

City of
ALBUQUERQUE

*Office of Internal
Audit*

STRATEGIC REVIEW
19-307

CENTRAL LOAN FUND

AUGUST 29, 2019

STRATEGIC REVIEW REPORT
CENTRAL LOAN FUND
REPORT NO. 19-307

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INTRODUCTION

In June 2019, the Office of Internal Audit (OIA) received a request from a City Councilor to conduct an independent review of the Central Loan Fund (CLF) from program initiation in 2017 to program termination in 2019.

Specifically, the Councilor requested that the review address and include:

1. Program review: amount available for lending, application process and eligibility, loan terms, recipients.
2. Program administration: review of McCune grant/contribution agreement, review of agreement with WESST for program administration.
3. Program termination: amount of unused funding at completion and justification, future use of reverted funds.

SCOPE

The work performed for this strategic review was limited to the identified objectives and was not an audit or an investigation in response to allegations of fraud, waste, or abuse. The City's Office of Inspector General is responsible for the investigation of possible fraud, waste, or abuse and would be notified if such events were identified.

EXECUTIVE SUMMARY

The results presented are based on information obtained through interviews with City personnel and related parties, and a review of available documents.

In March 2017, the City of Albuquerque (City) acknowledged the completion of performance and mutual recognition of fulfillment of obligation by various Historic District Improvement Company entities (HDIC) (Acknowledgement). By way of the Acknowledgement, contributions totaling \$1.3 million were to be made by HDIC or on HDIC's behalf. It is unclear how the amount was derived or if a corresponding entry was recorded in the City's financial system. However, procedures for determining the accuracy of this amount are not within the scope of this strategic review. The Acknowledgement specified allocations of \$700,000 to Innovate ABQ and another \$600,000 to the Guaranteed Loan Fund (aka CLF) associated with the businesses along Central Avenue and within Metropolitan Redevelopment Areas (MRAs) affected by the Albuquerque Rapid Transit (ART) project. A summary reconciliation of the funding is included as **Appendix A**.

In accordance with the Acknowledgement, the McCune Charitable Foundation (McCune), which acquired HDIC, granted the \$600,000 to the Women's Self-Sufficiency Team (WESST) for loans to small businesses along the Central Avenue corridor, between Louisiana Boulevard and Coors Boulevard, that were located in a City designated MRA and had been financially impacted by the ART construction project. The grant agreement was subsequently amended and the final amount available to fund loans to qualified businesses within MRAs was reduced to \$400,000.

The CLF program operated from April 2017 through January 2019 and was administered by WESST with support from the Small Business Resource Collaborative (SBRC) and other contracted business navigators. The business navigators were individuals contracted by the City to provide support to local businesses affected by the ART construction project in a variety of business-related areas, including identifying eligible borrowers for the CLF program and helping

to complete the loan applications that were submitted to WESST for funding. At the end of the CLF program, so long as the loans remained in good standing, loans to qualified businesses would be paid in full with the McCune grant funding. All loans were paid as intended.

Overall, 26 loans were made to businesses within the MRA and totaled \$228,985. A list of loans is included as **Appendix B**. Administrative fees totaling 8.5 percent of the loan principal were charged by WESST and unused funding that remained at the end of the CLF program totaled \$154,893.

In April 2019, the City issued a letter to WESST designating the remaining funds from the CLF program of \$154,893 to the Rio Grande Community Development Corporation (RGCDC), a non-profit corporation, to be used “to build programmatic coordination between ‘Color Theory’ (an initiative dedicated to providing support to immigrant and marginalized entrepreneurs) and related activities at Innovate ABQ and the Rainforest Building, among other activities as agreed to by the City.” In accordance with the letter, no funds reverted to the City.

Separately, it was represented that private donations totaling \$304,964 were collected on behalf of WESST to fund loans for qualified businesses in non-MRAs. Total funding available for loans to businesses in both MRA and non-MRA was \$704,964. For the purpose of this strategic review, testwork was only performed on loans tied to the \$400,000 available to businesses within an MRA, which stemmed from the Acknowledgement, and not on funding provided by private donations for non-MRA loans.

OBJECTIVES

The objectives of the strategic review were to:

- Inquire about and obtain supporting documentation on the amount available under the CLF program for lending, the application process and eligibility requirements, loan terms, and list of recipients;
- Obtain a copy of the McCune grant/contribution agreement with WESST for program administration, review the agreement and prepare a brief summary of the agreement and determine if WESST is complying with administrative requirements; and
- Inquire about and obtain supporting documentation relative to the termination of the CLF program, unused funding at completion and justification, and proposed future use of reverted funds.

