



DATE: November 7, 2017
TO: Mayor and City Council
FROM: City Manager
SUBJECT: Economic Development Incentives Program – Update and Approval of Program

RECOMMENDATION

That City Council receives an update and approves the Economic Development incentives program.

BACKGROUND

The City currently provides assistance to Hayward small businesses in the form of the Community Development Block Grant funded (CDBG) small Business Revolving Loan Fund (RLF) loans/grants. This program was created in 1990 to provide gap financing to small businesses to facilitate access to capital and leverage private sector funds to stimulate job creation. The program has provided financial assistance to over fifty small businesses with a goal of providing capital assistance to create jobs. This program previously received an estimated \$100,000 annually but has not been funded in the past three years. Some loans have been made using existing fund balances. In addition, with the dissolution of the Redevelopment Agency, economic development tools previously utilized like the façade improvement program have been eliminated.

City Council recognized the need to support small businesses and included work tasks as part of the Economic Development Strategic Plan to this end. Specifically, programs to help existing businesses with expansion were desired:

IS1.C – Design and offer incentives to existing businesses for expansions and improvements.

SR1.C – Design and offer incentives to existing service/retail businesses for expansions and improvements.

In response to the work tasks, staff has started formulating small business assistance programs which focus on business upgrades and capitalization gap financing for small businesses. In addition, staff explored a targeted utility program for restaurants and food and beverage manufacturers, but found the existing financing program offered through the City’s Environmental and Utilities Division addressed the areas of need by providing flexible payment options.

Staff presented draft incentive programs at the June 6, 2016 Council Economic Development Committee (CEDC) requesting feedback and direction on program targets that would be presented for City Council review (Attachment III).

The CEDC was supportive of the guidelines and criteria established, but wanted more focused targets of the program to include businesses within the Tennyson Corridor and to offer specific incentives to targeted businesses like grocery, retail, restaurant, and family entertainment uses.

Based on the feedback from the CEDC, staff has modified the incentive programs.

DISCUSSION

Over the past three years, the requests for financial incentives have been in two areas: 1) building improvements; and 2) capitalization gap funding. The existing CDBG programs have been focused on capitalization gap funding; however, staff have not had economic development tools to address building improvement requests. Staff's intent is to bolster the existing RLF/Grant program by providing guidelines and reinitiating façade/building improvement programs to support physical upgrades.

Listed below is a summary of the existing and proposed programs with the details of the program and guidelines as attachments:

EXISTING PROGRAMS:

Revolving Loan/Grant Fund:

The revolving loan fund provides up to \$200,000 in an asset secured loan through the Community Development Block Grant (CDBG) program. The loan is typically tied to property assets; however, other real assets such as vehicles and equipment has been utilized for collateral. This has been the City's primary small business incentive tool as it provides gap financing and capitalization where traditional lending products would not support this. Its intent is to create business expansion and in turn create new jobs. The documentation and requirements of this program are quite strict and do not provide flexibility in terms of providing incentives.

Applications for loans are reviewed by the Council appointed Loan Review Committee and recommended to the City Manager (below \$75,000) or City Council (above \$75,000) depending on the loan request amount.

In addition, grants are also allowed under the program and were authorized by City Council in 2014 to give additional flexibility for smaller fund requests that would be better suited as a grant vs. a loan. The additional flexibility was warranted; however, guidelines need to be adopted as the funding amounts and process should not be the same as a loan.

Outside of the loans and grants for new job creation through the CDBG program, the City has no other financial programs to support small business attraction/expansion particularly for physical upgrades to commercial buildings.

PROPOSED ADDITIONAL PROGRAMS:

Implementing the adopted EDSP requires creation of additional programs that would support attraction and expansion of small businesses. As listed above, the two areas of need for small businesses are typically gap financing and building improvements. Listed below are proposed grant guidelines for gap financing and resurrection and modification of the Commercial Building Improvement Reimbursement Program and Business Rebate Program to assist in façade and building modifications.

- 1) **Grant Program** – The Grant program goal is to provide a gap funding resource for small businesses Citywide, with targeted support on the Tennyson and Downtown Corridors. Often, a small business cannot finalize an upgrade or expansion project due to a shortfall of available funding resources and the grant program would provide a small capital infusion.

