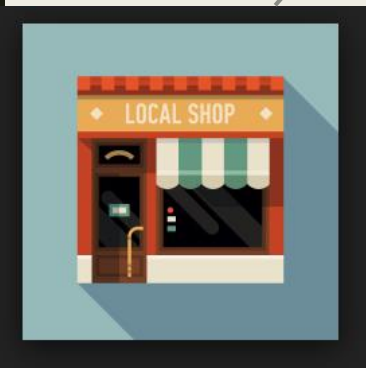
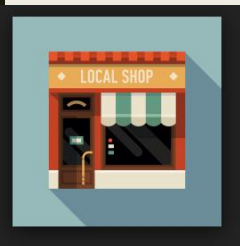


City makes loans to Berkeley Businesses with these funds

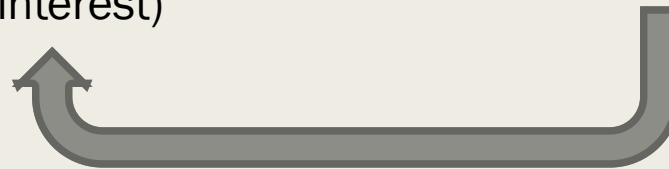


The \$ Revolves...

The loan recipients pay back the loans (with interest) to the City



The City makes MORE loans to Berkeley Businesses with the funds (repaid loans + interest)



What Are We Offering?

- Loan Size:
\$35,000 to
\$150,000
- Interest
Rate: Prime
(currently
4.25%) + 2%
- Repayment:
5 - 7 year
term

got funds?



City of Berkeley Revolving Loan Fund

If you're a Berkeley-based business, we can assist you in obtaining financing for your start up, build out, business expansion, and other working capital needs. For more info, contact:



Office of
Economic Development

(510) 981-7536

ci.berkeley.ca.us/loanfund/

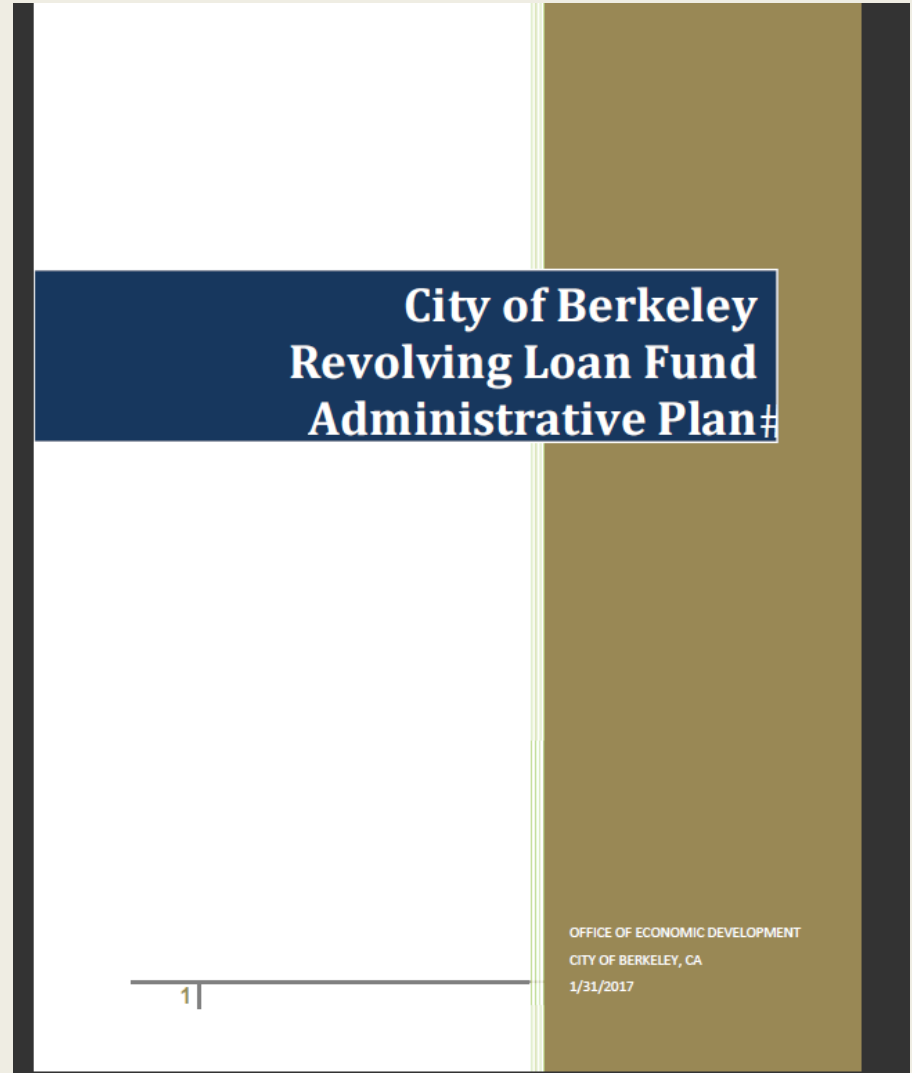
Loan Administration Board (LAB)

