

CITY OF LOS ANGELES

CALIFORNIA

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MAYOR

ECONOMIC AND WORKFORCE
DEVELOPMENT DEPARTMENT

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November 13, 2013

Economic Development Committee
c/o Richard Williams
Room 395, City Hall

COMMITTEE TRANSMITTAL: IMPACT OF CALIFORNIA ASSEMBLY BILL (AB) 93 AND CALIFORNIA SENATE BILL (SB) 90 ON THE CITY OF LOS ANGELES STATE ENTERPRISE ZONE (SEZ) PROGRAM AND THE CITY'S ECONOMIC AND WORKFORCE DEVELOPMENT DEPARTMENT

The Interim General Manager, Economic and Workforce Development Department (EWDD), or designee, respectfully request that the City Council approve the recommendations below:

RECOMMENDATIONS

That the Council and the Mayor:

1. AUTHORIZE the Economic and Workforce Development Department to continue to operate its Business Development and Voucher Unit for the remainder Fiscal Year 2013-14, and to fund Fiscal Year 2014-15 operations through the Voucher Trust Fund;
2. CONTINUE the electrical rate discount offered by the Department of Water and Power (DWP), which provides 35 percent and declining discount for 5 years for qualifying businesses;
3. CONTINUE the Planning Department current site plan review fee waiver for expanding businesses in the SEZ;
4. CONTINUE the reduced parking ordinance in the Administrative Code for businesses in the SEZ;

5. AUTHORIZE the Economic and Workforce Development Department, City Administrative Officer, and Chief Legislative Analyst to further research and report back on new business incentives linked to hiring new employees such as:
 - A. Discounted water rate for qualifying businesses similar to the electrical rate discount already provided by DWP;
 - B. Reduced or waived planning fees and Building and Safety inspection fees;
 - C. Waived gross receipts tax or incentives for early payment of City sales tax;
 - D. Require eligible business to utilize the 18 WorkSource centers located throughout the City to fill positions for qualified employees; and
 - E. Amend the Local Bid Preference (Ordinance No. 181910) to give an additional 2 percent to businesses based in the City, on top of the existing 8 percent competitive advantage given to businesses located in Los Angeles County, for bids and proposals for contracts with all General Fund City departments.

FISCAL STATEMENT

There is no adverse impact to the General Fund.

BACKGROUND

A motion dated 7/23/13 (CF13-0934) requested the Chief Legislative Analyst (CLA) and the Economic and Workforce Development Department (EWDD) to report back with a proposal to replace state-level SEZ and Community Redevelopment Agency (CRA) incentives, and to augment the local business incentives to reduce the adverse impact that AB 93 and SB 90 will have on the current State Enterprise Zone Program.

On July 3, 2013 and July 11, 2013, Governor Brown signed into law AB 93 and SB 90, respectively, which substantially changed the State Enterprise Zone (SEZ) Program and adversely impacted SEZ programs administered at the local level. In the City of Los Angeles, the local programs are administered by the Economic and Workforce Development Department (EWDD-formerly known as the Community Development Department-CDD).

The SEZ program is a State-sponsored tax benefit program designed to reduce business costs by providing special tax incentives for business located in the zone. The former SEZ Program offered a number of tax credits which were available from the state, including:

- Hiring tax credit - Up to \$37,440 over a 5-year period per qualified individual hired. Businesses are assessed a \$40.00 processing fee for each voucher application submitted to the City. The City retains \$25.00 per voucher and transfers \$15.00 per voucher application to the State.
- Sales and use tax credit - 100% of current sales or use tax when purchasing qualifying equipment up to a maximum of \$20 million.
- Business expense deduction:
 - Accelerated Depreciation - Available for tangible personal property for the 1st year that it is used.
 - 15 -year Net Operating Loss - 100% of net operating losses may be carried forward for 15 years to reduce taxable income.

- Net Interest Deduction - Lenders earn tax-free interest on loans made to businesses in the zone.

