



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Nanci Klein

**SUBJECT: ECONOMIC DEVELOPMENT
ADMINISTRATION GRANT
APPLICATION**

DATE: August 10, 2020

Approved

Date

8/10/2020

COUNCIL DISTRICTS: 3, 4, 5, 7, 8

RECOMMENDATION

Adopt a resolution:

- (a) Ratifying the application by the City Manager to apply for a CARES Act grant from the federal Economic Development Administration in partnership with SFMade, Inc. (Manufacture: San Jose) and the San Jose Downtown Association for small business recovery and support related to the COVID-19 pandemic.
- (b) Ratifying the Agreement with SFMade, Inc. and the San Jose Downtown Association dated July 24, 2020 to implement the proposed grant program if approved by the Economic Development Administration.
- (c) Authorizing the City Manager to negotiate pre-award terms and if awarded, negotiate and execute a grant agreement with the Economic Development Administration.

OUTCOME

A successful grant application would provide additional resources to assist vulnerable San Jose businesses that have been negatively impacted by COVID-19 and the resulting economic downturn. If the grant is awarded, the City will enter into an agreement with the Economic Development Administration for a period between Jan. 1, 2021 and Dec. 31, 2022.

BACKGROUND

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided \$1.5 billion for economic development assistance programs that help communities prevent, prepare for, and respond to coronavirus. This funding is being provided by the federal Economic Development

Administration (EDA) through a competitive grant process. On July 24, the City of San Jose completed an application process for this grant opportunity under the authority of Council Resolution No. 64250, which allows the City Manager to execute agreements that ordinarily require Council approval during an official Council recess. Staff applied as soon as possible in order to receive the best possible chance of receiving funding, since the program is expected to be exhausted quickly.

ANALYSIS

The Office of Economic Development is requesting approval to continue pursuing a grant opportunity that could provide roughly \$2.6 million of additional resources over a period of two years to support San Jose businesses negatively impacted by COVID-19, primarily within the City's most vulnerable neighborhoods in Central, East, and Downtown San Jose. The grant requires a 20% minimum match, which can be met by a combination of City staff time as well as City non-personal and other cash funding.

The EDA is seeking proposals that will help communities respond to the economic impacts of the coronavirus in a variety of ways, including but not limited to providing technical assistance to businesses, supporting skills-training and workforce development initiatives, developing plans and implementing strategies to create jobs in new or existing industries.

This EDA grant program is unrelated to the Coronavirus Relief Fund (CRF) funding that was provided to cities with populations over 500,000, including San Jose. Like that program, the EDA program comes with several restrictions. It does not allow for direct grants to businesses. It also does not allow recipients to "backfill" positions or programs that are being cut due to budget shortfalls. In addition, all proposal elements must be clearly and directly related to responding to COVID-19's economic impact.

Staff has partnered with two nonprofit co-applicants with a history of successful business assistance – Manufacture: San Jose and the San Jose Downtown Association – on a grant proposal focused on providing technical assistance to vulnerable small businesses, support for the City's manufacturing sector, and capacity-building in the City's Neighborhood Business Districts. In addition to working with the two co-applicants, the proposal seeks to bring on contractual support to provide business services, such as technical assistance and outreach, to small businesses and Neighborhood Business Districts in underserved areas of the City. These service providers must be selected through a competitive procurement process but can include nonprofit assistance providers, business associations, or local chambers of commerce. The general approach will be to support the recovery work of those organizations that are closest to businesses on the ground.

The proposal aims to focus limited resources on the City's East Side, Central and Downtown neighborhoods, which have been particularly impacted by COVID-19 and whose residents and businesses include some of the city's most economically vulnerable and underserved. If selected, the grant will complement a larger citywide effort that includes new and ongoing initiatives through the Coronavirus Relief Fund, Silicon Valley Strong, Silicon Valley Recovery Roundtable, Greater Downtown San Jose Economic Recovery Task Force, and others.

Focus on Small Business, Neighborhoods and Manufacturing

Small businesses are the cornerstones of our community, providing jobs, pathways to self-sufficiency, and enlivened, interesting public spaces. Recent reports have raised serious questions about the future of small business in America. According to the Census's Small Business Pulse survey, conducted in May 2020, roughly 55% of California small businesses had less than two months of cash on hand. In San Jose, there are 51,000 small businesses representing about 160,000 jobs. About 51 percent of these businesses are immigrant-owned and 30 percent of these owners have limited English skills. The focus on technical assistance in the EDA proposal will provide these businesses with the opportunity to acquire skills and strategies to recover in the wake of COVID-19.