- Program oversight and loan review
- Commission Structure, 9 seats, Publicly Noticed Meetings
 - Two Commissioners with Business Expertise
 - Three Commissioners with Credit and Banking Experience
 - One Lawyer
- Technical Advisors
- Business Development (new loan referrals)
- Site Visits (for active loan recipients)



RLF Administrative Plan

- Approved by the Economic Development Administration (EDA)
- Updated every 5 years
- New Administrative Plan:
 - *Streamlined Application Process*
 - *Typical Loan Size Expanded*
 - *Loan Servicing in OED*





REVOLVING LOAN
FUND
PROGRAM
PORTFOLIO



RLF Fund Utilization

Balance Available for Lending As of March 31, 2017

	Total
RLF Principal Outstanding on Loans	\$352,005
Pending Loans (approved, but not disbursed)	\$150,000
Current Balance Available for Lending	\$208,531
RLF Current Capital Base	\$710,536

Capital Base: (Original Grant of \$500,000) + Program Income – Losses on Loans

Program Income: (Interest from loans) + Earnings on Non-Sequestered Funds + Fees Charged (i.e. \$200 Application fee) – Administrative Fees (i.e. Marketing and Underwriting Costs)

Current Balance Available for Lending: (Capital Base) – (Principal Outstanding on Current Loans) – (Pending Loans, committed but not disbursed)

RLF Loan Portfolio

	Number of Loans	RLF Loaned	RLF Principal Outstanding	Loan Losses
Total Active Loans	7	\$555,555	\$352,005	-
Fully Repaid Loans	26	\$1,275,527	-	-
Written Off Loans	8	\$467,890	-	\$350,463
Total Loans	41	\$2,298,417	\$352,005	\$350,463

Program Metrics	Total Loans	Active Loans
Total Non-RLF \$ Leveraged	\$6,264,659	\$758,243
Private Sector Jobs Created	205	37
Private Sector Jobs Saved	49	23
Total Private Sector Jobs	253	60

Current RLF Borrowers



- The Vault Café
- East Bay Media Center



Current RLF Borrowers



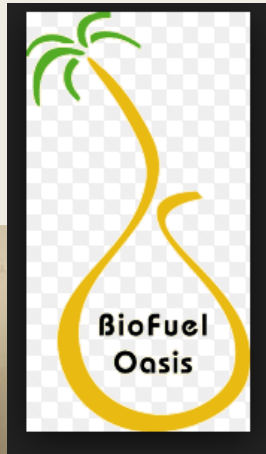
Photo courtesy of Kitchen on Fire

Kitchen on Fire co-owners Olivier "Chef Olive" Said & nutritionist Lisa Miller



- Kitchen on Fire (Cooking School)

Current RLF Borrowers



- Biofuel Oasis (Service Station)

Current RLF Borrowers



- SlingFin
(Outdoor Gear)



Current RLF Borrowers



- Anton Salon
- Minuteman Press



Loans By Business Type



RLF Recipient Demographics

	Number of Loans	\$ Loaned	Number of Jobs [^] - Created and Saved
Minority Owned	17	\$809,840	115
Women Owned	10	\$415,300	102
Totals	24*	\$1,225,140	217

**Total Number of Loans: Ownership self identifies as minority/women (i.e. three loans, are counted in both rows) – for a total of 24 loans issued (out of 41 total loans).*

[^]Number of Jobs: (Created and Saved) express a workforce composition number reported by all RLF loan recipients.

