

**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

DATE: June 10, 2014

TO: Honorable Members of the City Council

FROM: Gerry F. Miller *GFM*
Chief Legislative Analyst

Council File No: 14-0565
Assignment No: 14-06-0433

City Comments on the 2nd Round of the Federal Promise Zone Program

SUMMARY

On May 2, 2014, a motion (Wesson-Price, et al) (Attachment 1) was introduced which directed the Housing and Community Investment Department (HCID) and the Economic and Workforce Development Department (EWDD) to prepare comments relative to the second round of federal Promise Zone designations. The motion further instructed that the standard Resolution be prepared for inclusion of such comments in the City's Federal Legislative Program, and that these be submitted within 30 days for Council approval prior to submission to the U.S. Department of Housing and Urban Development (HUD). On May 20, 2014, the Economic Development Committee considered the motion and forwarded it to the Council for approval. On June 4, 2014, the Council continued the item to allow additional time for HCID and EWDD to submit their comments.

At the request of the Chair of the Committee, our Office was asked to provide a summary report of the HCID and EWDD comments. This report includes said comments, provides an overview of the Promise Zones, discusses the 2nd round of Promise Zone designations, and includes a Resolution which will add the comments to the City's Federal Legislative Program. Our office recommends that HCID be responsible for submitting the comments of both departments to HUD on behalf of the City. The deadline to submit comments is June 16, 2014.

RECOMMENDATIONS

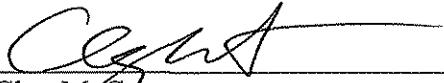
That the Council:

1. Adopt the attached Resolution (Attachment 2) to support the Housing and Community Investment Department (HCID) and the Economic and Workforce Development Department (EWDD) comments on the U.S. Department of Housing and Urban Development (HUD) 2nd round of Promise Zone designations.
2. Authorize HCID to compile and submit comments (summarized in Attachments 3 and 4) to HUD by the June 16, 2014 deadline.

3. Direct HCID, with the assistance of EWDD, to report to the Council with recommendations relative to an application for the 2nd round of Promise Zone designations.

FISCAL IMPACT

There is no fiscal impact at this time.



Clay McCarter
Analyst

BACKGROUND

Announced in President Obama's State of the Union address in 2013, the goal of the Promise Zone initiative is to partner the federal government with high-poverty communities to promote economic growth, create jobs, improve education, increase access to affordable housing, and improve public safety. While Promise Zones will not receive automatic funding due to their designation, they will receive technical assistance, coordinated federal staff support, and preferential access to federal funding sources, including bonus points for competitive grants. The Promise Zone designation will be valid for 10 years. The first Promise Zones were determined through a competitive process, and only areas with a Choice Neighborhoods implementation grant, a Promise Neighborhoods implementation grant, or a Byrne Criminal Justice Innovation grant were eligible to apply. The City of Los Angeles was chosen as one of the first five Promise Zones. The neighborhoods of East Hollywood, Pico-Union/Westlake, Koreatown, Thai Town, and Little Armenia comprise the Promise Zone.

In April 2014, HUD published a notice initiating a 60-day public comment period on the 2nd round of Promise Zone designations. HUD plans to solicit applications later this year with the announcement of a minimum of five and a maximum of fifteen new designations starting in early 2015 and ending in 2016. According to HUD, all of the following must be present for an application to be eligible in the 2nd round:

- 1) The Promise Zone must encompass one or more census tract(s) or portions of census tracts across a contiguous geography;
- 2) The rate of overall poverty or Extremely Low Income rate (whichever is greater) of residents within the Promise Zone must be over 33 percent;
- 3) Promise Zone boundaries must encompass a population of at least 10,000 but no more than 200,000 residents; and,
- 4) Local leadership, including the mayors of jurisdictions represented in the Promise Zone, must demonstrate commitment to the Promise Zone effort.

