



COUNCIL AGENDA: 10-18-05

ITEM: 4.3

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko

SUBJECT: SEE BELOW

DATE: October 3, 2005

Approved

Date

10/4/05

COUNCIL DISTRICT: Citywide
SNI AREA: NA

SUBJECT: Direct staff to issue a Request for Proposals (RFP) to select a Fund Manager to establish and manage an Economic Development Catalyst Fund.

RECOMMENDATION

It is recommended that the City Council direct staff to issue an RFP to select a Fund Manager to establish and manage an Economic Development Catalyst Fund.

The competitive selection of a Fund Manager for the Fund will further the City's Economic Development Strategy by helping to: (a) "Support Start-Up and Growth of Local Businesses" (Initiative 5), (b) "Diversify San Jose's Economic Base and Preserve/Create Middle-Income Jobs" (Initiative 8), (c) "Develop Retail to Full Potential and Maximize Revenue Impact" (Initiative 13), and (d) "Engage Private-Sector Leadership for San Jose's Economic Strategy" (Initiative 15).

BACKGROUND

Since 1994, The City of San Jose has operated a small business loan program called the Development Enhancement Special Fund (DESF). The DESF has funded new small businesses and existing companies with the objective of supporting job creation and retention, generation of sales tax revenues, and increases in development and construction fee revenues. The DESF, as originally budgeted in 1994, received some \$3.5 MM from the General Fund.

From 1994 through August 2005, the DESF has supported small businesses with loan guarantees and direct loans. A total of \$7,693,000 in private capital has been made available to small businesses through loan guarantees, and \$2,390,000 in direct loans has been made. This financial activity has resulted in approximately 1,243 jobs retained or created with some

\$2,549,853 in existing or new sales tax revenues generated. The types of businesses assisted have ranged from retailers to contractors to professionals to software companies.

In an effort to align programs supporting local small businesses and to create a resource for strategic investment in support of the City's current Economic Development Strategy, the Office of Economic Development is evaluating the option of liquidating the existing portfolio of active and performing DESF loans in order to capitalize a new, expanded capital fund to enhance the economic impact for the City and the small business community, ensuring flexibility to meet a wide range of needs. Such an approach appears to have the possibility of leveraging substantial venture capital investment in San Jose companies from the private sector.

This RFP seeks to identify a Fund Manager to establish and manage an Economic Development Catalyst Fund (hereafter referred to as the "Fund"). The Fund will provide financial services, technical assistance, and information targeted to job-generating companies with high growth potential, including but not limited to tech-based ventures located in the City of San Jose and other areas of Santa Clara County.

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 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. Although the Fund's jurisdiction may eventually include communities located outside of the City of San Jose, the City's Capital Contribution (CCC), and any funds to be added to the CCC, shall be invested within the legal limits of the City, and shall be used only to fund private businesses.

ANALYSIS

Economic Development Catalyst Fund Manager RFP Concept

The City has held a series of focus groups and other types of consultations with a wide range of stakeholders to assess the need, viability, and the City's approach in identifying a sponsor for a small business investment fund of this nature. Feedback received from these stakeholders has provided sufficient impetus to move forward with an RFP for a Fund Manager. The stakeholders reached agreement on the small business community's need for debt, equity and mixed investments in the range of \$75,000 to \$500,000. They held various views regarding the type of the Fund's investments, and on the profile of small businesses to be served through the Fund. For this reason, it is a guiding tenet of the RFP that proposers have maximum flexibility as permitted by law to design and implement their market-based business strategy to have maximum local impact, based on the needs and market gaps they identify.

Depending on the investment strategy developed by the Fund Manager, the Fund may provide pre-development, equity, mezzanine financing, and/or debt financing. The return from those business investments will be used to further capitalize the Fund's investment operations, recapture the City's investment, and to compensate the Fund Manager and other investors.

RFP Process

OED proposes to issue a Fund Manager RFP that will reach out to a broad array of entities capable of demonstrating the needs of the small business community and possessing the qualifications to address them. OED will use local media, including the City's BidLine Service and the Mercury News, and direct solicitation to receive a variety of responses from potential Fund Managers. A Technical Assistance Conference will be held to address questions and issues relating to proposal preparation.

The RFP will outline the opportunities and requirements for successful responses to the RFP. The process will allow OED the flexibility to negotiate the best combination of services. Selection will require a three-phase process:

- **Phase I:** City staff will ensure that proposals are complete and meet minimal format requirements;
- **Phase II:** Evaluators will be convened to assess each proposer's Demonstration of the Need, Qualifications and Experience, and Work Plan; and
- **Phase III:** City staff will assist in the final selection of provider(s).

Evaluation Criteria and Relative Weights

OED and the evaluation panel will focus on the following selection criteria:

Demonstration of the Need (20% of Phase II Evaluation): prior to developing a Work Plan, it will be necessary for parties interested in responding to this RFP to determine the areas of greatest need and impact in the local small business community. Evaluators will examine the methodology, statistical data, and conclusions reached to ensure that the proposers' grasp of the need is sound and sufficiently comprehensive to justify the approach outlined in the proposed Work Plan.

Qualifications and Experience (40% of Phase II Evaluation): proposers will provide evidence of their relevant qualifications and experience in (1) meeting the need as analytically demonstrated in the Executive Summary of the proposal, and (2) identifying job-generating companies with high growth potential.

Work Plan (40% of Phase II Evaluation): proposers are encouraged to provide a work plan that (1) describes a market-driven, flexible, needs-based approach to serving the local small business community, and (2) is targeted to job-generating companies with high growth potential.

With regard to the establishment of a "Fund," the proposers will be asked to:

- 1) Identify the impetus for creating the Fund;
- 2) Do market analysis of investment opportunities in prospective service area;
- 3) Given a demonstrated need, specifically articulate the Fund's goals;
- 4) Select fund size based on: (1) available funds, (2) deal flow, and (3) type of Fund management entity;
- 5) Identify funding sources, related constraints; and
- 6) Provide the organizational structure and timeline for establishing the Fund.

Leveraging: up to 10 points will be added to total points awarded in Phase II for proposers providing at least a 50% match to the City's Capital Contribution.

City's Local and Small Business Preference Ordinance

In June of 2004, the San Jose City Council passed a local and small business preference ordinance. For procurements such as this RFP, where cost is not necessarily the determinative factor, a local business is to receive a 5% point bonus and a small business will receive an additional 5% point bonus, for a maximum of 10 bonus points.

Selection Timeline

OED anticipates release of the Fund Manager RFP in late October. Proposals will be due in early January. Evaluations of proposals and discussions with proposers should be completed by late February.

OUTCOMES

The issuance of an RFP for an Economic Development Catalyst Fund Manager will seek to leverage City monies and increase economic impact in terms of enhanced job creation and an expanded tax base.

PUBLIC OUTREACH

OED will work extensively to ensure a broad distribution of this Request for Proposals to potential providers of these services, using local media and direct solicitation. The RFP will be posted on the City's BidLine Service, the OED website (www.sjeconomy.com), and the SVWIN website (www.svwin.org).

COORDINATION

This memorandum was coordinated with the General Services Department, the City Attorney's Office, the Budget Office, the Department of Planning, Building, and Code Enforcement, the City Manager's Office, and the Redevelopment Agency.

COST IMPLICATIONS

This RFP contemplates utilizing existing resources within the DESF.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. For Contract	2005-2006 Proposed Budget (Page)	Last Budget Action (Date, Ord. No.)
439	3158	Administration	\$185,000	N/A	XI-24	6/21/05
439	0073	Loan	\$1,200,000			

CEQA

Not a project.



PAUL KRUTKO
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