The slide features two large, thick black L-shaped brackets. One is positioned in the top-left corner, and the other is in the bottom-right corner, framing the central text.

FUND MARKETING AND OUTREACH

Marketing & Outreach

- Local Media
- Brochure and Website
- Word – of – Mouth Outreach
- Loan Board Commissioners
- Commercial District Associations



<http://www.ci.berkeley.ca.us/loanfund/>

Fixed Interest Rates:

WSJ Prime Interest Rate, at time of loan approval plus 2 percent.
For the current rates click on the following link: [Bank Rate.com](#)

Marketing & Outreach

EAST BAY EXPRESS

OAKLAND, BERKELEY, AND EAST BAY NEWS, EVENTS, RESTAURANTS, MUSIC, & ARTS

LOCAL MONEY *for your* **GOOD LOCAL BUSINESS**

PROSPERITY

LOANS

Social Impact

ON

ding

The graphic features a central illustration of a woman with dark hair and a pearl necklace, wearing a tan blazer. Surrounding her are several speech bubbles and text elements. At the top, a teal banner reads 'LOCAL MONEY for your GOOD LOCAL BUSINESS'. To the left, a thought bubble contains the word 'PROSPERITY'. To the right, a green speech bubble says 'LOANS'. Below that, a teal rounded square contains the text 'Social Impact'. On the far left, a blue speech bubble has 'ON' and a red one has 'ding'. The background is a light, textured grey.

Publication date: March 2015

CITY OF BERKELEY

Office of Economic Development

Do you need funding to grow your Berkeley business?

Learn more online:
ci.berkeley.ca.us/loanfund/

City of Berkeley Revolving Loan Fund

We can assist you in obtaining financing for your start-up, business expansion, build out, and other working capital needs.

Check out the program today!

MEDIA CENTER
VIDEO
DUPLICATION
LIGHTING
TRAINING
PAINT/GLASS

The advertisement is a vertical flyer with a light green and white background. At the top left is the City of Berkeley logo. Below it is the text 'Office of Economic Development'. To the right is a large question: 'Do you need funding to grow your Berkeley business?'. Below this is a green circular icon with a white dollar sign and a circular arrow. Further down is the text 'Learn more online: ci.berkeley.ca.us/loanfund/'. Below that is a photograph of a modern building with a sign that says 'Digital One'. To the right of the photo is the text 'City of Berkeley Revolving Loan Fund'. Below the photo is another photograph of an interior space with people sitting at tables. To the right of this photo is the text 'We can assist you in obtaining financing for your start-up, business expansion, build out, and other working capital needs.' At the bottom right is the text 'Check out the program today!'. At the bottom left is a small box with the text 'MEDIA CENTER VIDEO DUPLICATION LIGHTING TRAINING PAINT/GLASS'.

Marketing & Outreach

May 25, 2017

BERKELEY TIMES

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got funds?

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ci.berkeley.ca.us/loanfund/

Editor's note: This business profile was sponsored in part by the City of Berkeley's Office of Economic Development. Merchants who don't qualify for traditional loans can apply to the City of Berkeley's Revolving Loan Fund, which provides access to capital to help build out leased space, lease jobs, and grow their businesses. Past recipients of the federally-funded program have used the loans to open a second business location, upgrade equipment and refurbish their building facades. The Revolving Loan Program can be used by just about any kind of business as long as they are located in Berkeley. Approximately \$400,000 in loans are at work in small businesses in Berkeley community today - including Anton Salon.

For more info about the revolving loan fund, contact the Office of Economic Development, (510) 981-7531, ci.berkeley.ca.us/loanfund

ANTON SALON



Photos: (left) An interior view of Anton Salon, located near the corner of College Ave. & Russell St., on a recent Saturday morning. • (right) In the newly expanded spa Annex at the salon, master nail artist Marlene Clark poses the finger nails of a client.

