

**REPORT OF THE  
CHIEF LEGISLATIVE ANALYST**

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DATE: January 16, 2020

TO: Honorable Members of the Ad Hoc on Comprehensive Job Creation Plan Committee, Economic Development Committee, and Budget and Finance Committee

FROM: Sharon M. Tso   
Chief Legislative Analyst

Council File No: 13-0934-S2  
Assignment No: 19-11-1047

**Funding the JEDI Zone Program**

**SUMMARY**

On October 22, 2019, the Ad Hoc Committee on Comprehensive Job Creation Plan instructed the Chief Legislative Analyst (CLA) and City Administrative Officer (CAO) to identify funding sources to implement the JEDI Zone incentive program for use in FY 2019-20. After review of various sources, over \$2.5 million from the Subordinate Loans Revolving Special Fund (Ordinance #177139) has been identified and may be used for this purpose. We recommend that these funds be deposited into the Economic Development Trust Fund (EDTF), as follows: \$1.5 million be appropriated to the JEDI Zone program and the remaining balance of approximately \$1 million be used for future economic development purposes, including subordinate loans. Since our recommendations would deplete the Subordinate Loans Revolving Special Fund, we recommend that the fund ordinance be repealed.

**RECOMMENDATIONS**

That the Council, subject to the approval of the Mayor:

1. Request the City Attorney to prepare and present an ordinance that would repeal the Subordinate Loans Revolving Special Fund (Los Angeles Administrative Code Section 5.336(c)).
2. Direct the Economic and Workforce Development Department (EWDD) to transfer all proceeds from the Subordinate Loans Revolving Special Fund to the Economic Development Trust Fund (EDTF) as follows:
  - a. \$1.5 million to be used exclusively for the JEDI Zone program.
  - b. The remaining balance (approximately \$1 million) to be deposited in the general pool of resources for future economic development projects, including subordinate loans to Industrial Development Bond (IDB) recipients under the same funding standards and expenditure guidelines used in the current program.

3. Direct the EWDD to prepare Controller instructions and/or make any technical adjustments that may be required consistent with this action, subject to the approval of the Chief Legislative Analyst (CLA) and direct the Controller to implement these instructions.

## **FISCAL IMPACT**

Approval of the recommendations will transfer over \$2.5 million in Urban Development Action Grant (UDAG) funding from the Subordinate Loans Revolving Special Fund to the Economic Development Trust Fund. There is no impact on the General Fund.

## **DISCUSSION**

The JEDI Zone program is proposed to provide economic development incentives within specific geographies of the City. Businesses located in these zones would be eligible to obtain incentives including expedited City development permits, permit fee reductions, and façade improvements, among others. In its initial report dated August 21, 2019, EWDD requested \$1.5 million in funding to underwrite five JEDI zones comprising 20 businesses each. The CAO was directed by the Ad Hoc on Comprehensive Job Creation Plan Committee to identify a source of funding for this purpose. In a report dated September 19, 2019, the CAO recommended that as the \$1.5 million was not included in the current FY 2019-2020 budget (the EWDD request was made after the budget was approved), the request should be included in the FY 2020-2021 budget process. The Committee subsequently determined that this program is a priority and that funds should be identified immediately for use in FY 2019-20 and requested the CLA and CAO to locate funding in this current fiscal year, so as to begin the program as soon as possible. Upon review of funding sources, the Subordinate Loans Revolving Special Fund was identified and is recommend for this purpose.

### Subordinate Loans Revolving Special Fund

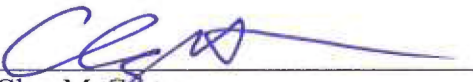
In 1997 (C.F. 96-2320/Ordinance #171637) Council created the Common Bond Reserve Fund to receive all payments of principal and interest collected from the City's UDAG programs. The ordinance also created two special funds, the Assisted Bond Reserves Fund and the Subordinate Loan Fund and allocated funds from the Common Bond Fund to each. These special funds assisted small-to-medium-sized businesses in qualifying for bond financing. In 2005, the Council repealed the Assisted Bond Reserves Special Fund as no projects were assisted during the fund's nine year history. Proceeds were used to fund a variety of Council designated projects and the remaining balance was transferred to the Subordinate Loans Special Fund, which was renamed and re-characterized as the "Subordinate Loans Revolving Special Fund" (Ordinance #177139, attached to this report).

