



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Nanci Klein

SUBJECT: SEE BELOW

DATE: October 11, 2022

Approved

Date

10/20/22

SUBJECT: AMENDMENT TO THE AGREEMENT WITH THE ENTERPRISE FOUNDATION TO MANAGE AND IMPLEMENT A CITY GRANT PROGRAM FOR ELIGIBLE SAN JOSE SMALL BUSINESSES IMPACTED BY THE COVID-19 PANDEMIC

RECOMMENDATION

Adopt a resolution authorizing the City Manager to negotiate and execute an amendment to the agreement with the Enterprise Foundation to manage and implement a grant program utilizing American Rescue Plan Act funding to provide financial assistance to eligible San José small businesses that have been negatively impacted by the COVID-19 pandemic and to authorize the City Manager to revise the financial assistance eligibility requirements as necessary during the term of the agreement through June 30, 2023, with no increase in the total funding in the amount of \$2,750,000.

OUTCOME

City Council approval allows staff to move forward with a second round of the rent relief business grant program available through the Enterprise Foundation, a nonprofit organization, to eligible San José small businesses that have been financially impacted by the COVID-19 pandemic. This enables the allocation of all remaining funds previously committed in 2021-2022 from the Small Business Recovery – Small Business Grants appropriation in the American Rescue Plan Fund.

BACKGROUND

The objectives of the rent relief business grant program are to assist small businesses negatively impacted by the COVID-19 pandemic, support the commercial property market, and minimize evictions upon the expiry of the County of Santa Clara (County) rent eviction moratorium debt repayment dates. City Council approved the small business rent relief grant program on March

22, 2022 and authorized the City Manager to negotiate and execute an agreement with the Enterprise Foundation to manage and implement the program. The City entered into the agreement for the program with the Enterprise Foundation on June 9, 2022.

The eligibility criteria approved by City Council included the following:

- Businesses must be able to prove outstanding commercial property rent debt incurred from March 24, 2020 through August 19, 2021 – the time period the County’s moratorium was in effect.
- The business must have a physical commercial address in San José.
- Annual gross receipts must be below \$3 million.
- Businesses must have 10 or fewer full-time employees including the business owner (businesses may include part-time employees in its full-time equivalent count; two half-time employees equals one full-time employee).
- Businesses must be in business prior to March 24, 2020.

Priority was to be given to businesses that had not received any pandemic financial support to date, although businesses that did receive a pandemic loan or grant were eligible to apply and receive a grant. An extensive promotional and pre-screening campaign was undertaken, generating just over 200 eligible applications when the grant fund closed on July 30, 2022. Evidence of activity included the following:

- Providing emails and a social media campaign directed to business owners in four languages – English, Spanish, Vietnamese, and Chinese
- Engaging with local television, radio stations, and news media
- Proactive outreach in zip codes most impacted by COVID-19 and specific neighborhoods where small businesses were closed for many months during 2020 and 2021
- Working collaboratively with the network of business advice and technical assistance organizations through the city-wide Business Owners Space partnership and organizations such as Chambers of Commerce and neighborhood business associations
- Providing information for all City Council district offices to use in local promotional activity
- Direct engagement with individual landlords and property management companies

The Enterprise Foundation completed a detailed review of each application, and the number of successful applications was reduced to 103 eligible businesses. The total value of grants to be awarded to the 103 applications was estimated at \$530,000, leaving an unallocated balance of \$2,014,280. The breakdown of the awards by the language of the completed application form is as follows:

Award Category	Language Category	Value of Award	Volume of Applications	Estimated \$ Value
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Up to \$1M in annual gross receipts	Spanish	\$5,000	23	\$115,000
Up to \$1M in annual gross receipts	Vietnamese	\$5,000	42	\$210,000
Up to \$1M in annual gross receipts	English	\$5,000	35	\$175,000
Up to \$2M in annual gross receipts	English	\$10,000	3	\$ 30,000
	Total		103	\$530,000

The analysis section of this memorandum provides a review of the timeframe for eligibility for the original program. Staff requests approval to expand the timeframe and launch a revised small business rent relief grant program.