Meet José Escobedo and Joseph Aguiar (aka José & Joe)

Formerly he was a nurse. But because he has always had an eye for aesthetics and a dream of owning his own salon, José Escobedo began attending beauty school on the side. Then, 11 years ago, he began living his dream when he left the health-care industry and joined a salon on Shattuck Avenue. That's when José fell in love with the Berkeley community and where he began developing a client base that has followed him to his current place of employment, Anton Salon, located at 2087 College Ave. (near Russell St).

It's a business that José owns with his partner, Joseph Aguiar, who also happens

to be a veteran of the health-care industry (though formerly Joe was an administrator). And if it's dream come true, which is why José and Joe, José and Joe are so committed to a vision of nurturing their clients with a wide array of personalized beauty services.

Constantly, when José began sharing his vision of owning his own salon here, he was discouraged by industry veterans. Someone once told him that Berkeley residents lack an interest in beauty. "That has always been it differently: beauty is happiness, it's about feeling alive and empowered. Berkeley is full of beautiful people

and I like to see myself as nurturing them of that," José recently told Berkeley Times. Anton Salon Annex is an adjoining commercial space. In addition to hair services, Anton Salon now offers manicures, pedicures, and waxing services.

"We all need beauty in our lives, and that means something different to everyone," commented one loyal client, who confessed that she's a Zen Buddhist who has needed her for the past two decades. Indeed, for many in Berkeley, Anton Salon is where art meets beauty. To learn more about the salon and its expanding services, or to schedule an appointment, go to antonsalon.com or call (510) 647-0866.



Photo captions: 1. Anton Salon co-owners Joseph Aguiar (left) and José Escobedo are residents of the Elmhurst Elvans and so manage their daily commute by foot. • 2. Stylist Ryan Berry posing with Winder who's famous on YouTube. • 3. A quarterly ritual, Anton Salon stylist Mary Thi cross and stylist her sister Simah Thi as well as her entire family.

May 31, 2017

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KITCHEN on FIRE
Cooking up Fun since 2005

About Olivier Said & Lisa Miller

Since 2005, Kitchen on Fire has been offering cooking classes to people of all skill levels. Located at 1506 Shattuck Avenue, on the second floor of Hesperian Design, it's a kitchen and a creative space, where folks go to learn about good food - while having all sorts of fun.

After paying off an initial loan provided by the City of Berkeley's Revolving Loan Program, Kitchen on Fire recently obtained a second loan to fund improvements in the kitchen, to expand cooking experiences, and help promote the kitchen.

"Why wouldn't we," said Lisa Miller about the program. "The City has been very helpful as we've grown the business."

Olivier Said (a.k.a. Chef Olivier) knows why he is popular with his students. He learned to cook

from his mother and aunt. In fact, in France, his mother's side of the family has been involved in the restaurant business since the 1750s.

"I learned from my mother and her sister, so I was never beaten down like the chefs coming out of culinary schools," he griped. Perhaps that's why Chef Olivier's classes are so much fun. "Cooking is not about doing things 'my way,'" it's about building confidence.

One of his first lessons involves using the oven and how to cook. According to Chef Olivier, all sizes when it's at the correct temperature. "If you're not being precise, you'll ruin the protein."

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Often when someone signs up for a cooking class, they also have an interest in nutrition even if it's not apparent at first. That's why nutritionist Lisa Miller participates in Kitchen on Fire's 12-week cooking series.

"Usually something I say during class triggers something. The deeper questions come later, and typically, they're personal - so personal that they are not discussed in the classroom."

Lately, many students have been asking about diabetes, heart disease, high blood pressure, or osteoporosis, and weight gain. As a former competitive athlete, Miller takes nutrition seriously. "When she began her studies, she intended to help other athletes, but quickly learned that she was even interested in helping everyone improve their eating behaviors."

For Miller, good eating is about moving away from processed foods and embracing the wisdom of traditional food, the seasonality of meats, and the experience of a good meal. In her philosophy, nutritional health is strongly correlated with mental health. That's why she often asks her students to think about their grandmothers' food.

