

**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

DATE: March 29, 2016

TO: Honorable Members of the Ad Hoc Committee on Comprehensive Job Creation Plan

FROM: Sharon M. Tso *KEK for*
Chief Legislative Analyst
Council File No.: 13-0934-S2
Assignment No. : 16-03-0258

SUBJECT: Jobs and Economic Development Incentives (JEDI) Zones – Preliminary Framework

SUMMARY

On January 13, 2016, the Ad Hoc Committee on Comprehensive Job Creation Plan considered a Motion (Krekorian – Martinez, C.F. 13-0934-S2), relative to Jobs and Economic Development Incentive (JEDI) Zones. The Motion (Attachment A) directs the Chief Legislative Analyst, in concert with the City Administrative Officer (CAO) and Economic and Workforce Development Department (EWDD), to report on a program to develop economic incentive areas/zones throughout the City with a focus on developing the economy in a way that employs large numbers of local residents in good-paying jobs, maintains industries that are mainstays of the Los Angeles economy, revitalizes underserved communities, and creates industries likely to be critical in a 21st Century economy. The Motion states that the City Charter Section 104 allows for the creation of local “economic incentive areas,” created by ordinance and defined by a geographic boundary for the purpose of providing economic development benefits for parts of the city where economic activity might thrive.

The Motion further moves that the report should consider elements of economic development programs that are successful in other jurisdictions and contemplates the inclusion of the following business incentives, among others:

- Reductions or rebates in the gross receipts tax rate for targeted industries within a JEDI zone;
- Rebates for businesses in the JEDI zones that are expanding operations or hiring new local employees;
- Tools of the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA), including tax increment financing, façade improvements, etc.;
- Access to city fiber optic networks at no cost or low cost;
- Expedited permit and plan check processes for new or expanding businesses in proposed zones;
- Expedited permit and plan check review by the Los Angeles Department of Water and Power (LADWP) for solar and/or other energy efficient water and power projects, upgrades, or other components of growth or expansion for the business; and

- Any additional tools or incentives that could be utilized to persuade new industries to locate in Los Angeles or for current businesses to expand and hire locally.

In response to the Committee's instructions, this preliminary report: (1) reviews past and current economic development initiatives; and (2) provides an approach to a preliminary framework for a JEDI Zone Establishment Policy (Establishment Policy). Relative to specific elements of economic development programs, based on best practices in other jurisdictions, EWDD will report under separate cover.

If established, JEDI Zones could help the City focus and strategically invest in areas and industries that will help spur job creation and revitalize areas in need of assistance. Should Council wish to pursue formation of a JEDI Zone program, our Office recommends that the City adopt an Establishment Policy to ensure consistency across the City. While the adoption of the zones should follow a consistent process, there should also be flexibility for each zone to cater to its business community's unique needs, strengths and plans for growth in a Local JEDI Zone Incentive Plan. In addition, the City Attorney should be requested to work with EWDD to address any required findings and legal matters associated with forming JEDI zones.

This report provides a preliminary framework for Council consideration in crafting potential JEDI Zones. This framework can also serve as a guide for future research that must be conducted prior to implementation. Framework components include: (1) selection criteria for zones; (2) developing citywide and local incentive plans; and (3) required administration and resources. Some components relative to selection criteria and incentives will require policy decisions to guide staff when crafting the program. Our Office notes that to the extent JEDI Zone incentives and staffing require funding, Council will have to consider a dedicated funding source or redirect General Fund from other services. In addition, the JEDI Zone program should be coordinated with the Enhanced Infrastructure Financing Districts (EIFD) and Community Revitalization and Investment Authorities (CRIA) zones recently enacted by the State. Coordinated interactions between JEDI, EIFD, and CRIA zones will be necessary to ensure maximum delivery of services to targeted areas and efficiency in City staffing.

RECOMMENDATIONS

That the City Council:

1. Instruct EWDD to: (a) lead JEDI Zone feasibility and implementation efforts in the City; and (b) report on a JEDI Zone Establishment Policy considering the framework outlined in this report, including a Citywide Business Incentive Plan and staffing plan.
2. Request the City Attorney to work with EWDD in the establishment and all legal matters related to JEDI Zones.

BACKGROUND

Economic Development Initiatives

Programs in the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA) Project Areas and State Empowerment Zones were eliminated in 2012 and 2013 respectively. These programs provided vital resources in specific geographic areas, making targeted investments throughout the City. State law prescribed the criteria that the geographies had to meet (e.g., blight, unemployment, poverty, etc.) to qualify for these designations and identified allowable uses of funds/incentives in the areas. Redevelopment provided significant sources of funding and programs to support local economic development activities, job creation, and construction of housing and affordable housing for over 60 years. State Empowerment Zones created in 1984, provided a different set of economic incentives and tools (i.e. tax incentives). Federal Empowerment Zones (EZ), were introduced in 1993 and their designations generally expired in 2009, with extensions for limited incentives in specific areas through 2014. EZs provided federal tax incentives and grants to distressed communities. Elimination of these programs created a significant gap in the resources available to local governments to facilitate economic development activities.