The City also provided local incentives that included:

- Business assistance available through 9 BusinessSource centers located throughout the city.
- Job placement assistance and eligibility screening available through 18 WorkSource centers located throughout the city.
- Department of Water and Power (DWP) 5-year electrical rate reduction for new and/or expanding businesses.
- Reduced parking requirements for commercial office, business, retail, restaurant, bar and related uses, trade schools, or research and development buildings.

Under the State's new guidelines, three new business incentive programs will be created:

1. Sales tax exemption - Expanded to a statewide sales tax exemption on manufacturing or research and development equipment purchases by companies engaged in manufacturing or biotechnology research and development. A business will be allowed to exclude the first \$200 million of equipment purchases from the State's share of sales tax (4.19%) from 7/1/14 until 6/30/22.
2. Hiring credit - A credit will be given to businesses located in census tracts with the 25% highest share of both unemployment and poverty. The hiring credit applies to current Local Agency Military Base Recovery Areas and SEZ boundaries, excluding wealthy areas. The credit will be available for hiring long-term unemployed workers, veterans within 12 months of separation from the military, people receiving Federal Earned Income Tax Credit, ex-offenders and CalWorks or general assistance recipients.
3. Investment incentive - California Competes Credit - This credit will be created and administered by the Governor's Office of Business and Economic Development (GO-Biz). Businesses will have the opportunity to compete for available tax credits. Selection criteria include: the number of jobs to be created or retained, the extent of poverty in a business development area, a minimum compensation limitation and a set job retention period. Approval of set incentives will be made by a five member committee comprised of members from the offices of the State Treasurer, Department of Finance, GO-Biz, California Senate and Assembly. Approved credits may be recaptured if a business fails to fulfill the terms and conditions of its approval. Twenty-five percent of these credits will be designated for small businesses.

The former SEZ's business credits will be grandfathered in and can be carried over for up to ten years for businesses that hire employees prior to January 1, 2014.

DISCUSSION

The EWDD administers three SEZs within the boundaries of the City: the Los Angeles-Hollywood Zone, the East Los Angeles Zone, and the Harbor Gateway Communities Zone. Under the State's new program, the EWDD will no longer administer and manage business incentives and tax credits. Due to this change, it is anticipated that

there will be a loss of approximately \$750,000 in annual revenues derived from the City's share of the vouchering application fees.

However, on September 26, 2013, the Governor signed into law Assembly Bill No. 106, which allows all SEZ jurisdictions to continue to review and approve hiring tax credit vouchers through December 31, 2014. Currently many businesses wait until tax filing season (January 1 to April 15) to claim their hiring tax credits and other business deductions. AB 106 will allow EWDD to continue to process and approve the tax credit applications and collect voucher fees up until December 31, 2014. This will also allow the Business Service Unit to continue to promote the current business credits and incentives to businesses located in the SEZs.

The adverse impacts to the hiring tax credit are as follows:

- a. The credit amount will be negotiated by GO-Biz based on factors such as the number of jobs created, location and new capital investment rather than on a flat rate for each employee hired.
- b. Credit will be based on wages above \$12 per hour and up to \$28 an hour.
- c. The maximum credit amount will be \$56,000 per employee (five years total at, 2000 hours per year).
- d. The credit calculation will be based on 35% of wages each year for a total of 175% over 5 years.
- e. No credit will be given for employers who retain jobs.
- f. Tax information will no longer be confidential. It will be posted on the State's Franchise Tax Board website.

STAFFING AND INFRASTRUCTURE-BUSINESS SERVICES UNIT

Pursuant to the City's original SEZ applications (C.F. 81-3781-S2 dated 9-19-86, and C.F. 86-1017 dated 6-20-86) and the City's Memoranda of Understanding (MOUs) with the State's Housing and Community Development Department (HCD), the City has made various commitments for the purposes of meeting goals and objectives outlined in its SEZ applications. These include: the commitment to employ one Full Time Equivalent (FTE) SEZ manager in each of the zones and to provide staffing for the processing of voucher applications and issuance of voucher certificates. Presently, staffing is set at 11 (7 SEZ program manager/zone managers and 4 Voucher Unit staff). These staff form the core of the Business Services Unit (BSU).