In her four-week nutrition series, Miller also covers mindful eating, macro and micro-nutrients, and digestion. "Good nutrition always starts with digestion," she commented.



Kitchen on Fire co-owners Olivier "Chef Olivier" Said and nutritionist Lisa Miller



Vegetables Revisited: 1. At a Kitchen on Fire class this past Sunday, Chef Olivier demonstrated a variety of cooking techniques all at once (from left): frying shellfish, grilling cauliflower, and toasting bread spreads. • 2. The menu also included Porribecco mushroom, grapes, and chard Wellington. Here the students collaborated in the effort, wrapping the mushrooms and chard in puff pastry shells. • 3. An apprentice the students prepared baked potatoes (not just no) dined with olive and capers (no delicious, OMG). • 4. As with these photo with Cornish hen went well with the grilled cauliflower. • 5. And out of the oven, the Porribecco-Chard Wellington resulted as good as they could.

BERKELEY TIMES
berkeleyx.org
a paper for the people of Berkeley

Publication date: May 2017



LOAN APPLICATION PROCESS & REVIEW



RLF Loan Application Review

Start - Application Submitted

Loan Application



Underwriting



Review Credit Memo



Loan Administration Board Meeting



Loan Agreement and Contract



Loan Check Issued



Repayment and Servicing



Finish - Loan Issued

Total Time: +/- Six Months

Loan Application and Review: Process & Timeline

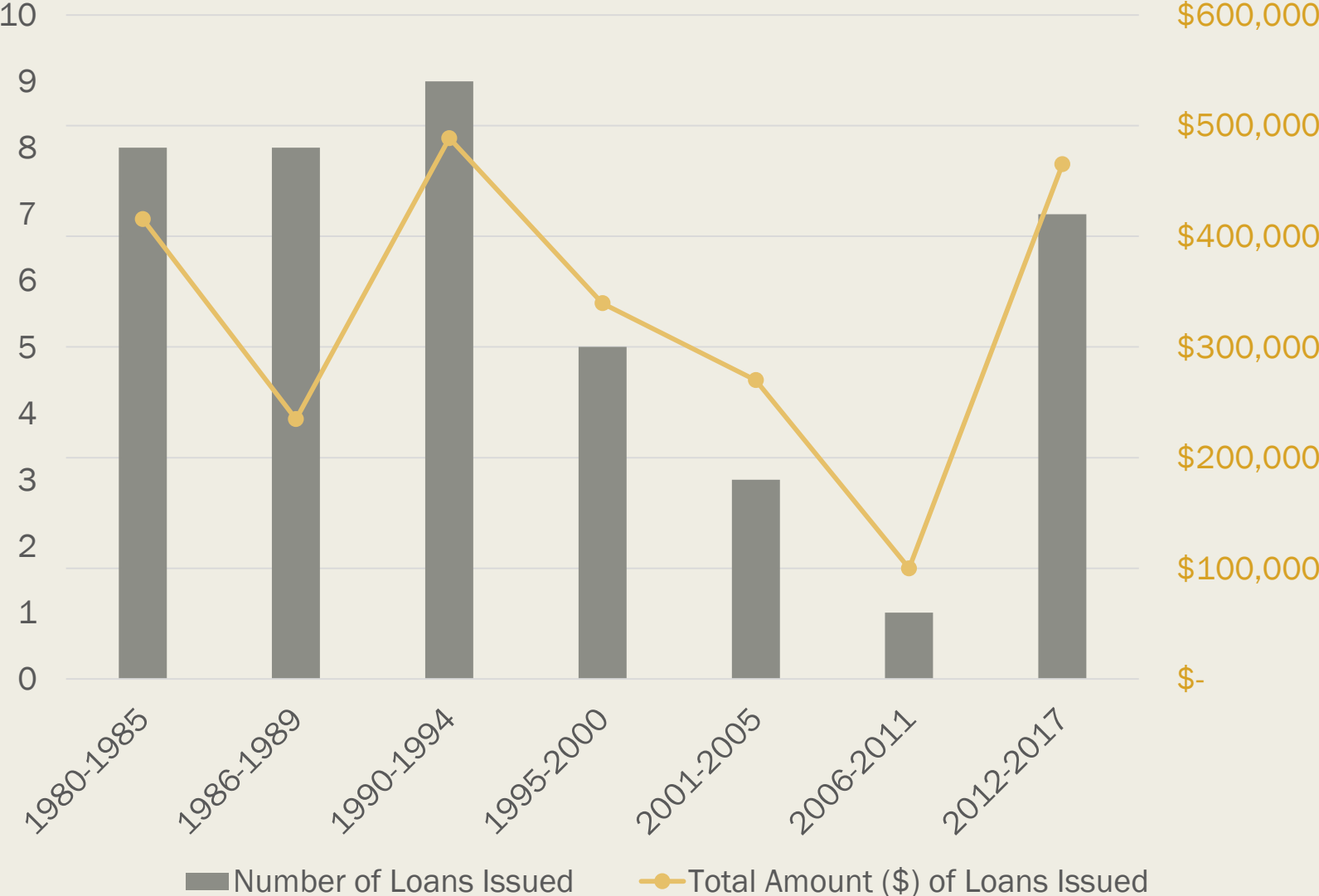
- Since 2013, the LAB has worked with a third party underwriter.
 - *State Assistance Fund for Enterprise, Business and Industrial Development Corporation (SAFE-BIDCO) of Santa Rosa has provided underwriting services to the RLF Program since 2014.*
 - *The underwriting fees are paid from the RLF program income*