The scope of the strategic review included the period from program initiation in 2017 through program termination in 2019. Information pertaining to the methodology used by OIA to complete the strategic review can be found in **Appendix C**.

BACKGROUND

Overview of Loan Program

The CLF program operated from April 2017 through January 2019 and was administered by WESST with support from the SBRC and other business navigators. The CLF program was designed to provide loans up to \$15,000 to small businesses along the Central Avenue corridor that were located in a City designated MRA and had been financially impacted by the ART construction project.

Funding for the CLF program was originally designated in the March 2017 Acknowledgement where contributions totaling \$600,000 were to be made to the guaranteed loan fund associated with the business along Central Avenue, and within MRA affected by the ART construction project. In April 2017, McCune issued a grant letter to WESST awarding \$600,000 for loans.

Subsequently, the grant agreement was amended and the final amount available to fund loans to qualified businesses within MRAs was reduced to \$400,000.

The City's contractors, SBRC and other business navigators, helped identify eligible borrowers and assisted businesses in completing the loan applications that were submitted to WESST for funding. At the end of the CLF program, so long as the loans remained in good standing, loans to qualified businesses would be paid in full with the McCune grant funding.

Overall, 26 loans were made to businesses within the MRA and totaled \$228,985. Administrative fees totaling 8.5 percent of the loan principal were charged by WESST and unused funding that remained at the end of the CLF program totaled \$154,893, as calculated in the table below.

Central Loan Fund Program Funding and Cost Details – MRA Businesses

Description	Amount
Total Funding Available	\$400,000
Loans Made	(228,985)
Administrative Fees Charged – 8.5%	(19,464)
Loan Repayments by Borrowers	3,342
Total Funds Remaining	\$154,893

Source: McCune and WESST

In April 2019, the City issued a letter to WESST designating the remaining funds from the CLF program of \$154,893 to RGCDC “to build programmatic coordination between ‘Color Theory’ (an initiative dedicated to providing support to immigrant and marginalized entrepreneurs) and related activities at Innovate ABQ and the Rainforest Building, among other activities as agreed to by the City.” In accordance with the letter, no funds reverted to the City.

The following is a timeline of key documents and dates from the original Acknowledgement to final distribution of funding.