An important aspect of the HUD application requirements is that only one Promise Zone application may be submitted within a city per application cycle—meaning that the City cannot apply for more than one Promise Zone in the 2nd round. Also, because the City already received a designation in the 1st round, the City must provide additional statements on how, if the 2nd Promise Zone is granted, the City plans to work with both its zones to sustain the level of support needed to achieve the goals of the zones.

Pursuant to Motion (Wesson-Price, et al), introduced on May 2, 2014, both HCID and EWDD have submitted comments relative to the 2nd round of Promise Zone designations. These comments are provided in their entirety as Attachments 3 and 4 and summarized below. Our office has additionally prepared a Resolution which, if adopted, would add these comments to the City's Federal Legislative Program.

HCID Comments

- Reinstated affordable housing as one of the Promise Zone goals.
- Require a plan for preserving or creating housing affordability opportunities within the selection criteria.
- Include transit investments and the U.S. Department of Transportation as part of the selection criteria and review process.

EWDD Comments

- Increase the poverty threshold from 33 to 40 percent.
- Increase the Promise Zone maximum population from 200,000 to 300,000 residents.
- Large metropolitan areas with populations of more than 3 million should be allowed to submit more than one application per round.
- Urban metropolitan areas that have unemployment/poverty rates higher than the national average should be allowed to submit up to three applications.

Attachments: 1. Motion (Wesson-Price, et al)
 2. Resolution.
 3. HCID Promise Zone Comments.
 4. EWDD Promise Zone Comments.

14-0565

MOTION ECONOMIC DEVELOPMENT

The US Department of Housing and Urban Development (HUD) has announced a second round of the Promise Zone initiative. The public comment on this announcement is due by Monday, June 16, 2014.

A minimum of five and up to fifteen designations are to be made in this second round. By the end of 2016, 20 Promise Zone designations are expected.

The Promise Zone Initiative is part of a plan to partner with and invest in communities to create jobs, increase economic security, expand educational opportunities, increase access to quality, affordable housing and improve public safety. The first round of awards, announced in January, 2014, are located: San Antonio, Texas; Philadelphia, Pennsylvania; Los Angeles, California; Southeastern Kentucky; and the Choctaw Nation of Oklahoma. The Promise Zone designation is for a term of 10 years.

The Promise Zones designation enables the Federal government to partner with local leaders who are addressing multiple community revitalization challenges in a collaborative way and have demonstrated a commitment to results. Specifically, Federal staff will be stationed in each designated community to help navigate the array of Federal assistance which Promise Zones can access, subject to the availability of appropriations and Federal agency rules and statutes. This level of engagement will help communities make the most of funding that is already available to them. In addition, organizations contributing to Promise Zone strategies will receive preference for certain competitive Federal programs, as permissible under the rules and statutes of the individual programs and agencies, and subject to appropriations. Organizations contributing to Promise Zone strategies will also receive technical assistance and other non-competitive support, again subject to available funding and as permissible under individual program and Federal agency rules and statutes. Businesses investing in Promise Zones or hiring residents of Promise Zones will also be eligible to receive tax incentives for these activities, if the tax incentives are enacted by Congress. Altogether, this package of assistance will help local leaders accelerate efforts to revitalize their communities.

Although Los Angeles was selected in the first round, the area of coverage of our promise zone is somewhat limited and has raised concerns over the needs of other worthy areas in the City. We should act quickly to obtain maximum benefit for additional Promise Zones designations for deserving areas in the City of Los Angeles by submitting appropriate comments to HUD to enable us to participate in this second round.

I THEREFORE MOVE that the Housing Department and the Economic Development department be directed to prepare comments relative to the second round of Promise Zone designations, including the standard Resolution for inclusion of such comments in the City's Federal Legislative Program, and to submit these within 30 days to Council for approval prior to submission to HUD.

