



COUNCIL AGENDA: 5/2/06  
ITEM: 4.4 (a)

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Paul Krutko

**SUBJECT:** SEE BELOW

**DATE:** April 12, 2006

Approved

*Ray Warner*

Date

*4/18/06*

**COUNCIL DISTRICT:** Citywide  
**SNI AREA:** NA

**SUBJECT:** Authorization of Negotiations for Sale of the Development Enhancement Special Fund (DESF) loan portfolio.

## RECOMMENDATION

Authorization to negotiate with Cargill Value Investments for the sale of the existing Development Enhancement Special Fund (DESF) loan portfolio to assist in the capitalization of the Economic Development Catalyst Program (EDCP). If negotiations with Cargill Value Investments are unsuccessful, it is recommended that City Council authorize negotiations with additional companies in order to obtain the best value for the City.

## OUTCOME

Approval of this recommendation will allow the sale of the DESF portfolio to augment the capital available to fund the EDCP if negotiations with a potential Fund Manager are successful.

## BACKGROUND

From 1994 through August 2005, the City of San Jose operated a small business loan program called the Development Enhancement Special Fund (DESF). The DESF has supported small businesses with loan guarantees and direct loans; a total of \$7,693,000 in private capital was made available to small businesses through loan guarantees, and \$2,390,000 was provided as direct loans, resulting in approximately 1,243 jobs retained or created with \$2,550,000 in new sales tax revenues generated.

In an effort to enhance the economic impact for San Jose's small business community, the Office of Economic Development (OED) forwarded a recommendation to City Council to proceed with

a process to select a Fund Manager to establish and manage a new, expanded Economic Development Catalyst Program (EDCP). The intent of such a program is to provide financial services, technical assistance, and information targeted to job-generating companies with high growth potential. Such an approach appears to have the possibility of leveraging substantial venture capital investment in San Jose companies from the private sector. It is a fundamental objective of the City of San Jose that the community impact achieved through the creation of the EDCP will surpass that of the DESF.

In order to serve as a catalyst for economic growth, while encouraging the private sector to sustain and drive that growth, the City of San Jose will endeavor to provide up to \$3 million ("City's Capital Contribution") to assist in capitalizing the Fund. The City's objectives as they relate to the creation of this Fund are: (1) to build the City's tax base, (2) to create jobs for local residents, (3) to facilitate the integration of other programs and services targeted to the small business community, and (4) to create the opportunity to participate in the financial success of companies receiving investment from the Fund.

At its October 18, 2005 meeting, the City Council approved continued evaluation of the option of the sale of the DESF loan portfolio. On January 17, 2006, a Request for Bids (RFB) was released to numerous companies, lenders, community groups, investment banks and other entities. A Technical Assistance Conference was scheduled for February 16, 2006 for interested parties; there were no attendees. The last date for submittal of bids was March 9, 2006. The City did not receive any responsive bids by that date.

## **ANALYSIS**

Having received no response to the RFB, staff surveyed the marketplace for potential interest in the portfolio and identified several companies that purchase governmental community-based loans. Cargill Value Investments, with extensive experience and servicing capability in the purchase and management of governmental community-based loans, expressed interest in the purchase of the DESF portfolio.

If approved by City Council, staff would enter into negotiations with Cargill Value Investments for the sale of the existing DESF loan portfolio. If negotiations with this company are unsuccessful, a similar company would be identified and secondary negotiations would commence. In general, the City would prefer to sell all the loans on a non-recourse basis in order to maximize the potential purchase price. There are currently eight (8) loans that would be sold.

## **PUBLIC OUTREACH**

OED worked extensively to ensure a broad distribution of the Request for Bids to potential purchasers, using local media and direct solicitation. The RFB documents were posted on OED's website ([www.sjeconomy.com](http://www.sjeconomy.com)), the Silicon Valley Workforce Investment Network's website

Honorable Mayor and City Council

04-12-06

**Subject: Sale of DESF Loan Portfolio**

Page 3 of 3

([www.svwin.org](http://www.svwin.org)) and the City's BidLine Service. A representative of the Federal Deposit Insurance Corporation distributed the documents to local banking institutions. Additionally, copies of the RFB documents were sent to over 30 members of the local financial services community.

### **COORDINATION**

This memorandum was coordinated with the City Attorney's Office, the City Manager's Office and the Finance Department.

### **FISCAL IMPLICATIONS**

The sale of the existing DESF loan portfolio would be the sale of an asset in Fund 439. Any proceeds would be used to augment the capitalization of the EDCP. As of December 2005, the principal outstanding balance of the loan portfolio is \$532,226 with Note dates ranging from August 2003 to May 2005 and typical terms of 5 years. The City's interest in the proposed EDCP would also incorporate existing undesignated fund balances in Fund 439 in an amount up to \$3 million.

### **CEQA**

Not a project.



PAUL KRUTKO

Director, Office of Economic Development  
(408) 535-8179