CLF Program Timeline of Related Events

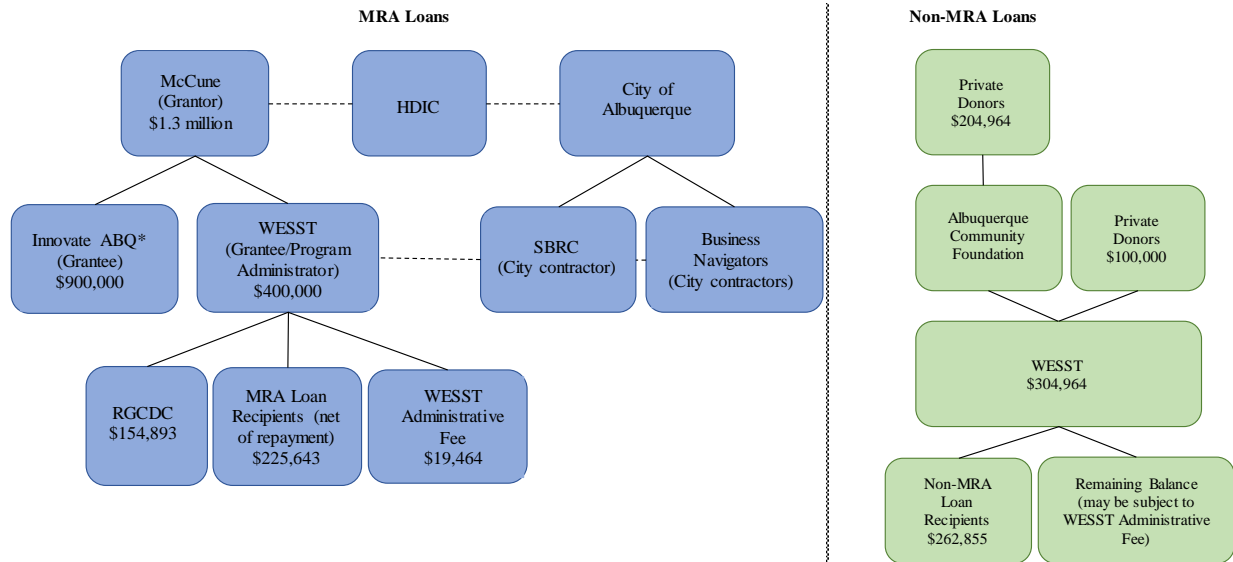
March 20, 2017	<ul style="list-style-type: none"> • City and HDIC Entities enter into the Acknowledgement • Acknowledgement specifies \$700,000 to Innovate ABQ and \$600,000 to the Guaranteed Loan Fund
April 20, 2017	<ul style="list-style-type: none"> • McCune issues grant letter to WESST awarding \$600,000 for Loans
May 23, 2017	<ul style="list-style-type: none"> • McCune awards \$700,000 to Innovate ABQ for general operating support of the FUSE Makerspace Relocation
September 21, 2017	<ul style="list-style-type: none"> • 1st Amendment to Acknowledgement approved by City • Changes designated amounts: \$400,000 to the Guaranteed Loan Fund and \$900,000 to Innovate ABQ
September 28, 2017	<ul style="list-style-type: none"> • McCune issues amended grant letter to WESST changing award from \$600,000 to \$400,000 • McCune issues \$200,000 grant to Innovate ABQ for general operating support of the FUSE Makerspace Relocation
December 7, 2017	<ul style="list-style-type: none"> • McCune issues \$26,412 check of the \$400,000 to WESST
January 15, 2019	<ul style="list-style-type: none"> • Grant period ends
February 5, 2019	<ul style="list-style-type: none"> • WESST issues final project report to McCune, which details loans of \$225,643 (net of repayment by borrowers), loan fees of \$19,464, and City designated funds of \$154,893
February 12, 2019	<ul style="list-style-type: none"> • McCune issues final payment of the \$400,000 to WESST totaling \$373,588
April 1, 2019	<ul style="list-style-type: none"> • City issues letter to WESST directing remaining funds of \$154,893 to RGCDC
April 17, 2019	<ul style="list-style-type: none"> • City's Economic Development Department enters into Memorandum of Understanding (MOU) with RGCDC
April 22, 2019	<ul style="list-style-type: none"> • WESST issues check to RGCDC for \$154,893

Source: OIA developed based on available documentation

Separately, it was represented that private donations totaling \$304,964 were collected on behalf of WESST to fund loans for qualified businesses in non-MRAs. Total funding available for loans to businesses in both MRA and non-MRA was \$704,964. For the purpose of this strategic review, testwork was only performed on loans tied to the \$400,000 available to businesses within an MRA, which stemmed from the Acknowledgement, and not on funding provided by private donations for non-MRA loans.

The parties involved, and funding flow, for both the MRA and Non-MRA loans is illustrated in the diagram below.

CLF Program Parties Involved for MRA & Non-MRA Loans



* For general operating support of FUSE Makerspace relocation
Source: OIA developed based on available documentation

RESULTS

Prior to the commencement of the CLF program, in March 2017, the City entered into an Acknowledgement with HDIC. Sections H and K of the acknowledgement state:

H. The City and HDIC Entities agree that current and projected future net cash flow and net sales proceeds from the HDIC Property make it highly unlikely that further material payments of money will be made under the MDA [Master Development Agreement for the Alvarado Transportation Center with the City of Albuquerque], and that the payment provided for in this Acknowledgement is greater than the net present value of any expected future return by the City under the MDA provisions.

K. The City and HDIC Entities further acknowledge that in exchange for the benefits and modification of existing obligations within this Acknowledgement a contribution totaling \$1,300,000.00 shall be made by HDIC or on its behalf toward additional revitalization of downtown within the Albuquerque (promoting social welfare by combating community deterioration downtown), with particular emphasis on providing a specified financial contribution of \$700,000.00 to the Innovate ABQ initiative as well as providing another \$600,000.00 to the guaranteed loan fund associated with the business along Central and within Metropolitan Redevelopment Areas affected by the Albuquerque Rapid Transit project.

On April 20, 2017, McCune issued an award letter to WESST for a grant totaling \$600,000. The award letter included language that mirrored the intended use of the funds identified in the Acknowledgement between the City and HDIC and stated:

*In particular, WESST will use the proceeds of the grant in connection with loans to small businesses that have been adversely affected by construction on Central Avenue in Albuquerque, New Mexico and are in a Metropolitan Redevelopment Area designated by the City of Albuquerque, as such businesses are **identified to WESST by contractors to the City of Albuquerque** [emphasis added].*

In September 2017, the City entered into an MOU with HDIC, which identified the parties involved in the CLF program and stated:

A. The City and the HDIC Entities entered into the Acknowledgement of Completion of Performance and Mutual Recognition of Fulfillment of Obligations dated April 7, 2017 under which the HDIC entities agreed to provide \$600,000 to the guaranteed loan fund associated with the business along Central and within Metropolitan Redevelopment Areas affected by the Albuquerque Rapid Transit project.