A resilient business ecosystem requires strong and capable business-support networks and leadership. The grant proposal seeks to scale up business-support networks through an outreach initiative in COVID-19-impacted business districts, and mentorship provided to neighborhood business districts and Business Associations. Through contractual relationships, service providers will aid businesses in re-opening, attraction/retention efforts, technical-service referrals, creation of business directories, advocacy and neighborhood resilience. San Jose also has more than 1,300 manufacturing companies that collectively employ between 50,000-65,000 people, offering middle-income jobs to residents without four-year college degrees. The proposal activates one of nation's leading manufacturing nonprofits to provide workforce development and recruiting assistance, one-on-one advising and peer-to-peer learning for San Jose manufacturers recovering from COVID-19.

Proposed program elements are outlined in the table below. These elements and requested federal funding levels could change through continued conversations with EDA.

Program Area	Description	2-yr Federal Funding Request
<p>Small Business Technical Assistance Lead: City of San Jose with Consultant Services</p>	<p>Consultant services for technical assistance providers to provide training to small businesses to help them recover from COVID-19, pivot their business and survive future crises. Service providers would be selected through a request for proposals but could include nonprofit business service providers, chambers of commerce or business associations.</p>	<p>\$540,000</p>
<p>Capacity Building in Neighborhood Business Districts Lead: San Jose Downtown Association and City of San Jose</p>	<p>Provide leadership development, mentorship, and programming support to 3-4 business associations within the program area through a funded staff member housed in the San Jose Downtown Association. This two-year EDA-funded position will help these organizations build capacity to deliver services effectively, efficiently and at scale.</p>	<p>\$280,323</p>
<p>Neighborhood Business District Outreach and Engagement Lead: City of San Jose with Consultant Services</p>	<p>Consultant services to engage with local businesses in targeted Neighborhood Business Districts and corridors to aid businesses in re-opening, attraction/retention efforts, technical-service referrals, creation of business directories, advocacy and neighborhood resilience. (Anticipate funding for 2-4 providers.) Service providers would be selected through a request for proposals but could include nonprofit business service providers, chambers of commerce or business associations.</p>	<p>\$750,000</p>
<p>Neighborhood Business District Web Hub Lead: City of San Jose with Consultant Services</p>	<p>Establishment of an online home that centralizes multilingual information, business directories, resources, attractions and contacts for San Jose’s Neighborhood Business Districts/business associations in areas of the city that have been heavily impacted by COVID-19.</p>	<p>\$50,000</p>
<p>Downtown Business Recovery Liaison Lead: San Jose Downtown Association with support from City of San Jose</p>	<p>Assist Downtown San Jose’s diverse business and property owners as they rebound from this unprecedented economic shock. This two-year EDA-funded position will focus on business retention and recovery to mitigate growing commercial vacancies in key downtown corridors.</p>	<p>\$273,796</p>
<p>Manufacturing Recovery Initiative Lead: Manufacture: San Jose and City of San Jose</p>	<p>Assist manufacturers negatively impacted by Covid-19 with recovering, re-opening, re-building, and re-hiring. Focus on manufacturing businesses owned by people of color and also those who employ individuals from the impacted neighborhoods.</p>	<p>\$494,310</p>

	Assist manufacturers to re-hire and retain employees, with a focus on their lower-income employees residing in the impacted areas and assisting in the transitioning of laid-off hospitality workers transition to careers in manufacturing.	
Opportunity Zone Small Business and Manufacturing Study Lead: City of San Jose and Consultant Services	Feasibility study to examine opportunity fund investing in startups, small businesses and industrial/manufacturing projects within Opportunity Zones. Study will aim to determine a model for creating quality jobs within Opportunity Zones rather than purely real estate investment.	\$74,000
Small Business Recovery Summits Lead: City of San Jose	Convenings (in-person if possible; virtual if not possible) to feature speakers, workshops, drop-in clinics and networking for businesses recovering from COVID-19. Designed to develop pipeline for technical assistance providers.	\$9,000
Other	Translation services and indirect costs	\$125,176
Total		\$2,596,605

For the grant proposal, staff has identified a targeted area of the City that contains important small-business clusters that appear significantly at risk of long-term economic disruption and have been historically underserved by business assistance. This roughly 40-square mile area would be targeted for the provision of services, both in terms of business technical assistance, neighborhood business district development, and resident workforce support. This area includes seven zip codes that are home to nearly 300,000 residents and 186,000 jobs (more than half of the City’s total job portfolio). There are approximately 17,000 small businesses (defined as one to 35 employees) in the zip codes, of which 87% are between one to five employees.

These zip codes, identified below, have experienced on average higher rates of COVID-19 infection than the rest of the region, have greater increases in joblessness among residents living in them, and have been traditionally underserved in the area of business support services. They may also contain significant employment assets that support middle-wage manufacturing jobs. According to Census data, businesses in these zip codes are serving a resident population that is heavily Latino and Asian, and in general lower income, compared to the City at large. These zip code areas do not capture every vulnerable neighborhood in San Jose and staff anticipates working to support business districts in other areas through additional funding sources. See Attachment A for a map of the zip codes.

