

**Date:** August 1, 2014

**To:** Honorable Chairwoman Rebeca Sosa  
and Members, Board of County Commissioners

**From:** Carlos A. Gimenez  
Mayor

A handwritten signature in black ink, appearing to read "Carlos A. Gimenez", written over a horizontal line.

**Subject:** Reinstatement Plan for Small Business Loan Assistance Program and Establishment of Bonding Assistance Program

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This report is in response to Resolution R-482-13, sponsored by Commissioner Audrey M. Edmonson and approved by the Board of County Commissioners (Board) on June 18, 2013, which directs staff to:

- Prepare a report outlining a plan to reinstitute the line of credit for the Loan Assistance Program,
- Establish a line of credit for a Bonding Assistance Program, and
- Provide annual reports to the Board in order to evaluate the success of these programs.

Additionally, during the discussion of this item, the Board asked that this report include information related to which small businesses received loans from this program in the past, when the loans were received, details on businesses that may have defaulted or had trouble re-paying these loans in the past, and that the new program include measures to protect the County in the event of future defaults.

The following report is broken down in three main sections: the history of the Small Business Contract Lending Program (CLP) and the steps necessary to reinstate; history of the Small Business Bonding Assistance Program and further recommendations for enhancement; and the corresponding fiscal impacts.

### **History of Small Business Contract Lending Program**

The Small Business Development (SBD) Division of the Internal Services Department currently administers the County's Small Business Programs. The Small Business CLP, which was established in April 2006 and later suspended in September 2010, was designed to provide short-term working capital loans for Community Small Business Enterprise (CSBE) and Small Business Enterprise (SBE) firms that were performing on County contracts by offering short-term loans in the form of a revolving line of credit.

To establish the CLP program in 2006, the County entered into a Cooperative Agreement with Continental National Bank of Miami (Continental) to provide the loans to certified small businesses with the stipulation that the County would guarantee 85 percent of the loan. In order to guarantee the obligation, the County established a letter of credit with the County's financial institution, Wachovia Bank (now Wells Fargo Bank) for \$2 million at a cost of \$10,000 annually. Loans ranged from a minimum of \$25,000 up to \$250,000. Proceeds from the loan could only be used for contract-related expenses. Each loan was secured by the receivables of a County contract or subcontract. The CSBE/SBE (borrower) would make draw requests on the credit line by submitting a copy of a pay requisition approved by the County or prime contractor to SBD Division staff for review and loan access approval prior to submittal to Continental for payment. Continental would then fund the approved requisition for 85 percent of the requisition amount within two days of receipt of the draw

request. All payments from the borrower's County contract or subcontract were assigned to Continental, which would pay down the outstanding loan balance as payments were made by the County or the Prime contractor. The Borrower would pay the interest (variable rate of Prime + 2 ¼ percent) on the outstanding loan balance. All closing costs were paid by the borrower and the term of the loan was for one year and could be renewed annually for up to five years.

From April 2006 to September 2010, SBD processed 34 loan applications, of which 11 were approved for a total of \$2,250,000 (Attachment). The average loan was approximately \$204,000.

There was one loan default that occurred in February 2009. The Water and Sewer Department inadvertently processed a payment to a loan recipient, Development and Communications Group, paying the firm directly rather than assigning the payment to Continental Bank. Development and Communications Group did not repay the Bank and as a result defaulted on the loan. The net fiscal impact to the County was approximately \$54,000, which was paid from SBD's FY 2009 Budget. In September 2010, as a result of the default, it was determined that it would be in the best interest of the County to temporarily suspend the program while re-evaluating the existing controls and procedures to strengthen portions of the program policies that would prospectively eliminate future defaults.

#### **Reinstatement of Small Business Contract Lending Program**

If the County were to have the resources to reinstate the Small Business Contract Lending Program, the following actions would be necessary:

1. Enhance existing procedures for program controls that include, but are not limited to the following:
  - a. Strengthen auditing responsibility of SBD Division staff to monitor payment approvals from the County or Prime Contractor to the borrower prior to the County forwarding to the bank;
  - b. Increase responsibility of the user/contracting department to ensure contract payments are forwarded to the lending bank and not to the borrower; and
  - c. Increase responsibility of the bank to monitor and ensure payment receipts from the County or Prime Contractor prior to payment disbursements to the borrower.
2. Amend the existing Cooperative Agreement with the lending bank to strengthen policies, procedures and controls.