This program would enable eligible participants to secure additional financing, not currently available through traditional lending institutions, up to 15% of the total project cost, not to exceed \$15,000. However, the grant amount can be increased with the approval of the Loan Review Committee and the City Manager if the business is a targeted business providing grocery, retail, restaurant, and/or family entertainment use(s).

If approved by the City through a funding agreement, fifty percent of the grant amount would be funded upon submission of proof of expended funds for their project, and fifty percent would be paid upon proof of job creation (See Attachment IV Grant Guidelines).

- 2) **Commercial Building Improvement Reimbursement Program and Business Rebate Program** for the Tennyson Retail and Downtown Corridors. This program has been developed in two tiers to assist both business owners and property owners with modifications and improvements to commercial buildings. The Tennyson Corridor is part of the Council's Strategic Initiatives and ties into specifically the implementation program approved by Council in May 2017. The Downtown is still identified as a targeted area of need given the ongoing vacancy rate. The intent is to assist in physical improvements of the buildings, which would facilitate leasing of vacant spaces and upgrades to commercial building facades.

Tier One – Small Business Façade Rebate Program: Staff is recommending resurrecting the framework of a prior Redevelopment Agency funded program that was successfully implemented from 2002 to 2005. That program successfully provided rebates to thirty-one business and property owners for washing/painting building facades, replacement of awnings, and sign repair and/or replacement. The program was viewed as successful as it was a simple program that had a simplified process with guidelines detailed within the application itself. The property owner or business tenant (with property owner authorization) could apply.

The Tier One program would provide a façade rebate up to \$5,000 to commercial businesses and property owners in the Downtown and up to \$10,000 in the Tennyson Corridor. The rebate could be used for signs, paint, awnings, or cleaning. Approval of an application and completion of eligible work would be completed prior to rebate reimbursement (See Attachment VI Small Business Façade Rebate Guidelines).

Tier Two - Commercial Building Improvement Reimbursement Program: This program would provide funding through a forgivable loan to commercial property owners for upgrading their buildings to attract a targeted business providing grocery, retail, restaurant and/or family entertainment use(s). This program would be in the form of a 10-year forgivable loan which would use the property as collateral to ensure that the improvements are maintained. The forgivable loan would provide 50% of the total project cost not to exceed \$150,000. The property owner must complete an application, receive approval of the fund request and execution of the loan agreement. In addition, the property must be leased to a commercial tenant within one year of project improvements. If the property is improved and maintained for a 10-year period, the loan is forgiven (See Attachment V Commercial Façade Improvement Reimbursement Guidelines).

Understanding the importance of supporting small business growth within the community, staff has targeted these programs to assist with small business capitalization and building improvements. The need for funding assistance will likely outweigh fund availability. Therefore, the various program guidelines were developed to explain to potential applicants the program criteria and expectations. Lastly, program collateral would be developed to assist small businesses (Attachment VII Façade Programs Flyer).

STRATEGIC INITIATIVES

This agenda item supports the Complete Communities Strategic Initiative. The purpose of the Complete Communities Strategic Initiative is to create and support structures services, and amenities to provide inclusive and equitable access with the goal of becoming a thriving and promising place to live, work and play for all. This item supports the following goal and objective:

Goal 1: Improve quality of life for residents, business owners, and community members in all Hayward neighborhoods.

Objective 2: Foster a sense of place and support neighborhood pride

FISCAL AND ECONOMIC IMPACT

The City Council approved \$350,000 for Small Business incentives as part of the FY 2018 budget. In addition, CDBG funding is available for the Tennyson Corridor. Staff anticipates that the program requests would likely exceed allocated funding and will evaluate the subscription to the program for this year's funding cycle. The small business incentives are intended to assist in the expansion and

attraction of small businesses that create job opportunities for Hayward residents and additional goods and services for our community along with implementation of the Tennyson Corridor and Complete Communities Strategic Initiatives and the Economic Development Strategic Plan.

Prepared and Recommended by: Micah Hinkle, Economic Development Manager

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', written in a cursive style.

Kelly McAdoo, City Manager