



## MEMORANDUM

August 5, 2022

**TO:** MEMBERS, PORT COMMISSION  
Hon. Willie Adams, President  
Hon. Kimberly Brandon, Vice President  
Hon. John Burton  
Hon. Gail Gilman  
Hon. Steven Lee

**FROM:** Elaine Forbes   
Executive Director

**SUBJECT:** Informational presentation on pilot program through the Treasurer and Tax Collector's Office to support access to capital for Local Business Enterprises (LBEs)

**DIRECTOR'S RECOMMENDATION:** Information Only – No Action Required

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### EXECUTIVE SUMMARY

The Port Commission fosters and supports a robust network of small and very small local businesses in San Francisco and along the waterfront. The City's Local Business Enterprise (LBE) program seeks to expand contracting opportunities for small San Francisco-based firms, defined by gross receipts by type of industry. LBEs provide key professional and construction services to the Port and have become valued community partners. Historically, a majority of LBEs are either women or minority owned and have experienced higher costs and competitive disadvantages compared to large businesses or businesses located outside San Francisco.

In 2020 the Port created the Micro-LBE Emergency Relief program to support small businesses during the COVID-19 pandemic. The Port seeks to expand its support for its LBE community through a new pilot program in collaboration with the City and County of San Francisco Treasurer and Tax Collector (TTX). TTX will be the lead City agency in a request for proposals (RFP) to identify a financial institution to operate a line of credit program for LBEs that is secured by a City department. This program will be available to multiple departments and the Port would only guarantee the lines of credit for Port contractors, subcontractors or tenants.

**THIS PRINT COVERS CALENDAR ITEM NO. 11A**

## **STRATEGIC PLAN AND RACIAL EQUITY ACTION PLAN**

This project supports the goals of the Port's Strategic Plan as follows:

Equity: Develop a partnership with a local bank to establish new lines of credit for LBEs in 2021 and continue to exceed the Mayor's 40% LBE goal

This program supports the goals of the Racial Equity Action Plan as follows:

Action 9.1: Establish Port's loan and grant program for LBEs, specifically tenants and business from the Black, Indigenous, and people of color communities through implementation of a long-term loan program to support Port-related LBEs access capital.

## **BACKGROUND**

The Port is committed to using its contracting capacity to engage teams that support the diversity of the City and increase the proportion of funds spent by the Port with LBEs. These firms are the City's most vulnerable low-income businesses and are often located in historically underserved and disadvantaged neighborhoods.

The Port established the Port of San Francisco Emergency LBE Relief program in 2020 to support its LBE community in the midst of the COVID-19 pandemic. The Port allocated \$1 million from the Southern Waterfront Beautification Fund towards the program and engaged Main Street Launch, a Community Development Financial Institution (CDFI), to issue the loans. The program was a significant success making twenty-five loans, 76% of which went to minority- or women-owned LBEs. Over half of the borrowers identify as Black or Latino. The Emergency LBE Relief program helped to sustain these businesses during the economic dislocation caused the pandemic.

Understanding that LBEs also need support to access banking services in the normal course of business, Port staff sought to create a model for a long-term access to credit program. Port staff met with the Treasurer and Tax Collector, the Office of Economic and Workforce Development, the Office of the City Administrator, the Contract Monitoring Division, and the Office of Risk Management as well as capital technical assistance providers, banks, and LBEs to identify an approach to a long-term access to capital program.

## **TARGET LBE POPULATION**

The City established the LBE program to expand contracting opportunities for small San Francisco based firms, which are defined based on gross receipts by type of industry. The City's Contract Monitoring Division (CMD), a division of the City Administrator's Office, oversees adherence to the LBE program. CMD accepts and reviews applications and certifies qualifying local firms as LBEs. Once a business is certified as an LBE, it is also classified as a Minority Owned Enterprise (LBE-MBE), Woman Owned Enterprise (LBE-WBE), or Other Business Enterprise (LBE-OBE). An LBE may be further categorized as an "SBA-LBE," "Small-LBE," or "Micro-LBE" based on gross receipts by type of industry. Micro-LBEs are the smallest business, as measured by average annual

gross receipts and accordingly, may be the most susceptible to harm due to the pandemic and its economic impacts.

There are currently 1,043 LBE firms certified with the CMD and about 125 micro-LBEs who are Port contractors, subcontractors, or tenants.

### **EXISTING ACCESS TO CAPITAL PROGRAMS**

The federal government, State of California, and City all provide access to capital programs for small businesses. The federal government programs offer loan guarantees, fixed-asset loans, and micro-loans through the Small Business Administration. The state provides loan guarantees and other programs through the California Infrastructure and Economic Bank (“I-Bank”). The City and County of San Francisco offers fixed-term loans, start-up capital, and invoice-based financing through programs administrated by the Office of Economic and Workforce Development and the Contract Monitoring Division.