To facilitate the issues referenced above, audit checklists have been developed to verify all required documentation is received by SBD and invoices are approved by the contracting department or prime contractor prior to their submission to the bank for disbursements. Additionally, departments would be mandated to implement safeguards to ensure that only two-party checks are disbursed for payment of invoices to the contractor/borrower and the bank, as required by the Cooperative Agreement and Small Business Loan agreement. Finally, the Cooperative Agreement between the County and the lending bank will be revised to clarify and strengthen language requiring the banking institution to maintain the responsibility of monitoring the borrower's compliance with loan repayment requirements and disbursement deposits. Continental Bank has expressed interest in discussing the reinstatement of CLP.

Two unfunded positions (one Administrative Officer 1 and one Administrative Officer 2), with a fiscal impact of \$134,000 for both positions, are necessary to ensure proper management and accountability of the CLP, including technical assistance to applicant contractors, the review and submittal of applications, documentation review for draws, and other bookkeeping functions. In addition to the additional funding not currently available, staff would need six months worth of lead time for implementation.

### **History of Small Business Bonding Assistance Program**

Over the past eleven years, SBD has assisted certified small businesses with their bonding needs through technical assistance services that include the following:

1. One-on-One meetings with certified firms to educate firms on bonding and requirements;
2. Assessment of firms' bonding potential;
3. Assistance with bond application including review of financial statements;
4. Identifying the appropriate bond market;
5. Referrals to appropriate bond agent; and
6. Coordination of workshops on bonding and related topics.

Since July of 2006, SBD has assisted 241 certified firms in obtaining bond approval totaling \$72 million, with an average bond valued at \$300,000. SBD staff has maintained relationships with several local bond agents that have an interest in serving the County's certified small firms, as well as developed the knowledge and understanding of the various bond markets that are small business-friendly and the changes occurring in these markets.

The County requires surety bonds on County construction projects over \$200,000 to ensure that contracts are properly completed, protecting the County, subcontractors, labor, and material suppliers. The economic climate over the past few years has decreased bonding access while increasing the obstacles to bonding. When construction was flourishing, there were few defaults and more bond approvals. But with the economic downturn and slow recovery, the surety industry has determined that there is greater risk to the industry and, as a result, they have been very conservative in their requirements for bonds.

As a component of the Small Business Programs, SBD provides technical assistance to certified firms to establish bond credit through a process of education, application assistance and referrals to various bond markets and programs. SBD continues these existing services and expanded its referrals to other markets that can assist those firms that have had challenges in securing bonds.

### **Bonding Assistance Program**

A Bonding Assistance Program can assist firms in obtaining their first bond or re-establishing bond credit. This can be done by requiring certified firms to complete a program to include a prescribed bond education curriculum of classes to be developed by bonding professionals or consultants and offered annually.

Once classes are completed, County staff would meet with firms to assess the needs, determine suitability for various markets, assist in the preparation of bonding applications and supporting documentation for submittals and referrals to one of the following bond market programs: Standard Bond Market, Markets Requiring Collateral, Small Business Administration Guarantee Market, Fast Track/Quick and Easy Market or the Markets with Emphasis on Experience.

These markets base approvals on at least one of the key underwriting requirements for bond approval – credit, capital and capacity. A firm can obtain bond credit as long as they show strength in at least one of these components. A firm strong in credit, but weak in capital and capacity could qualify for the Fast Track market. Likewise, a firm strong in capital, but weak in credit and capacity, could qualify for the SBA market or collateral market. Finally, firms that are strong in capacity but weak in credit and capital could be considered in those markets that value experience. With the commitment of the County and willingness of firms to attend classes and provide necessary documentation to assess capacity, it is estimated that 70 percent of firms applying for bonding can be adequately served. For those firms that are unable to qualify for bonding, SBD Staff will recommend strategies and work with firms to improve the areas of weakness for future bonding opportunities.

**Bonding Assistance Line of Credit**

The purpose of a bonding assistance line of credit program is to establish lines of credit through participating local banking institutions for credit lines ranging from \$25,000 to \$50,000. Typically, surety underwriters approve bond amounts based on ten times the available working capital of a firm. For example, \$50,000 of working capital can potentially help an applicant qualify for a \$500,000 bond line of credit.