PRESENTED BY Herb J. Wesson, Jr. Curren D. Price, Jr. Job Buscaino
HERB J. WESSON, JR. CURREN D. PRICE, JR. JOB BUSCAINO
Councilman, 10th District Councilman, 9th District Councilman, 15th District

ORIGINAL

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SECONDED BY Bernard C. Park

RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations, or policies proposed to or pending before a local, state, or federal governmental body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, the Promise Zone initiative is a federal program that partners the federal government with high-poverty communities to promote economic growth, create jobs, improve education, increase access to affordable housing, and improve public safety; and

WHEREAS, the neighborhoods of East Hollywood, Pico-Union/Westlake, Koreatown, Thai Town, and Little Armenia in the City of Los Angeles were chosen as one of the first five Promise Zones in January 2014; and

WHEREAS, in April 2014, HUD published a notice initiating a 60-day public comment period on the 2nd round of Promise Zone designations; and

WHEREAS, HUD proposes the 2nd round of Promise Zones to have the following qualifications:

- 1) The Promise Zone must encompass one or more census tract(s) or portions of census tracts across a contiguous geography;
- 2) The rate of overall poverty or Extremely Low Income rate (whichever is greater) of residents within the Promise Zone must be over 33 percent;
- 3) Promise Zone boundaries must encompass a population of at least 10,000 but no more than 200,000 residents;
- 4) Local leadership, including the mayors of jurisdictions represented in the Promise Zone, must demonstrate commitment to the Promise Zone effort; and

WHEREAS, the Housing and Community Investment Department (HCID) and the Economic and Workforce Development Department (EWDD) propose the following changes to the Promise Zone 2nd round application:

- Reinstate affordable housing as one of the Promise Zone goals.
- Require a plan for preserving or creating housing affordability opportunities within the selection criteria.
- Include transit investments and the U.S. Department of Transportation as part of the selection criteria and review process.
- Increase the poverty threshold from 33 to 40 percent.
- Increase the Promise Zone maximum population from 200,000 to 300,000 residents.
- Large metropolitan areas with populations of more than 3 million should be allowed to submit more than one application per round.
- Urban metropolitan areas that have unemployment/poverty rates higher than the national average should be allowed to submit up to three applications.

NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2013-2014 Federal Legislative Program SUPPORT for administrative action to include the above changes to the Promise Zone 2nd round application, to be submitted to HUD as the City of Los Angeles comments as part of the Promise Zone 2nd round designation process.

Key Differences between Round 1 and Round 2 Promise Zone

- 1) Unlike round 1 PZ, the boundary for PZ Round 2 does not have to coincide with any other previous grants (e.g. Choice Neighborhood, Promise Neighborhood grant, Byrne Criminal Justice Innovation grant, Transportation Investment Generating Economic Recovery grant, Sustainable Communities Regional Planning or Community Challenge grants).
- 2) In PZ Round 1, improving affordable housing was a key component of the Promise Zone initiative for revitalizing high-poverty communities but it was eliminated in PZ Round 2.
- 3) The required overall poverty rate within the proposed Promise Zone in Round 1 was over 20% with at least 1 census tract reporting a poverty rate over 30%. In Round 2, the required poverty rate (or ELL rate) within the Promise Zone must be over 33%.

NOTE: Applicants are required to use the Promise Zones mapping tool to determine the overall poverty rate. This tool will not be available until the guidelines are finalized. The tool uses Census block group (as defined for Census 2010) as the smallest statistical boundary for the available data.