The screenshot shows the SAFE-BIDCO website. The header is dark blue with the SAFE-BIDCO logo and name in white. Below the header is a navigation bar with a home icon and links for 'About', 'Loan Programs', and 'Loan Fund Management Services'. The main content area is light blue and features the heading 'Working Capital Loans' in a gold color. Below the heading is a paragraph of text: 'SAFE-BIDCO can help secure a working capital loan to enable business to grow and thrive. SAFE-BIDCO offers a variety of loan programs that can provide working capital for your business.' A dark grey button with the text 'LEARN MORE' is positioned below the paragraph. At the bottom of the screenshot, there is a light grey navigation bar with three tabs: 'BUSINESS STARTUP', 'WORKING CAPITAL', and a partially visible 'P'.

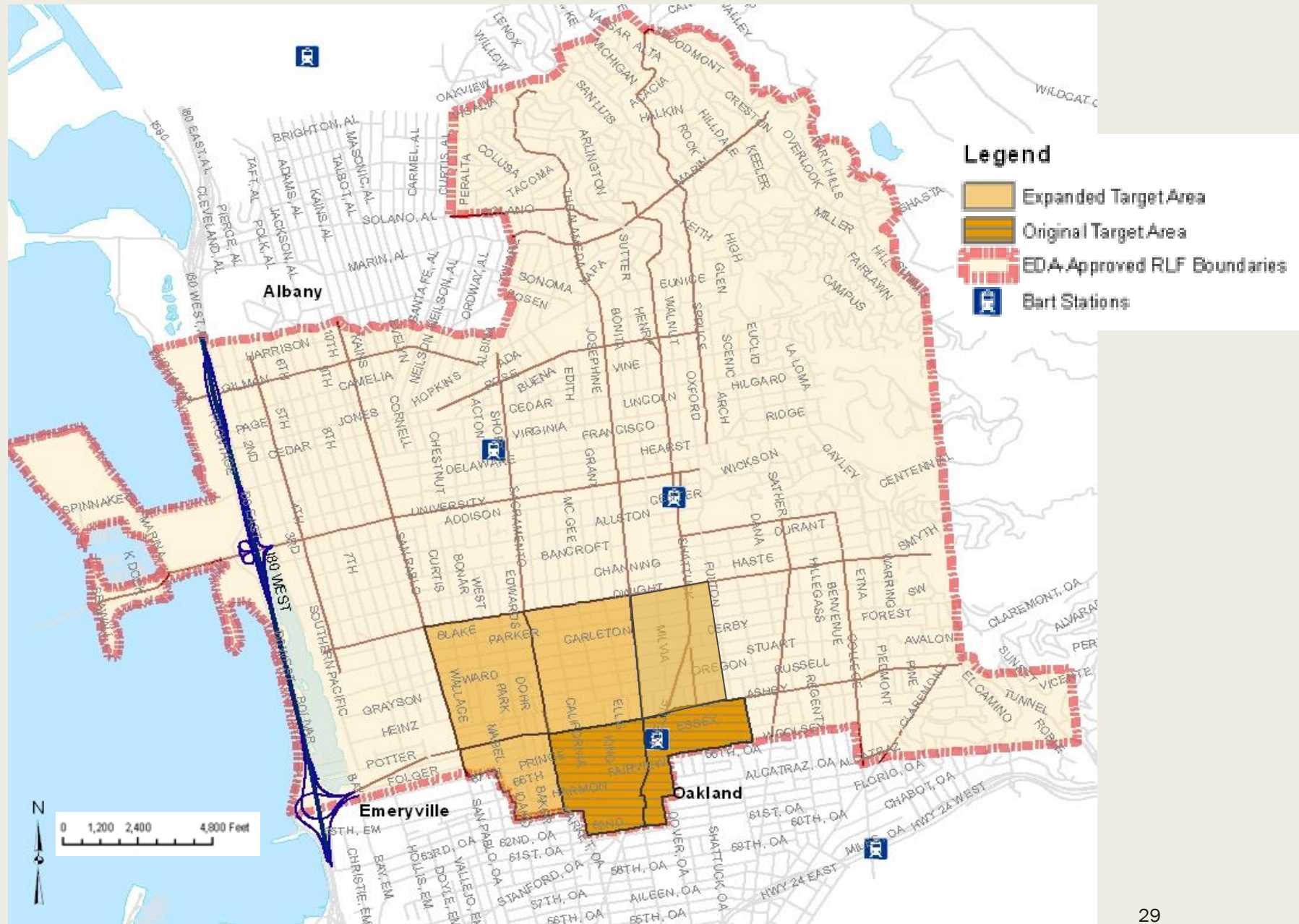


TARGET LENDING AREA

RLF Loan Activity 1980-2017

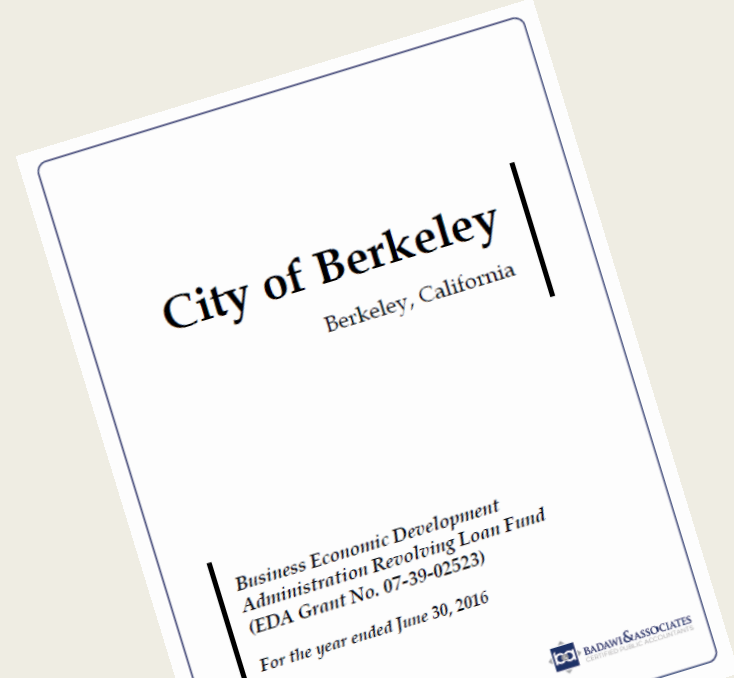


RLF Lending Target Area Expansion (2011)



Sequestration and Recovery, 2014-Present

- Capital Utilization Requirements ----> the City may hold only 25% of the fund
 - *Quarterly Sequestration Payments*
 - *Started 2006*
 - *Completed 2016*
- Semi-Annual Reports
- Yearly Audit
- Between 2011 and 2017, seven loans have been disbursed with an average value of \$66,428 per loan.