Zip code	Council Districts	Small Business Subareas
95112	3, 7	Downtown, Alum Rock corridor, Japantown, N1. 1 st Urban Village area, SOFA, North 13 th St., Martha Gardens, Monterey Corridor, 101&880 industrial area.
95113	3	Business corridors within downtown core.
95122	5, 7, 8	Story Road corridor, Little Saigon, Olinder/McLaughlin industrial, Tully corridor and Eastridge retail area.
95127	5	Eastern ends of Alum Rock, Tully, Story and McKee corridors.
95131	4	International Business Park industrial area; Berryessa, Junction/Zanker industrial corridors.
95133	3, 4, 5	Mabury Road industrial area; Flea Market area, Las Plumas corridor; McKee Road corridor.
95116	3, 5	Alum Rock, East Julian/McKee corridors, Little Portugal BART industrial area, Story Road.

Staff’s proposal is partially informed by the experience of assisting hundreds of businesses over the past four months within the Emergency Operations Center’s Small Business Response Team. During this time, staff helped provide small businesses enhanced and ongoing technical assistance services related to various topics such as access to capital, business transformation, health and safety for workers and employees, digital marketing, regulatory compliance, etc. The need for such services has been particularly acute among business owners of color and non-native English speakers, who often have difficulty accessing professional services. Staff also saw an opportunity for more robust business-support networks “on the ground” in Neighborhood Business Districts as commercial corridors reopen and recover.

At the same time, an economic development staff of roughly 10 for a City of one million plus residents and 60,000-plus businesses simply isn’t enough to provide all of these services directly. For this reason, the proposal aims to bring partners on board through the efforts of co-applicants as well as consultant services. The latter will be procured through a competitive bid process at which time a more specific workplan and service delivery goals will be developed.

All the proposed program elements are designed to work together to generate increased economic opportunity for vulnerable residents and better odds of survival for businesses that need help navigating a dramatically changed environment. The overall goal is to develop a stronger business ecosystem that outlasts the two-year grant horizon.

Focus on Equitable Business Development

In recent years staff has been working on strategies to mitigate small business displacement, including working with technical assistance providers that have language and cultural competencies to serve communities primarily on the East Side. These communities have historically been underserved in terms of access to capital and business assistance. For instance, Small Business Association lending in District 5 from 2015 to 2019 was only 3% of the City’s total, yet the East Side has 6% of City businesses. Not a single loan was over \$2.5 million, which

prevents business owners from acquiring business facilities in a rising market. Yet the average life of businesses on the East Side is comparable with the rest of the City, suggesting a market failure rather than the fact that businesses there could not provide an adequate return on investment.

The East Side also has a very high number of micro-businesses; more than 90% have a headcount between one to five workers. These types of small businesses tend to have a greater need for business technical assistance and support. These neighborhoods also have high numbers of self-employed and gig workers, who have been historically undeserved in terms of technical assistance.

In addition to technical assistance, the proposed program emphasizes supporting existing and developing emerging business associations to respond to the challenge of COVID-19 and beyond. This is proposed through mentorship (via a new staff position within the San Jose Downtown Association) and contractual services to be delivered within commercial districts in the program area. Rooted and based in these communities, service providers could aid businesses in safe re-opening, citywide marketing and visibility, attraction/retention efforts, technical-service referrals, creation of business directories, advocacy and neighborhood resilience. A culturally competent and resourced business district service provider (whether a business association, chamber, or other entity) could be a major catalyst for business recovery in some of the City's most negatively impacted commercial corridors that have been traditionally underserved by such programs.

Finally, the proposal's manufacturing element is designed to support an industry sector that can provide higher-quality jobs for residents without four-year college degrees. The program will connect low-income residents of San Jose's most underserved neighborhoods to local manufacturing jobs, many which offer benefits, growth opportunities and a path to financial stability. The City's nonprofit co-applicant, Manufacture: San Jose, has been doing significant work in this area since 2018 and during the pandemic has been instrumental to helping manufacturers maintain income and operate safely. The proposal will re-center its focus on COVID-19 recovery and re-hiring to serve residents and businesses within the program area.

Timeline

Staff applied for the grant opportunity in July in order to maintain a chance at receiving funding given strong demand from other grant applicants. If successful, staff anticipates discussions with EDA this fall and potential program implementation in early 2021. If the City is not selected for the grant, staff will continue to seek alternative funding sources as well as work to implement some project elements through funding already secured.

CONCLUSION

Council approval will allow the Office of Economic Development to continue pursuing the EDA CARES Act grant.