HCID DRAFT/PRELIMINARY COMMENTS**Affordable Housing**

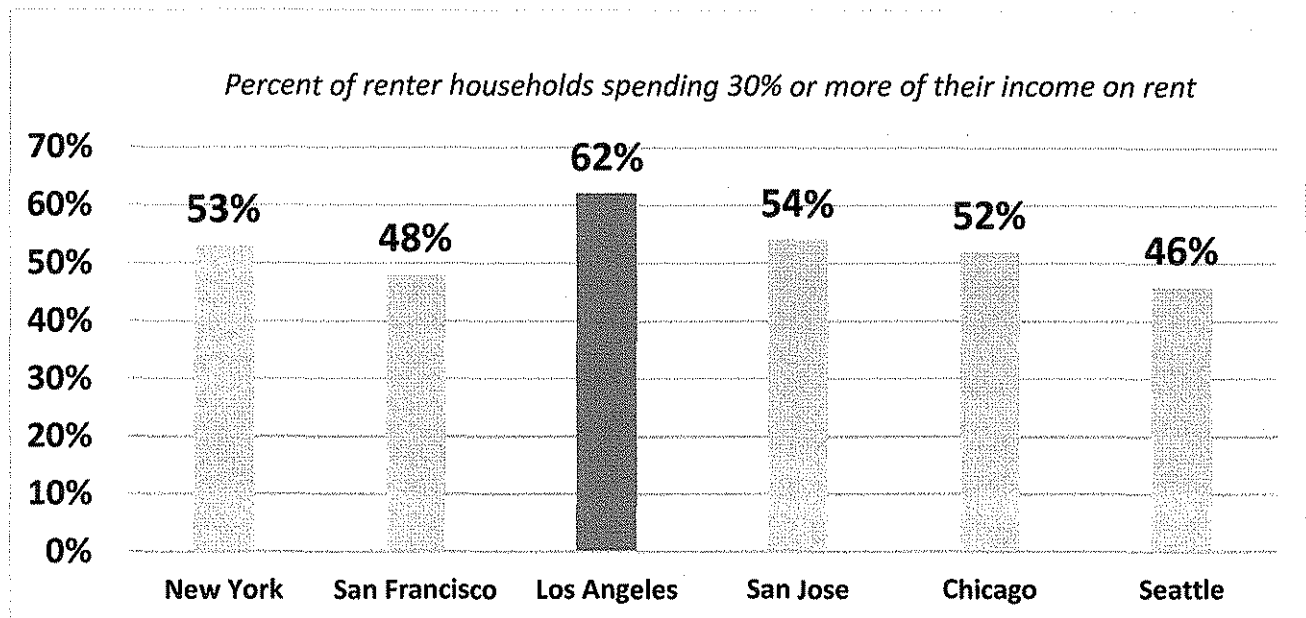
To address the issues poor families face in Promise Zone candidate areas, the designation promotes collaboration among federal agencies but now eliminates the affordable housing component. Although the Department of Housing and Urban Development (HUD) is a participating federal agency reviewing applications, housing safety and affordability are not a core focus area for this second round.

Effectively revitalizing neighborhoods requires addressing substandard housing and housing affordability. A neighborhood wide revitalization strategy cannot be undertaken without addressing the places where people live such that displacement is prevented and safe and affordable housing options are supplied. Affordable housing is a key factor for fomenting the economic growth, livable sustainable environments, and improved educational opportunities for those most in need and crime reduction in an area.

In Los Angeles, over 60 percent of residents are renters. A significant housing stock growth period in Los Angeles occurred between 1950-1979 with 30% of both rental and single family housing built in those years. Last year, HUD published data demonstrating that over the last 20 years, Los Angeles' rents increased by nearly 30 percent while renter incomes decreased by 6 percent during the same time period. The erosion of rental housing affordability is a tremendous contributor to the declining livability of many neighborhoods in the city and is a leading cause of displacement among some of the neediest families.

Historically, in the City of Los Angeles, it has been difficult for the city to meet the housing needs of renters at the extremely-, very low-, low-, and moderate-income levels. In the state mandated Regional Housing Needs Assessment (RHNA), the State of California periodically assigns a specified number of housing units (by affordability level) that each jurisdiction must accommodate to meet the needs of the projected population growth. In Los Angeles, during the previous RHNA period (2006- to 2012) only 18% of the very low-income units needed and only 17% of the low-income units needed in the City were built.