Economic Development Administration
Revolving Loan Fund Semi-Annual Financial Report
ED-209 Version 4.6

Grantee Data

Grantee Name: **City of Berkeley**
Address Line 1: **2180 Milvia St**
Address Line 2: **5th Floor**
City: **Berkeley**
State: **CA**
Zip Code: **94704**
Reporting Period: **10/01/2016 - 03/31/2017**

Contact Person:
Contact Phone:
Contact Email:
EIN: **94-6000299**
DUNS:
EDA Award Nu

07-39-02523

Revolving Loan Fund: Recent Progress

- Small businesses in Berkeley have leveraged the RLF to create jobs, generate tax revenue, and contribute to community vitality.
- Currently there are seven active loans, to a diverse set of Berkeley borrowers.
- To date, there is \$208,531 available for lending.



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RESEARCH FINDINGS

Methodology

- Reviewed Program Records (1980-2017)
 - *Staff Records*
 - *Loan Administration Board Records*
 - *Program Audits*
 - *Semi-Annual Reports*
- Conducted Interviews with Loan Recipients
- Studied Neighboring RLF Loan Programs
- Held a Focus Group with Internal City Partners (May 2017)

Program Impact & Outcomes

- The loan fund has “revolved” approximately 4.5 times since its inception in 1980.
- The loan fund has leveraged over \$6.2 million dollars in private investment.
- The City of Berkeley’s RLF program boasts a leverage ratio of 2.73 (private financing to RLF dollars) for total loans and 1.37 for current loans.
 - *For context, this is higher than average: the EDA’s Seattle regional office portfolio (which includes 83 RLFs) has an average leverage ratio of 2.08 for total loans and 1.94 for active loans.*

Program Impact & Outcomes

- Loan recipients and applicants receive constructive technical assistance for their business concerns
- With RLF servicing moving ‘in-house’ to OED, communications with borrowers have improved



“....Yes, the loan helped us. The money allowed us to continue our prototyping work and kept us in our Berkeley workspace...”

-Martin Zemitis, SlingFin

Alternative Approaches

Other Cities:

- *Outsource the full program (Oakland)*
- *Pair the lending activity with a Technical Assistance Program (San Francisco)*
- *Manage program in-house (Richmond)*



Program Assets and Strengths

- The terms offered by the City's RLF are *more attractive* than comparable loan funds (6.25% vs. 8-20% interest)
- The Loan Administration Board benefits from a skilled set of engaged, skilled commissioners.
- The City of Berkeley is able to effect a certain degree of 'local control' over the RLF program
- RLF recipients can leverage other resources



Program Weaknesses & Threats

- The long period of time between loan application and closing undermines the impact of the program.
- Despite outreach efforts, knowledge of the program is limited.
- Servicing monthly loan payments is cumbersome and time consuming.
- The new presidential administration may discontinue federal support for the program.

“.... The extended delay has so far caused us to lay off two workers, and next week that will increase to four....”

-Joe Aguiar, Anton Salon

What do the Borrowers Want?

- “Marketing Ideas”
- “Sales Assistance”
- “Visibility”
- “Lease Negotiation Guidance”
- “Lower Loan Rates”
- “Working Capital”
- “Help with Business Growth”

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QUESTIONS FOR CONSIDERATION

4 Key Policy Questions:

Q1:

Is the City willing to make trade-offs in order to process loans more quickly?

- *E.g., Reduce LAB oversight, increase toleration of risk*

Policy Questions

Q2:

Should the RLF be fully outsourced to an independent vendor?

- *Benefits: More, faster loans; leverage philanthropy; staff time.*
- *Trade-offs: Higher interest rates; less local control.*

Policy Questions

Q3:

Should the RLF fund be re-capitalized?

- *Not urgently needed – still \$200K available – but that could change*

Policy Questions

Q4:

Should the City expend more resources to expand technical assistance for borrowers?

- *Competing priorities*

DISCUSSION



Office of Economic Development
Jordan Klein | 510.981.7534
Eleanor Hollander | 510.981.7536