EVALUATION AND FOLLOW-UP

The Office of Economic Development will coordinate with the City Manager's Budget Office to recognize revenue and expenses if the grant is awarded and the corresponding contract with the EDA is negotiated and executed. The EDA grant proposal also includes quarterly updates to the EDA, which will be made available for the Council and the public to review.

CLIMATE SMART SAN JOSE

The recommendations in this memo align with one or more Climate Smart San Jose energy, water, or mobility goals. They facilitate job creation within City limits.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the August 18, 2020 Council Meeting.

COORDINATION

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

POLICY ALIGNMENT

This proposal aligns with the following Strategic Goals in the City's Economic Strategy Workplan:

No. 3: Preserve and Strengthen Manufacturing-Related Activity and Jobs

No. 4: Nurture the Success of Local Small Businesses

No. 7: Prepare Residents to Participate in the Economy Through Training, Education and Career Support

No. 10: Continue to Position Downtown as Silicon Valley's City Center

COST/SUMMARY IMPLICATIONS

If awarded, the Office of Economic Development will submit a request to recognize the grant funds as part of 2020-2021 and subsequent budgets.

1. AMOUNT OF COST OF PROJECT

Note: The following represents the current cost summary based on recommendations from EDA staff. If successful, the final contract may differ in breakdown between federal contribution and City match.

Federal funding for technical assistance providers and consultants:	\$1,470,000
Federal Funding for co-applicants MFG: SJ and SJDA:	\$1,061,429
Federal funds for city indirect charges:	\$65,176
City match: Cash and In-Kind Services:	\$865,535
(In-kind: \$651,756; Cash: \$213,779)	
TOTAL PROGRAM	\$3,462,140

2. COST ELEMENTS OF AGREEMENT CONTRACT

Services for this program fall into two main buckets: Those provided by the City's co-applicants, and those provided by technical assistance providers or consultants.

Following the grant award, OED will conduct a competitive solicitation for technical assistance providers eligible to provide training services for businesses in the program area. Contracts will be developed providing a detailed scope of work and compensation.

Federal funding for the co-applicants largely will go to pay staff costs, including existing and new staffers for the organizations, as well as some costs related to supplies and travel.

3. SOURCE OF FUNDING

The grant requires a minimum 20% match of City funds or in-kind services to the total program amount. OED identified the following match sources for the two-year grant period. These funds have already been budgeted by Council to support business and economic development activities that dovetail with the goals and strategies of the EDA grant proposal.

Staff Time (fully loaded including fringe benefits):	\$651,756
OED Business Development Non-Personal:	\$113,779
Retail Attraction Funds:	\$50,000
Monterey Corridor Revitalization Funds:	\$50,000

Staff believes that utilization of the funds identified above are in line with Council direction and can achieve greater impact by helping to leverage federal dollars as part of a larger program

focused on COVID-19 recovery. For instance, staff has proposed matching federal funds with 50% of the budgeted Monterey Corridor Revitalization Funds. This funding would complement ongoing work in the corridor and could be used within it to assist in COVID-19 recovery through contractual services to build out a formal business organization; create and execute outreach programs; assist in back-filling vacant or blighted spaces; access technical services to support local small businesses; and foster connections to workforce development services. Retail attraction funds could be deployed to assist COVID-19 impacted retailers pivot to new opportunities; help COVID19 impacted retail property owners to re-lease retail spaces or re-position spaces to attract new tenants; and develop technical support services for retailers recovering from COVID-19.

4. FISCAL IMPACT

Receipt of this grant would permit the City to scale up business support activities largely through partnerships with third-party service providers. The City’s matching funds would come from staff time provided from existing budgeted positions, or from funds available from existing appropriations that align with the proposal’s focus and goals. Therefore, no additional fiscal impact is expected from receiving this grant.

BUDGET REFERENCE

The table below identifies the fund and appropriation proposed to fund the City’s assessment recommended as part of this memorandum.

Fund #	Appn #	Appn. Name	Total Appn.	City Match	2020-2021 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
001	0181	Personal Services	\$4,404,254	\$651,756	VII-67	06/23/2020, 30437
001	0182	Non-Personal Services	\$1,112,174	\$113,779	VII-67	06/23/2020, 30437
001	211G	Monterey Corridor Gateway Revitalization	\$100,000	\$50,000	N/A	06/23/2020, 30437
001	206G	City-wide Retail Attraction Program	\$100,000	\$50,000	VIII-15	06/23/2020, 30437

* The 2020-2021 Operating Budget was reviewed and approved by City Council on June 16, 2020, and adopted on June 23, 2020.

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August 10, 2020

Subject: Economic Development Administration Grant Application

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CEQA

Not a project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/

NANCI KLEIN

Director of Economic Development

Director of Real Estate

For questions, please contact Nathan Donato Weinstein, Business Development Officer, at (408) 535-8178.

Attachment: Map

Attachment A: Map