*B. The Women's Self-Sufficiency Team Corp (WESST) is providing loans to small businesses that have been adversely affected by construction on Central Avenue in Albuquerque, New Mexico and are in a Metropolitan Redevelopment Area designated by the City of Albuquerque, as such businesses are **identified to WESST by contractors to the City of Albuquerque** [emphasis added].*

C. McCune Charitable Foundation, Inc. is making a grant to WESST to fund extinguishment of the Loans pursuant to the terms and conditions of the grant letter.

No documentation was located during the review that would allow businesses outside an MRA to receive loans from the McCune \$400,000 grant funding. Parties involved represented that private donations totaling \$304,964 were received on behalf of WESST by the Albuquerque Community Foundation to fund loans to non-MRA businesses.

Total Funding Identified

Business Location	Amount
MRA	\$400,000
Non-MRA	304,964
Total Funding	\$704,964

Source: McCune and Albuquerque Community Foundation

As the use of funding for the McCune grant was originally stipulated in the City's March 2017 Acknowledgement, for the purpose of this strategic review, testwork was only performed on loans tied to the \$400,000 available to businesses within an MRA.

Program Review

In addition to being located in a designated MRA, according to promotional materials and the various parties interviewed, to qualify for the CLF program, businesses had to:

- Be local, independently owned with four or fewer locations;
- Have less than \$2 million in annual revenue;
- Rely on walk-in traffic (not be appointment based);

- Demonstrate a decrease in revenue over two consecutive months during ART construction;
- Have been in good financial standing before ART construction;
- Show actions taken to reduce expenses; and
- Work with SBRC to implement marketing and customer retention strategies to lessen the impact of ART.

Examples of promotional flyers are included as **Appendix D**.

Per the loan agreement, the loan terms included:

- Loan proceeds could only be used for business operational costs;
- Borrower would make six monthly payments to WESST;
- Until the loan was paid in full, the borrower agreed to:
 - Meet quarterly with SBRC;
 - Provide periodic business financial statements, upon request;
 - Provide an annual financial statement;
 - Provide a copy of federal income tax returns, when filed; and
 - Provide WESST of any change in business address, ownership, or status as a going concern.
- Defined “Events of Default” as:
 - Borrower fails to make any payment on the loan within 30 days after the due date;
 - Borrower closes its business or the principal nature of the Borrower’s business changes; and
 - Borrower fails to perform any of its other obligations when due.

According to available documentation, from the \$400,000 grant, 26 loans were issued to businesses totaling \$228,985. From the 26 loans to businesses within an MRA, OIA selected a 10 percent sample (3 businesses) to review. Each of the three businesses selected had an issue that did not comply with the eligibility requirements and included:

- One business exceeded the maximum annual gross revenue of \$2 million;
- One business was not located within an MRA; and
- One business was evicted from its Central Avenue, MRA, location during the application process and never established a new place of business on Central Avenue within an MRA.

Oversight and proper administration of the CLF program appear to be inadequate, as all three of the businesses sampled to review had a separate and unique issue that was not consistent with the program eligibility requirements.

Program Termination

The CLF program ended in January 2019. As stated in the McCune grant letter to WESST, “A final project report will be due on or before March 1, 2019...Upon completion of the report to [McCune], any of the Grant Amount remaining with McCune shall be paid to the Metropolitan Redevelopment Agency of the City of Albuquerque.”

WESST prepared and submitted the final project report to McCune, as required. The report summarized the project and detailed the total loans outstanding of \$225,643, administrative costs

of \$19,464, and unused funding of \$154,893. On February 12, 2019, McCune issued the final payment of the \$400,000 grant to WESST.

On April 1, 2019, the City's Chief Administrative Officer (CAO) issued a letter to WESST designating the remaining \$154,893 from the CLF program to RGCDC to build programmatic coordination between "Color Theory" and related activities at Innovate ABQ and the Rainforest Building. WESST issued the payment to RGCDC on April 22, 2019 and RGCDC confirmed that the \$154,893 was received on April 30, 2019.

In accordance with the CAO's letter, no funds reverted to the City.

