



City of Palo Alto

City Council Staff Report

(ID # 11309)

Report Type: Action Items

Meeting Date: 5/4/2020

Summary Title: Business Support Program & Budget Amendment

Title: Small Business Grant Program: Council Designation of Grant Amounts, Eligibility and Selection Criteria; Approval of \$500,000 in City Funds; Authorization to the City Manager to Manage the Program Internally or Select a Third-party Administrator With a Waiver of Competitive Solicitation; Authorization to Waive Competitive Solicitation for a Donation Program Administrator; and Approval of a Budget Amendment in the General Fund

From: City Manager

Lead Department: City Manager

Recommendation

To establish a Small Business Grant Program, staff recommends that Council:

1. Select the criteria by which businesses are eligible to receive a grant, select the grant amounts, the method by which businesses are chosen, any limitations on the use of funds, and whether the distribution of grants may begin before donations are received;
2. Authorize the City Manager to:
 - (a) choose a third party to administer the grants and waive any otherwise-applicable competitive solicitation requirements, OR
 - (b) choose to administer the program internally;
3. Authorize the City Manager to select a third-party to administer a donation program with a waiver of competitive solicitation; and
4. Amend the FY 2020 Budget Appropriation Ordinance (majority approval) for the General Fund by:
 - (a) Increasing the City Manager's appropriation for general services by \$430,000;
 - (b) Decreasing the Administrative Services Department appropriation for contractual services by \$80,000; and
 - (c) Decreasing the Non-Departmental Reserve: Budget Operations Reserve appropriation by \$350,000.

Background

On April 20, 2020, [during a discussion](#) of the City's response to the COVID-19 emergency, Council directed staff to return with a suggested Business Support Program with the following parameters: City funding of \$500,000 in grants for businesses of up to 50 employees, with a

third party administrating the program, while finding leverage or seeking matching funds. This report fulfills this direction and includes suggestions to more fully define this Program.

Discussion

Staff recommends Council select the below criteria to establish grant eligibility

In its [April 20, 2020 motion](#), Council specified that businesses receiving grants may have up to 50 employees. Staff suggests that Council include additional criteria to further define which businesses might apply for grant funding. Examples of criteria from other localities include:

In business for at least one year	Gross revenue under a certain amount
Storefront only	Demonstrated financial loss of at least 25%
A certain number of locations in the City	Agreeing to a restricted use of funds (i.e.: payroll and lease payments only)
Active business license, in good standing	Deemed non-essential only; or deemed essential, but will receive a smaller amount
At least one paid employee (not including contractors)	Up to \$10,000 per non-essential business, or up to \$5,000 per essential business

Staff has reviewed options for advancing the Council’s stated goals while maintaining administrative simplicity for applicants as well as program administration. For Palo Alto’s program, staff therefore recommends the following eligibility criteria, consistent with Council’s discussion on April 20, 2020, similar programs, and the needs of local businesses:

1. The business must employ at least one, but no more than 50 W-2 employees
2. Grants will be limited to storefront businesses only, defined as having a physical business location within Palo Alto offering goods and/or services to retail consumers, excluding professional services such as attorneys, engineers, and real estate brokerages.
3. Grantees may be either for-profit or non-profit enterprises.
4. Grantees must possess a City of Palo Alto business registration active on May 11, 2020.
5. Grantees must have been in business at least twelve months (established prior to May 11, 2019).
6. Grantees must have demonstrated financial harm, using a supplied form, of a 25% or greater loss in revenue attributed to COVID-19.

Each of the criteria above is open to City Council discussion and direction, while representing staff’s interpretation of the intent of the program. Additional program elements are discussed below.

- A. *Staff recommends Council direct staff to utilize a lottery-type selection method when choosing recipients and allow the first set of grants to be distributed once the City’s funding is in place*

While many localities are using a first-come, first-served selection process, staff suggests the City use a lottery system. Under this method, a period would be established for business applicants to register and be assigned a number. The numbers will then be drawn at random. The recipients and number of grants given will depend on (1) how much money is available at the time of the drawing, and (2) Council’s determination of how much each applicant may receive.

While a first-come, first-served method may be slightly easier to administer, it may advantage those who are more sophisticated in completing financial applications, using online tools to complete an application, or who have the time to quickly apply. A lottery system eliminates these advantages. Additionally, staff is mindful of the poor outcomes of the federal Small Business Administration (SBA) loans applications, which used a first-come, first-served method. Council may wish the City to avoid administering a method like the one used, with mixed outcomes, by many in our business community.