The SEZ program manager oversees SEZ activities, interfaces with HCD and coordinates the city's applications, MOUs and amendments with the State. Zone Managers contact businesses within the SEZs, provide incentive information and respond to inquiries about applications and program parameters. They also conduct business seminars on SEZ benefits and process applications for the DWP electrical rate reduction.

The Voucher Processing Unit (VPU) staff review all voucher applications and their supporting documentation. Upon approval, the VPU staff issues a certified voucher (TCA EZ 1) which businesses attach to their tax returns for submittal to the State Franchise Tax Board.

These BSU functions require a budget of \$1,292,900 with a breakdown as follows:

4 Zone Managers	\$428,500
4 Voucher Processing Unit Staff and 2 as needed support staff	\$348,400
1 Program manager (100% time) and 1 accounting staff (50% time)	\$108,400
Rent and facility costs	\$ 62,000
General Administrative Support Program (GASP)	\$295,600
General Administrative and maintenance costs	\$ 50,000

Initially, a substantial portion of the BSU budget was funded by the Community Development Block Grant (CDBG). In 2005, CDD recommended, and received, Council and Mayoral approval to establish a voucher processing service fee to reduce the burden on CDBG. Since then, the voucher fee revenues have been used to fund costs related to SEZ administration, voucher processing, records maintenance, tracking and accounting for the fees and associated costs.

Also in 2005, the State passed California Revenue and Taxation Codes 17053.4 and 23622.7, which established a \$10.00 fee to recover the State's administrative costs for overseeing the Statewide SEZ program. The state increased its service fee from \$10.00 to \$15.00. As per Ordinance (No. 176632), the City also raised its fee by \$5.00 to \$40.00 (\$25.00 is retained by the City with \$15.00 going to the State).