Each of the existing programs offers unique tools to provide access to capital. However, there are gaps in the current service and approach that create an opportunity for another program. First, the existing programs support start-up and growth, but do not address cash flow and reserves needed to manage daily operations. A typical small business faces a temporary cash crunch as it pays invoices or waits for a client’s payment. These needs are inadequately served through private loan products. Second, government agencies often rely on programs through CDFIs and pay between a 10-20% transaction fee for these services. A CDFI-administered program allows an agency a high level of control of their program. However, CDFIs operate their programs using the capital of others and do not have independent capital. CDFIs also do not provide routine banking services. A small business must seek a bank for its daily needs. Successful participation in a CDFI program does not necessarily translate to a relationship to a bank and banker. As such, the transition of a small business from a CDFI program to a traditional financial institution is not seamless.

### **COLLABORATION WITH THE TREASURER AND TAX COLLECTOR**

The Treasurer and Tax Collector is the primary fiduciary and contractor for San Francisco’s bank and non-bank financial services agreements. TTX manages \$14 billion in City and County funds and has negotiated five agreements with financial institutions. TTX has existing equity initiatives including the Financial Justice Project, the Office of Financial Empowerment, and the Kindergarten to College Program and continues to seek to expand its community offerings and increase support to San Francisco small businesses.

Based on its expertise in banking and financial services, the Port approached TTX with a concept for a program to provide LBEs with greater access to credit. TTX enthusiastically embraced the idea and further developed the approach including a suggestion that other City departments might also want to participate in the program.

TTX agreed to be the lead agency to advertise a request for proposals and facilitate City department participation in the program.

To assess the effectiveness of the program, including demand by LBEs and impact on LBE financial stability and long-term access to credit, the Port and TTX have proposed a three-year pilot program. At the end of the second year, staff from both agencies will review data to date and determine the impact of the program and whether to renew the program and contract with the financial institution at the conclusion of the third year.

### **PILOT CREDIT CAPACITY PROGRAM**

The Micro-LBE Credit program seeks to support Micro-LBEs that contract with the Port. By accessing this line of credit and establishing a business bank account, Micro-LBEs will expand their financial capacity, improve their short-term cash flow, and hopefully improve their credit scores. This program will also allow Micro-LBEs to build a relationship with a bank and develop an understanding of how banks approach credit, risk, and small business lending.

This program will offer lines of credit of up to \$50,000, backed by a Port guarantee, for a 12-month period to qualifying certified Micro-LBEs that contract, subcontract, or hold leases with the Port or a Port developer. To support this program, the Port will provide \$1 million as credit mitigation in underwriting to a financial institution to serve as a guarantee and source of funds in case of default. To support a lower interest rate on the lines of credit offered to the Micro-LBEs, these funds will be held by the bank. The funds will only be used in the case of default by a Port Micro-LBE.

To qualify for the program, the firm must:

- Be certified by the Contract Monitoring Division as a Micro-Local Business Enterprise at the time of qualifying and requalifying for the program
- Be a prime or subcontractor/consultant on a Port project or a tenant of the Port.
- Possess a valid San Francisco business license
- Be a for-profit business located in San Francisco and qualified to do business in California
- Have no City and County of San Francisco tax liens or judgements
- Be a business in operations for at least three years
- Business and business owners are not in bankruptcy and have not filed for bankruptcy protection
- Applicant is not presently suspended, debarred, proposed for debarment, declared ineligible or voluntarily excluded from participation by a Federal or State department or agency
- No history of conviction or pending legal action for any financial crime
- Meet underwriting criteria including debt-service coverage ratio (likely at a rate of ~1.20)
- Owners have individual credit score minimum of 640 or 650 at the time of underwriting

To continue as a participant in the program:

- The business must maintain a \$0 balance on the Port-supported line of credit for 30 days in each year
- Be a Port prime or subcontractor/consultant on a Port project for each qualifying year or a tenant of the Port
- Observe good fiscal practices (no pattern of consistent overdrafts or high volume of issuing non-sufficient funds checks)
- Complete documentation and fees at the requalification period
- Must be a participant for no longer than three years

### **FUNDING**

This program will be funded with a \$1 million allocation from the Southern Waterfront Beautification Fund. At the start of Fiscal Year 2022-23 the balance in the Southern Waterfront Beautification fund is \$5.825 million.

### **NEXT STEPS**

TTX will advertise an RFP to identify the highest-ranking financial institution to operate the pilot program. TTX will advertise this RFP to the 50 banks that are part of the San Francisco Federal Reserve. The exact interest rates, terms, and client services will be part of the selection process and negotiated with the selected financial institution.

Port staff will update the Port Commission after the RFP process is concluded and the City is ready to launch the program.

Prepared by: Stephanie Tang, Contracts and Procurement  
Manager

For: Katharine Petrucione, Deputy Director  
Finance and Administration Division