Additionally, as Council would like to begin assisting businesses quickly, staff requests Council's authorization to begin selecting grant recipients once the program is ready and the City's funding is complete. This may mean that grantees would be selected before all donations have been collected, as creating a donation program is a separate, but closely related task; City funding and the grant administration may come online more quickly than donations. Under this scenario, once donations come in, additional numbers would be drawn, and additional grantees selected. Staff requests the ability to determine when to make the additional selections after donations are received, depending on the amount and timing of donations.

B. Staff recommends Council direct staff to limit each grantee to two months of operating expenses, not to exceed \$10,000

Staff suggests that each selected business receive an amount equal to two months of operating expenses, not to exceed \$10,000 per business. This is consistent with similar programs of many other cities.

C. Staff recommends Council direct staff to allow grantees to utilize the funding in the manner best meeting the needs of their business

Staff recommends Council allow grant recipients the discretion to use the funds in a manner that best allows their business to remain in operation. While some cities restrict the use to only payroll or lease payments, staff has heard that many businesses are currently operating as best they can without staff. And some businesses could use the grant monies for operating expenses in order to help sustain their business and reopen after the shelter-in-place. Lastly, it would be burdensome for both the selected business and the grant administrator to produce and review documents to ensure the grants were used according to any predetermined restrictions.

D. Staff recommends Council authorize the City Manager to choose a third party to administer the grants and waive any otherwise-applicable competitive solicitation requirements or choose to administer the program internally

In seeking a partner to administer a grant program, staff communicated with a representative of a Community Development Financial Institution, three philanthropic foundations, one credit union, and the local chamber of commerce. In speaking with these groups, staff learned that some charged higher fees than others, some are better positioned than others to begin a new program immediately, some had potential challenges with staff capacity, and the levels of experience in grant administration varied.

As staff finalizes our efforts to seek a third-party partner, we recognize that City staff may ultimately be best positioned to administer the program effectively. As we further research all

possibilities, staff requests Council authorize the City Manager to select the best course of action regarding administration, while considering speed, cost, and quality and waiving applicable solicitation requirements.

E. Staff recommends authorizing the City Manager to choose a third party to administer the donation program and waive any otherwise-applicable competitive solicitation requirements

In its April 20, 2020 motion, Council directed staff to leverage or seek matching funds for the small business grant program. In doing so, staff researched similar programs of other cities to learn more about which third parties are most suitable to work with in accepting donations from other businesses and individuals. As a result, staff contacted philanthropic foundations and our local chamber about accepting these donations.

As noted above, each organization is at a different stage of readiness with varying levels of expertise and abilities, including perspectives on the tax deductibility of donations. Staff will continue to urgently work to partner with the most appropriate third party who can best manage a donation program, with the expectation that a partner will be selected quickly. Separating the function of soliciting and accepting donations from the grant distribution function described above will allow the City to more quickly finalize program parameters and aid businesses. In administering the donation program, staff requests Council authorize the City Manager to select the best donation administration partner and waive applicable solicitation requirements.

Timeline and Resource Impact

Regarding timing, staff is prepared to begin implementing Council's direction immediately.

The \$500,000 Council agreed to in its April 20, 2020 motion are appropriated in the General Fund in the City Manager's Office, the Administrative Services Department, and Non-Departmental FY 2020 budgets. These identified funds are recommended to be consolidated in the City Manager's Office through the appropriation actions recommended in this report. As these actions are a reallocation of already appropriated funds, a simple majority approval by the City Council (4 votes) is necessary to approve these actions. Funding is recommended to be reallocated from the following to compile the full \$500,000, no recommended draw from the Budget Stabilization Reserve is recommended.

\$70,000	City Manager's Office FY 2020 <i>Economic Development Funding Augmentation</i> budget adjustment.
\$80,000	Administrative Services Department unspent funding designated for the potential local business tax measure work that was discontinued in March.
\$350,000	Non-departmental FY 2020 <i>Reserve: Budget Operations Reserve</i> which was appropriated for anticipated, but not yet quantified, impacts in the General Fund that did not have fully refined costs or financial implications outlined as of the adoption of the budget. This action exhausts this reserve in FY 2020.

Stakeholder Engagement

As part of a separate but related effort, staff engaged approximately 60 businesses in a series of roundtable discussions in late April. Part of these discussions involved hearing from participants about how financial support from and through the City would assist their operations. Staff has also discussed program parameters with the Palo Alto Chamber of Commerce.

Environmental Review

The small business grant program is not a project for the purposes of the California Environmental Quality Act; an environmental review is not required.