If the Board were to approve the establishment of a Bonding Assistance Line of Credit, the lines of credit would be guaranteed by the County for contractors awarded County projects so they can meet the working capital requirements of the bond companies. The line of credit could also be used to pay for the premium cost of bonds. For firms with limited or no working capital, the line may provide the financial strength so their bond applications can receive approval. The guarantee would be funded by a Stand-By-Letter of Credit paid by the County. Firms would be required to apply to the partnering bank(s) for the credit line. A Request for Information would be issued to local banks to establish a pool of banks to be the lending source for these loans.

Firms would be responsible for paying off outstanding loan balances prior to a project's completion. Procedures and guidelines would be established to ensure restricted use of the line, including requiring the firms to assign contract receivables to the financial institution(s), which reduces the County risk.

The same two unfunded positions needed to support the CLP, would include professionals with bonding and/or financial expertise to supplement current staff as a comprehensive enhancement of the Technical Assistance Program. Establishing a program as this would require nine months of lead time to implement.

**Fiscal Impact**

The recurring cost to fund the two positions to support these programs would be \$134,000, which includes salary, fringes and other operating support cost. This amount assumes both positions will start at entry level and does not include merit increases or cost of living increases, which applies to these positions in future years. Additionally, there will be a \$10,000 annual fee associated with the Letter of Credit.

It is important to note that based on our current financial situation and other demands we are unable to recommend reinstatement of the Line of Credit for Loan Assistance Program or the establishment of a Line of Credit for Bonding Assistance Program.

Should you have any questions or comments, please contact Lester Sola, Director, Internal Services Department at 305-375-2363.

Attachment

- c: Robert A. Cuevas, Jr., County Attorney  
Office of the Mayor Senior Staff  
Department Directors  
Gary Hartfield, Division Director, Small Business Development, Internal Services Department  
Charles Anderson, Commission Auditor

**SMALL BUSINESS CONTRACT LENDING PROGRAM**  
Activity from April 2006 through September 2010

FIRM/APPLICANT	CERTIFICATION	DENIAL DATE	APPROVAL DATE	LOAN AMOUNT
Cason Investments Inc.	SBE	6/15/2006		
Wayloo, Inc.	SBE	12/13/2006		
DKG & Associates	CSBE		8/1/2006	\$250,000
Development & Comm. of So. Fl.	CSBE		10/23/2006	250,000
R.D. Windows & Carpet Cleaning	SBE	1/9/2007		
Mercury Development, Inc.	CSBE		11/3/2006	250,000
Jarco Steel	CSBE	4/2/2007		
Ruby Lee Cleaning	SBE	1/9/2007		
Foster Construction of So. FL	CSBE	4/12/2007		
Banks Enviro Cleaning	SBE			
Feick Security	SBE	5/30/2007		
The Bannerman Group	CSBE	12/3/2007		
Best Wells	CSBE			
Super Stamp Concrete	CSBE		*4/4/2008	
BET Construction	CSBE			
Gecko Group	CSBE		5/20/2008	200,000
Chelle Construction	CSBE			
Precision Engineering Group	CSBE	11/14/2008		
Berlo Industry	CSBE		10/24/2008	100,000
Paramount Electrical Distributors	CSBE		11/17/2008	100,000
Civilco, Inc.	CSBE		1/26/2009	100,000
Pabon Engineering, Inc	CSBE	3/23/2009		
All American Pressure Clean	CSBE		1/23/2009	250,000
Caribe Utilities of Florida	CSBE		2/18/2009	250,000
Alliance Security & Proective Services	SBE	5/29/2009		
Dauida	SBE	5/29/2009		
McFamily Enterprises	SBE	7/29/2009		
Tesla Electric	CSBE		*6/19/2009	
Vanderbilt Development, Inc.	CSBE		9/14/2009	250,000
Acre Engineering Services	CSBE			
Design Build Interamerica	CSBE			
E & M Equipment	CSBE			
DAC Air Conditioning	CSBE		5/5/2010	250,000
Luncacon Engineering Group	CSBE			
<b>TOTAL LOANS</b>				<b>\$2,250,000</b>

\*Loan approved but not executed by Firm