RECOMMENDATIONS

To address the elements that involve the City, OIA makes the following recommendations.

The City should:

- Obtain documentation regarding how the \$1.3 million in the acknowledgement was derived and determine whether it was properly recorded in the City's financial system;
- Determine whether formal approval by City Council was required regarding the distributions to recipients of the original \$1.3 million and subsequent modifications redirecting distributions of funding to recipients; and
- Consider if there are any recourse or follow-up actions required by the City for MRA loans that were provided to borrowers who were not within the MRA or might not have fully met the eligibility requirements.

CONCLUSION

This strategic review was designed to obtain and present information regarding the CLF program.

While the CLF program has concluded, the program's administration and oversight needed improvement. Of the 26 loans granted to businesses within an MRA, three were selected for review. Of the three loans reviewed, each had a separate and unique issue that would have impacted the recipient's eligibility to participate in the CLF program. Although certain issues regarding loan eligibility were noted, the CLF program was not administered by the City.

Two areas concerning the \$1.3 million were noted and directly involved the City, but were outside the project's scope and an associated recommendation was made to determine whether it was properly recorded in the City's financial system and approved by City Council. No additional work was performed on areas outside the project's scope and objectives.

We appreciate the cooperation and participation of all parties who participated in this strategic review.

SUBMITTED:

Christina Owens, Contract Auditor
Office of Internal Audit

REVIEWED & APPROVED:

Jim Thompson, City Auditor
Office of Internal Audit

APPROVED FOR PUBLICATION:

Edmund Perea, Chairperson, Accountability
in Government Oversight Committee

APPENDIX A

Summary Reconciliation of Funds

	March 20, 2017 - Approved Acknowledgement of Completion of Performance and Mutual Recognition of Fulfillment of Obligations (CABQ and HDIC Entities)	Sept. 28, 2017 - Notification of amended McCune Charitable Foundation grant award to WESST from \$600,000 to \$400,000	April 1, 2019 - City letter authorizes WESST to pay the remaining uncommitted and unspent balance of \$154,893 to the Rio Grande Community Development Corp.	Total
Innovate ABQ	\$ 700,000.00	200,000.00	-	\$ 900,000.00
Central Loan Fund	600,000.00	(200,000.00)	(\$154,893.35)	245,106.65
Rio Grande Community Development Corporation	-	-	154,893.35	154,893.35
Total	\$ 1,300,000.00	-	-	\$ 1,300,000.00

May 23, 2017 - Award letter and check issued to Innovate ABQ.	\$ 700,000.00
Sept. 28, 2017 - Award letter and check issued to Innovate ABQ.	200,000.00
Subtotal Innovate ABQ	<u>\$ 900,000.00</u>
Feb. 11, 2019 - letter authorizes \$218,694.25 for the Central Fund and \$154,893.35 for CABQ designated recipient. Feb. 12, 2019 - Check issued to WESST totaling \$373,587.60.	\$ 373,587.60
April 22, 2019 - WESST issues check to Rio Grande Community Development Corp.	(154,893.35)
	<u>218,694.25</u>
Dec. 7, 2017 - McCune letter and check issued to WESST.	26,412.40
Subtotal Central Loan Fund	<u>\$ 245,106.65</u>
April 22, 2019 - WESST issues check to Rio Grande Community Development Corp.	\$ 154,893.35
Subtotal Rio Grande Community Development Corp.	<u>\$ 154,893.35</u>
Total	<u>\$ 1,300,000.00</u>