The State has enacted new laws authorizing local jurisdictions to form targeted investment zones. SB 628 authorized the creation of EIFDs, effective January 1, 2015 and AB 2 authorized the formation of CRIAs, effective January 1, 2016. The nature of these tools, heavily dependent on tax increment financing and bonding potential, can be considered long-term growth strategies that are most successful when partnering with other taxing entities, specifically the County, to leverage funding. City staff reports on these financing tools are being submitted under separate cover (C.F. 14-1349, 14-1349 S1-S3 and C.F. 15-11-0902). CRIA must comply with specific demographic criteria in prescribed geographic areas (e.g., low income, high unemployment, high crime and deteriorated infrastructure or structures), while EIFD geographies are not required to meet specific conditions. Eligible uses under one or both of these programs that could promote economic development include loans or grants for owners to improve, rehabilitate, or retrofit buildings or structures, assistance to businesses with new or existing facilities for industrial or manufacturing uses, address hazardous substances, seismic retrofits, industrial development, transit priority projects and infrastructure improvements.

In addition, EWDD reports that subsequent to the termination of State Enterprise Zones, under new State guidelines, three new incentive programs will be created (C.F. 13-0934), including a sales tax exemption, hiring credit, and investment incentives. In addition, current Promise Zone designations offer a layer of federal assistance and partnership in areas of job creation and community revitalization. City staff have reported relative to current and proposed Promise Zone designations under separate cover (C.F. 14-0565 and 16-0191). Inasmuch as these and other State and federal designations offer economic development incentives in specific geographic areas, these areas may be considered as key areas for JEDI zone overlays to leverage additional resources.

State economic development tools like the EIFD and CRIA provide a necessary framework to offer incentives and funding through State laws that would not otherwise be available to local governments. JEDI Zones differ in that they will coordinate incentives and funding available through the City's laws and policies.

Framework for a JEDI Zone Establishment Policy

Our Office recommends that EWDD, in consultation with a JEDI Zone Exploration Team, prepare an Establishment Policy based on direction from Council and the preliminary framework in this report. This report notes some of the elements that could be incorporated into that policy. Policy decisions should be made on some components of the framework outlined herein to give staff direction on how to proceed. The Team could include representatives from our Office, the City Administrative Officer (CAO), City Attorney and other departments, as appropriate. This Establishment Policy should be presented to Council for consideration. Upon approval of an Establishment Policy, Councilmembers could recommend the formation of JEDI Zones in their district. EWDD could then evaluate and recommend the final geographic borders of the JEDI Zone, the types of incentives that would be most appropriate for that Zone, and the necessary findings to establish the Zone.

Selection Criteria

Relative to geographic criteria, the Council could direct staff to prepare an Establishment Policy that allows for: (A) an overlay of JEDI Zone boundaries aligned with existing or future State or federally designated areas; and/or (B) JEDI Zone boundaries to be established based on an independently defined set of criteria.

(A) Overlay. Overlaying JEDI Zones in areas that already offer other incentives may allow businesses to benefit from multiple incentives and make the most impact in these communities. There could be several benefits to concentrating efforts in core areas, including:

- Improve coordination among the levels of government offering incentives.
- Facilitate economic development activity in areas that are likely to benefit from future physical improvements allowed by some of the contemplated zones (e.g., EIFDs, CRIAs, etc.).
- Streamline eligibility requirements for businesses to qualify for incentives (should the City create new incentives specific to JEDI Zones).

(B) Independently Defined. Defining a set of criteria that is independent from already established requirements can capture new geographies that may not be served from existing or future government-designated zones. These criteria would relate to commercial, retail, and industrial land uses. Some of these may include:

- Predominantly commercial, retail, and industrial areas.
- Vacancy rates that are higher by a specified percentage than the County or Statewide Percentage.
- Deteriorated conditions or demonstrated need for physical improvements.
- Proximity to other City priority projects.
- Areas that can or could support existing or targeted key industry sectors.

The primary intent in these criteria is to focus on economic, rather than demographic, factors in identifying eligible areas. These options do not have to be mutually exclusive and are offered as alternatives to be further studied by EWDD and the JEDI Zone Development Team.

Citywide Business Incentive Plan

There are several City programs and incentives offered to help support the attraction, retention, and growth of businesses throughout the City, such as the BusinessSource Centers and the Restaurant and Hospitality Express Program. The relatively recent elimination of State and federal economic development programs, however, has created gaps in the types of incentives that are available, such as façade improvement programs and local business assistance project management staff. As available State and federal incentives change, it is important for the City to reassess its current programs to ensure that it can adequately respond to the needs of local businesses in a growing economy. Our Office recommends that EWDD, with assistance from the appropriate departments, carry out a business services gap analysis, report on any gaps in business incentives and services, study the feasibility and impacts of the incentives listed in the Motion, and prepare a Citywide Business Incentive Plan. A Citywide Business Incentive Plan should include a comprehensive list of existing incentives available to businesses in the City and identify any new incentives for Council consideration.