ANALYSIS

City staff and the Enterprise Foundation reviewed the outreach, promotion, and volume of applications received. The primary question was to identify why there were insufficient eligible applications to utilize all available program funding. The feedback focused on the restrictive dates in the eligibility criteria - March 24, 2020 through August 19, 2021. Many business owners had already paid their outstanding rent for that period or renegotiated the terms of their lease. The scale of current rent indebtedness remains significant and particularly where the debt is more than 60 days old.

To this end, staff recommends a change in the eligibility criteria by replacing the time period set in the original program corresponding with the dates set in the County rent eviction moratorium with a broader 60-day plus overdue rent. This would allow a larger number of small businesses to apply and a lottery would be used to allocate grants subject to a review of the evidence with each application. Assuming a one-third budget allocation to each of the three different grant awards: \$5,000, \$10,000, and \$15,000 will generate an additional 243 awards.

Eligible Business	Budget	Projected Volume of Awards
Up to \$1M in annual gross receipts - \$5,000 award	\$0.666 million	133

Up to \$2M in annual gross receipts - \$10,000 award	\$0.6666 million	66
Up to \$3M in annual gross receipts - \$15,000 award	\$0.666 million	44
Totals	\$2.0 million	243

The combined total of 103 awards from the original grant program and the forecast for the revised program would enable 346 businesses to benefit. The original program parameters assumed 300 businesses would receive a rent relief grant.

CONCLUSION

In many respects, the San José economy is continuing to recover well. In 2021-2022, sales tax revenue increased by almost 14 percent compared to 2020-2021 receipts. However, it is important to note that beginning in early 2022, inflation began to significantly rise. Inflation erodes the real value of income and fuels higher operating costs which in turn increases the commercial risks and decreases the viability of a business. Furthermore, the citywide figures do not explain the local variations in neighborhoods and business districts where the pace of recovery varies significantly. The slowest recovery remains downtown, which has been negatively impacted by the high number of office workers who continue to work from home; however, small businesses all across the city continue to struggle.

The Office of Economic Development and Cultural Affairs continues to support and recommends replication of this approach to the design and implementation of the new San José small business rent relief grant program.

EVALUATION AND FOLLOW-UP

Updates on the management and implementation of the program will be provided by the Office of Economic Development and Cultural Affairs through scheduled reports of the Small Business Recovery priority to City Council and City Council's Community and Economic Development Committee.

CLIMATE SMART SAN JOSE

The recommendation in this memorandum aligns with Climate Smart San José Strategy 3.1: Create Local Jobs in our City to Reduce Vehicle Miles Traveled.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the November 1, 2022 City Council meeting. The Office of Economic Development and Cultural Affairs will engage with each City Council office as well as several community organizations including, but not limited to, the Business Owners Space partnership, the San José Downtown Association, the San José Chamber of Commerce, the Latino Business Foundation, Prosperity Lab, and neighborhood business organizations to promote the grant opportunity and encourage eligible small businesses to apply.

COORDINATION

This memorandum has been coordinated with the City Manager's Budget Office and the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

FISCAL/POLICY ALIGNMENT

The project supports the City Council's Community and Economic Recovery priority under Small Business Recovery.

COST SUMMARY/IMPLICATIONS

The current agreement with the Enterprise Foundation is funded by the prior Small Business Recovery – Small Business Grants appropriation in American Rescue Plan Fund, as outlined in Manager's Budget Addendum #16, Community and Economic Recovery Budget, and incorporated in the 2021-2022 Adopted Budget. Funds were fully encumbered for the program in 2021-2022.

Total funding for the grant program is capped at \$2,750,000, of which 92.5 percent (\$2,543,750) will directly support grant awards to small businesses, with the remaining 7.5 percent (\$206,250) supporting the costs of program administration for the Enterprise Foundation.

HONORABLE MAYOR AND CITY COUNCIL

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CEQA

Not a Project, File No. PP17-006, Grant Application with no commitment or obligation to enter into an agreement at the time of application.

/s/

NANCI KLEIN

Director of Economic Development
and Cultural Affairs

For questions, please contact Victor Farlie, Senior Executive Analyst, at
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