Source: OIA developed based on various documents

Appendix B**CLF Program
Loan Recipient Details – MRA Businesses**

<u>Legal Business Name</u>	<u>Original Loan</u>	<u>Outstanding Balance at Payoff</u>
1 XXPAC, LLC	\$1,514.00	\$1,387.68
2 A Bit of Everything, LLC	4,469.00	4,391.53
3 Southwest Ceramic Lighting, Inc.	8,966.00	8,805.49
4 Urban Fresh Cosmetics, LLC	15,000.00	14,933.38
5 Frame City, LLC	2,980.00	2,872.28
6 Al's Auto Upholstery, LLC	4,209.00	4,127.26
7 Central Rio Grande Investments, LLC	15,000.00	14,927.08
8 David Rodriguez dba Blunt Bros Coffee	8,057.00	7,890.29
9 Bright Future Futon Co., Inc.	12,294.00	12,186.99
10 Purple Sage Galeria	5,045.00	4,994.93
11 Ragin Shrimp, Inc.	10,508.00	10,363.80
12 Custom Care Cleaners and Restoration, Inc.	1,260.00	977.00
13 Talking Drums African & Carribean Grill	4,726.00	4,663.88
14 Jim's 66 Muffler & Auto Service, Inc.	8,335.00	8,151.14
15 Coronado Boot & Shoe Repair	1,811.00	1,689.68
16 Self Serve, LLC	11,519.00	11,381.28
17 5 Star ABQ	15,000.00	14,906.78
18 66 LLC dba 66 Diner	15,000.00	14,905.53
19 Bessie's Gift Shop	9,057.00	8,914.32
20 AMMI, Inc. dba El Taco Tote Mexican Grill	15,000.00	14,910.63
21 Motique, LLC	14,591.00	14,539.11
22 U Neek Findings, LLC	15,000.00	14,954.83
23 Wealth LLC dba Thai Vegan Nob Hill	3,431.00	3,332.42
24 Stone Mountain Bead Gallery	3,462.00	3,363.02
25 IceCrm Cones LLC dba Baskin-Robbins	15,000.00	14,918.17
26 Old Town Pizza Parlor, Inc.	7,751.00	7,154.42
Total Loans	\$ 228,985.00	\$ 225,642.92

Source: Department of Economic Development

Appendix C

METHODOLOGY

To complete this strategic review, OIA performed the following:

- Obtained and reviewed relevant documents to the CLF;
- Created a timeline of events;
- Interviewed key personnel from the Economic Development Department, McCune Charitable Foundation, WESST, the SBRC, and the Community Foundation;
- Confirmed receipt of funding by Innovate ABQ;
- Confirmed receipt of payments with the RGCDC;
- Inquired of City Legal regarding the anti-donation clause;
- Selected a 10 percent sample of loans and confirmed location and financial status; and
- Prepared a final report summarizing results.

APPENDIX D

CENTRAL LOAN FUND PROMOTIONAL FLYER

**CENTRAL FUND:
GUARANTEED
LOAN PROGRAM**

**Tailored financial
assistance for
businesses along the
Central Avenue corridor.**

Who is Eligible:

- Small businesses. (No more than \$2M annual)
- Local independently owned (four or fewer locations)
- Located on Central Ave
(between Louisiana Blvd. and Coors Blvd.)
- Rely on walk-in traffic
- Not an appointment based business
- Demonstrate decline in revenue over a two month
period during construction
- In good financial standing prior to start of project
- Can show actions taken to reduce expenses
- Currently working with SBRC to implement marketing
and customer retention strategies.

**Up to \$15,000
per business**

Loans used for:

- basic expenses
- payroll
- inventory
- rent/mortgage
- utilities
- taxes
- marketing
- insurance

How to apply:

1. Schedule an appointment
2. Fill out a self-assessment and determine pre-qualification for a loan
3. If pre-qualified for the loan - fill out an application
4. SBRC will confirm decline in revenue and recommend loan amount
5. Work with SBRC to develop milestones for the duration of the loan
6. Complete milestones and request funds
7. Meet with a SBRC consultant on the agreed upon schedule to review
milestones and other support
8. Stay in business on Central!



SMALL BUSINESS RESOURCE COLLABORATIVE
for the Central Corridor

Schedule an appointment:

(505) 585.1653

sbrc.abq@gmail.com

APPENDIX D (continued)

CENTRAL LOAN FUND PROMOTIONAL FLYER

CENTRAL LOAN FUND

tailored low interest
financial assistance for
businesses along the Central
Avenue corridor

WHO IS ELIGIBLE:

- Small businesses (No more than \$2M annually)
- Local, independently-owned (four or fewer locations)
- In business on Central for at least two years (between Louisiana & Coors)
- Rely on walk-in traffic
- Not an appointment-based business
- Demonstrate decline in revenue over a two-month period during construction
- In good financial standing before start of project
- Can show actions taken to reduce expenses
- Currently working with SBRC to implement marketing and customer retention strategies

UP TO \$15,000 PER BUSINESS

LOANS MAY BE USED FOR:

- Basic expenses
- Payroll
- Inventory
- Rent/mortgage
- Utilities
- Taxes
- Marketing
- Insurance

HOW TO APPLY:

1. Schedule an appointment.
2. Fill out a self-assessment and determine pre-qualification for a loan.
3. If eligibility conditions are met - fill out an application.
4. SBRC and WESST will review applications and confirm decline in revenue.
5. SBRC will recommend loan amount based upon demonstrated loss.