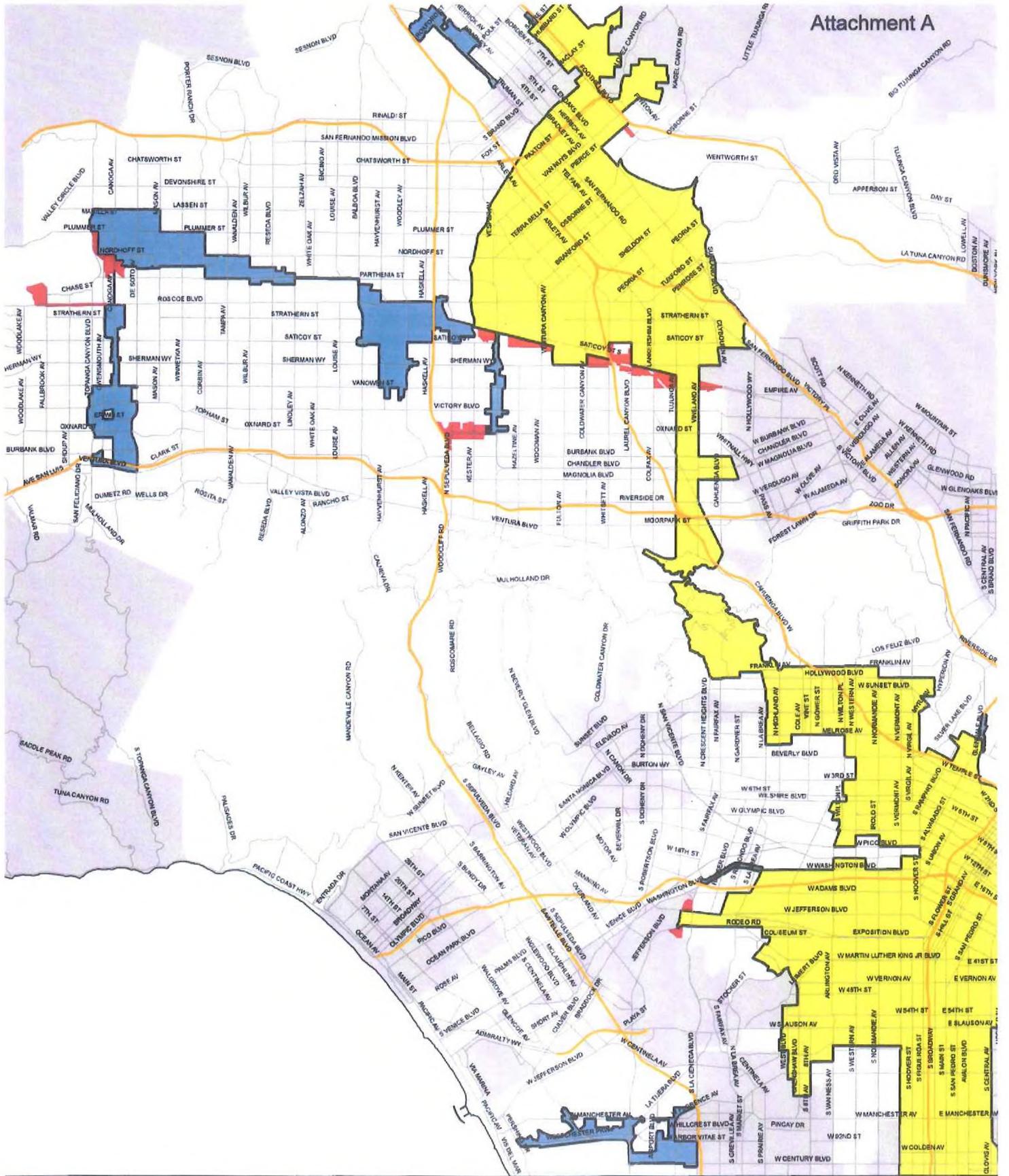
Given the adverse impact of AB 93 and SB 90, and to better align with Mayor Garcetti's top priorities of job creation and economic development, it is recommended that the BSU be redesigned into a Business Development Unit (BDU) to provide for one BDU manager in each of the 7 planning areas of the City. BDU managers will have oversight of all EWDD business development contracts, assist in the management of EWDD's major economic development projects, manage a portfolio of the top 20 business employers, solicit New Market Tax Credits allocations, market and solicit private financial institutions to secure Community Reinvestment Act (CRA) grant funds for economic development projects, interface with academic and research institutions to develop objective policy impact analysis of economic development plans and proposals. BDU managers will also serve as liaisons to: the Economic Development Deputies in the Mayor's Office and each of the Council Offices, Department of Water and Power, Los Angeles World Airports, Port of Los Angeles, local chambers of commerce, trade associations, local economic development corporations, and workforce development centers. BDU managers will coordinate with Business Improvement Districts (transferring to EWDD in January 2014), and serve as business advocates and assist businesses in navigating the city's procurement and business establishment process.



JAN PERRY
Interim General Manager

JP:RS:NB:MMS:MA

Attachment A: Los Angeles-Hollywood SEZ and Expansions
Attachment B: East Los Angeles Enterprise Zone and 2009 Expansion
Attachment C: Harbor Gateway Communities State Enterprise Zone