Several City departments currently carry out work critical to job creation and economic development, but the division of services in departments throughout the City can make it difficult for business owners to navigate through the system. JEDI Zones should focus on promoting these incentives, coordinating among departments, and facilitating a more business friendly experience. On January 13, 2016, EWDD presented a preliminary assessment of incentives offered in Southern California cities. EWDD is currently compiling a list of incentives for Council to consider based on best practices in other jurisdictions. EWDD has conducted research into incentives in California, but have expanded their study to areas outside of the State to capture the broadest range of possible incentives. They plan to submit this information under separate cover.

Our Office recommends that findings from the business services gap analysis, research on best practices and the incentives listed in the Motion, and feedback from local stakeholders serve as a guide for the Citywide Business Incentive Plan.

Local JEDI Zone Incentive Plans

While the intent of Citywide Business Incentive Plan can be to provide a definitive list of all of the incentives offered to businesses in the City, as well as potential new incentives, JEDI Zones could each have a Local JEDI Zone Incentive Plan (Local Plan) that focuses on the area's unique needs and potential for growth. It may be appropriate, for example, to attract or support a specific industry to one community, while another requires efforts to improve the built environment. A Local Plan would identify the specific incentives and goals for that Zone and could include a five-year outlook that would be revisited every five years for progress and updates. Local Plans would remain dynamic and responsive to the ever-changing and future needs of the business community.

New Incentives

Based on a business services gap analysis discussed in this report, new incentives may be proposed. When new incentives are considered, Council should direct staff to evaluate whether they should be

offered citywide or limited to an economic development zone. A policy decision should be made on whether incentives should be:

(A) Citywide. Promoting and facilitating citywide incentives; or

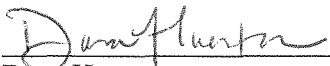
(B) Specific to Zone. Creating specific incentives for JEDI Zones.

Our Office notes that limiting the incentives to a zone will likely require that findings are made for each proposed JEDI Zone. EWDD should report on the feasibility and findings required to limit incentives to a specific geographic area if such direction is provided by Council.

Administration and Resources

EWDD should report to Council with a staffing plan for JEDI Zones that promotes efficiency and coordination with the other designated areas. The following tasks can be considered as part of the administration of JEDI Zones:

- Market the JEDI Zones as high priority areas for the City's incentives.
- Outreach to small, women and minority-owned businesses.
- Respond to businesses seeking to locate or grow their business in the City.
- Interface with government, community and business stakeholders.
- Assist businesses in accessing other incentives offered by other government entities in the area. An essential component of this program will be the ability of local businesses to access the incentives provided in a JEDI Zone. Staff will be needed to market a Zone's incentives to businesses, to answer questions related to access and delivery of those incentives, and to monitor the effectiveness of the Zone.
- Required regular reporting to ensure that Zones achieve their intended purpose and dynamically adjust if program goals fall short.



Dora Huerta
Analyst

MOTION ECONOMIC DEVELOPMENT

Following the repeal of the Community Redevelopment Act by the State Legislature, and the subsequent unraveling of the economic development incentives that were available in former-CRA zones, the City and State have not acted to develop a robust successor that allows for the development of new incentives for businesses looking to locate or expand in Los Angeles.

Fortunately, the City Charter provides in Section 104 for the creation of local, "economic incentive areas," created by ordinance and defined by a geographic boundary for the purpose of providing economic development benefits for parts of the city where economic activity might thrive. These Jobs and Economic Development Incentive (JEDI) Zones can help to lure new business and industry into Los Angeles as well as spur economic development and growth for existing business and industry.

I THEREFORE MOVE that the Council INSTRUCT the Chief Legislative Analyst to report, in concert with the City Administrative Officer and the Economic and Workforce Development Department, on a program to develop economic incentive area/zones throughout the city, with particular focus on developing the economy in a way that employs large numbers of local residents in good-paying jobs, maintains industries that are mainstays of the Los Angeles economy, revitalizes underserved communities, and creates industries likely to be critical in a 21st Century economy.

I FURTHER MOVE that the report should consider elements of economic development programs that are successful in other jurisdictions and contemplate the following business incentives, among others:

- Reductions or rebates in the gross receipts tax rate for targeted industries within said JEDI zones;
- Rebates for businesses in the JEDI zones that are expanding operations or hiring new local employees;
- Tools of the former CRA including tax increment financing, façade improvements, etc.;
- Access to city fiber optic networks at no cost or low cost;
- Expedited permit and plan check processes for new or expanding businesses in proposed zones;
- Expedited permit and plan check review by LADWP for solar and or other energy efficient water and power projects, upgrades, or other components of growth or expansion for the business; and
- Any additional tools or incentives that could be utilized to persuade new industries to locate in Los Angeles or for current businesses to expand and hire locally.

Presented by:



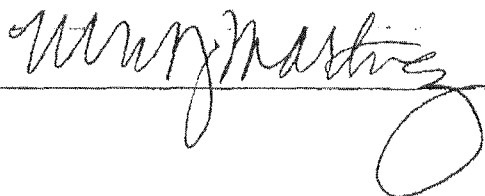
PAUL KREKORIAN

Councilmember, 2nd District



JUL 1 2015

Seconded by:



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