The Subordinate Loans Revolving Special Fund is comprised of UDAG funding, former federal housing/economic development grant funding that has been stripped of its requirements and is treated as unrestricted General Fund dollars. The Industrial Development Authority (IDA), housed within EWDD, is a conduit issuer of tax-exempt bonds to companies involved in

manufacturing and processing activities. The IDA uses the Subordinate Loans Revolving Special Fund to provide gap financing for companies receiving Industrial Development Bonds (IDBs). Subordinate loans can be used for costs of bond issuance, costs of land, building, and equipment, working capital necessary for startup costs, training costs, and relocation costs. For a variety of factors, including low interest rates, slower financing timelines, and aversions to submitting company records to a public review process, no IDBs and thus no Subordinate Loans have been issued in the last ten years. Therefore, it is recommended that the underutilized Subordinate Loans Revolving Special Fund be closed and the remaining assets transferred to the EDTF. Of the approximately \$2.5 million to be transferred to the EDTF under this action, \$1.5 million is recommended be earmarked for the JEDI Zone program. The remaining approximately \$1 million is recommended to be available according to the EDTF Guidelines (C.F. 12-1549-S3) pending before the Ad Hoc on Comprehensive Job Creation Plan Committee. We note that the current balance of the EDTF is approximately \$80,000. This cash infusion would provide much needed resources to spur additional economic development projects. The fund will continue to generate interest revenue, which will remain in the fund.

While the Subordinate Loan Fund is recommended to be closed, we also recommend that the EDTF be permitted to make subordinate loans to IDB bond recipients under the same funding standards and expenditure guidelines as the current program. In essence, the program will continue, but under a different funding structure that is more flexible to the City's economic development needs. Rather than be housed in a dedicated fund, subordinate loans would be funded from the EDTF general pool of resources available not only for loans, but for gap financing, infrastructure, and other uses contemplated in the draft EDTF guidelines. As a result, rather than have funds sit unused for an undetermined period of time, they would be made available for more flexible range of uses.

Identifying funding for the JEDI Zone program is only a piece of the implementation process. EWDD is currently preparing a report to the Council that will outline the mechanics of the program, including the development fee reductions at the Department of Planning and the Department of Building and Safety and the expedited permit process.

  
Clay McCarter  
Analyst



ORDINANCE NO. 177139

An Ordinance repealing Los Angeles Administrative Code Section 5.336(b) (Assisted Bond Reserves Special Fund) and amending Section 5.336(c) (Subordinate Loans Special Fund) to clarify that it is a revolving loan fund.

**THE PEOPLE OF THE CITY OF LOS ANGELES  
DO ORDAIN AS FOLLOWS:**

Section 1. Los Angeles Administrative Code section 5.336(b) (Assisted Bond Reserves Special Fund) is repealed.

Sec. 2. Los Angeles Administrative Code section 5.336(c) (Subordinate Loans Special Fund) is amended to read:

**(c) Subordinate Loans Revolving Special Fund.**

(1) There is hereby created in the Treasury of the City of Los Angeles a special fund to be known as the "**Subordinate Loans Revolving Special Fund**" (the "**Fund**").

(2) The purpose of the Fund is to hold all of the money available as of June 13, 1991, plus accrued earnings, from money previously allocated to the Business Development Trust Fund, and such other money as the Council may approve, to be used in the Subordinate Loans Revolving Special Fund Program (the "**Program**"); provided that not to exceed \$1,000,000 may be used for Urban Development Action Grant eligible activities outside of the Program, as Council may approve. The Program consists of loans to be made on a subordinated basis to borrowers for which bonds are issued by the Industrial Development Authority of the City of Los Angeles or the City, for economic development projects, to be used for costs of bond issuance, costs of land, building, and equipment, working capital necessary for startup costs, training costs, relocation costs and such other related costs as the Council may approve. Loan repayments are to be retained by the Fund to be used on a revolving basis for more loans under the Program.

(3) The Fund shall be administered by the General Manager of the Community Development Department, but expenditures may be made only after authorization by the Council. Guidelines for the Program may be adopted by the Council.

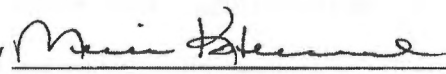
(4) The Fund shall retain all of its earnings. Pursuant to Charter section 344, money in the Fund shall not be subject to reversion to the Reserve Fund of the City.

(253592)

Sec. 5. The City Clerk shall certify to the passage of this ordinance and have it published in accordance with Council policy, either in a daily newspaper circulated in the City of Los Angeles or by posting for ten days in three public places in the City of Los Angeles: one copy on the bulletin board at the Main Street entrance to Los Angeles City Hall; one copy on the bulletin board at the Main Street entrance to Los Angeles City Hall East; and one copy on the bulletin board located at the Temple Street entrance to the Los Angeles County Hall of Records.

I hereby certify that the foregoing ordinance was introduced at the meeting of the Council of the City of Los Angeles of OCT 26 2005, and was passed at its meeting of NOV 02 2005.

FRANK T. MARTINEZ, City Clerk

By   
Deputy


Approved \_\_\_\_\_

  
Mayor

NOV 21 2005

Approved as to Form and Legality

ROCKARD J. DELGADILLO, City Attorney

By   
COLIN CHIU  
Assistant City Attorney

Date 11-9-05

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