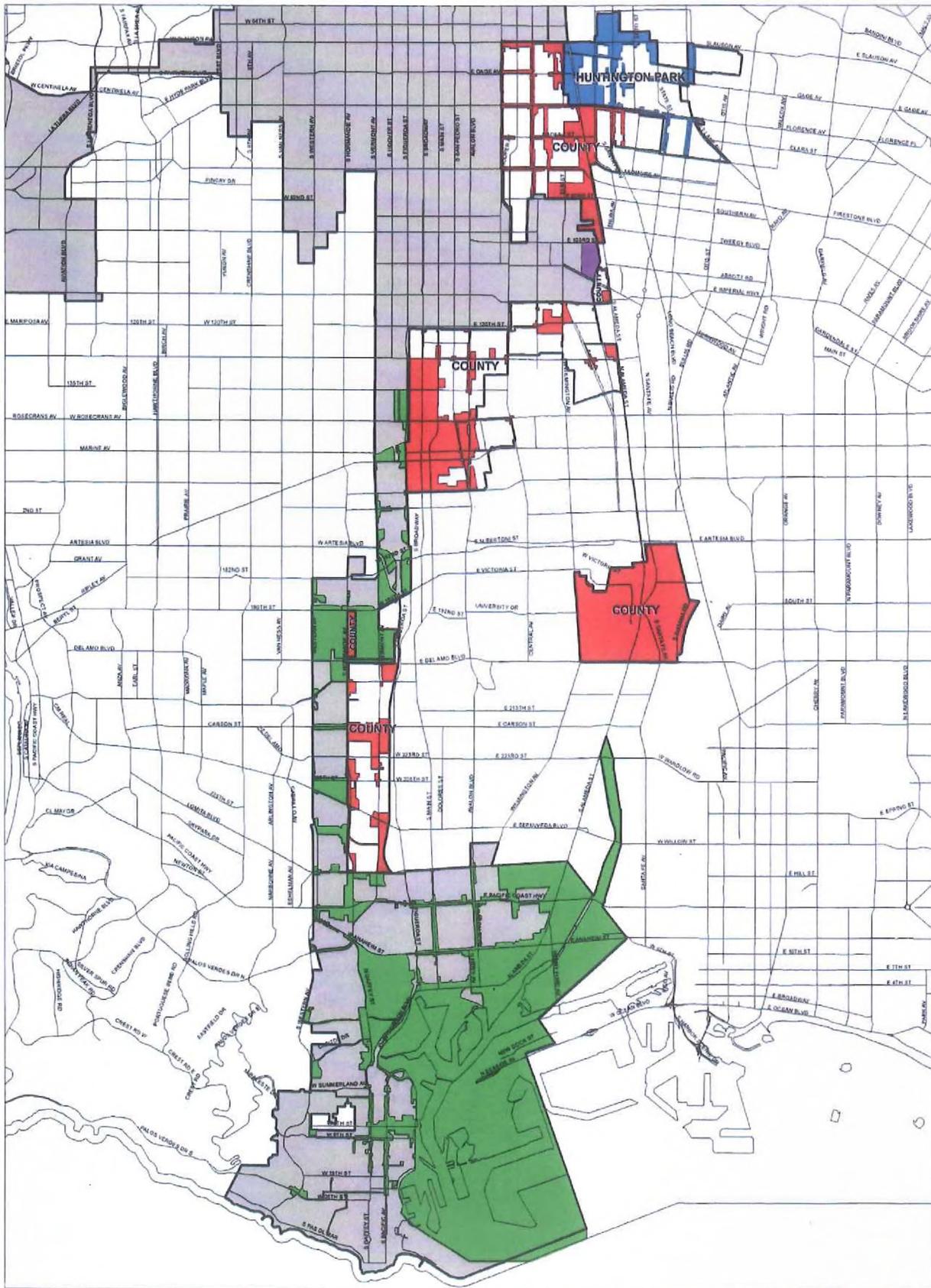
- EXPANSION AREA: Approved Nov 4, 2010
- EXPANSION AREA: Approved May 2010
- ORIGINAL LOS ANGELES-HOLLYWOOD SEZ
- Freeways
- Major Streets

LOS ANGELES-HOLLYWOOD SEZ & EXPANSIONS



0 0.5 1 2 3 4 Miles





- COUNTY HGC EZ AREAS
- HUNTINGTON PARK HGC EZ AREAS
- LOS ANGELES HGC EZ AREAS
- LA HGC EZ AREAS AND PART OF LOS ANGELES EZ
- OTHER LOS ANGELES AREAS

**HARBOR GATEWAY COMMUNITIES
STATE ENTERPRISE ZONE**