Throughout the nation, in many high-cost metropolitan cities, more than half of all renters are rent burdened paying over 30 percent of their income for rent. In San Francisco, 48 percent of renters are rent burdened, while New York reports 53 percent and Chicago reports 54 percent. In Los Angeles, however, more renter households are either rent burdened or severely rent burdened, with 62 percent of its renters experiencing rent burden (see chart below).



Poor households have a greater incidence of rent burden causing inadequate housing circumstances. Ninety percent or more of Los Angeles' renter households in the extremely-low AMI band (0 to 30 percent of AMI) and the very low-income AMI band (31 to 50 percent of AMI) are either rent-burdened or overcrowded. These households are generally concentrated in historically disinvested and poorer neighborhoods in the city. The Promise Zone's core intent is to invest in these long neglected communities by concentrating a wide spectrum of resources such that neighborhoods are uplifted through all aspects of people's lives. This includes investing in and preserving existing affordable housing to help meet the housing needs of poorer neighborhoods. Housing is an essential need and a core element for a strategy that seeks to foster safe, sustainable and livable neighborhoods in cities such as Los Angeles.

Recommendation 1: Reinstate Affordable Housing as one of the Promise Zone goals to revitalize high poverty areas.

Recommendation 2: Require a plan for preserving or creating housing affordability opportunities within the Selection Criteria.

Include Transportation in the Scoring and Review Process

In Los Angeles, investment in transit is leveraging significant state, federal and local dollars. With unprecedented investment in public transportation infrastructure, Los Angeles has an opportunity to continue to strategically invest its resources, including affordable housing, crime reduction and job training, among others. The majority of the new light rail in the city traverses some of the most low-income communities. We are actively creating thriving and affordable communities along transit corridors.

The recent transit investments in light rail and rapid bus service are creating new economic opportunities in areas of the city with longstanding poverty and minority concentrations. For example, in the south Los Angeles neighborhood surrounding the University of Southern California (USC) the success is so vast that

the forces of gentrification appear to be taking hold. The presence of the new Expo light rail line is having a tremendous impact on the neighborhood's home prices and rents and overall incomes. This Expo line will soon expand to connect downtown Los Angeles to the City of Santa Monica along the Pacific Coast. Implementing a community stabilizing agenda to prevent or mitigate displacement of low-income residents is critical for enabling long-time residents of this low-income community to reap the benefits of the new economic prosperity. These investments are also bringing improved environmental conditions. Transit is helping to get people out of their cars, effectively contributing to a reduction in Greenhouse Gas emissions. Today, the City of Los Angeles has 72 operating light rail or bus rapid transit stations, with dozens more in nearby communities throughout the county. Planned Measure R investments will add another 42 stations to the City, for a total of 114 stations in the upcoming years. We already know that households earning less than \$20,000 per year use transit more than four times as much as higher income groups. With greater usage among poorer residents, the transit investments in low-income areas are among the most successful.

Los Angeles' recent experience with new transit investments demonstrate how the United States Department of Transportation is an important stakeholder and asset in helping to connect people to places of opportunity, including job sites, education, destination points with vibrant economic and cultural activity as well as housing. We support the inclusion of DOT in the decision making process for reviewing applications and providing assistance to future Promise Zone areas. In addition, we support including transportation investments in the scoring criteria. Focusing on the neediest areas that already have a significant emerging opportunity as is transportation infrastructure enables local governments to hone in on the most competitive areas within their jurisdictions and select the most worthy areas for Promise Zone consideration.

Recommendation: Include transit investments and DOT as part of the selection criteria and review process.

CITY OF LOS ANGELES

INTER-DEPARTMENTAL CORRESPONDENCE

DATE: June 3, 2014

TO: Gerry F. Miller, Chief Legislative Analyst
Office of the City Legislative Analyst

FROM: Jan Perry
General Manager, EWDD

SUBJECT: COMMENTS FROM THE ECONOMIC AND WORKFORCE DEVELOPMENT DEPARTMENT ON CRITERIA TO THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) ON THE SECOND ROUND PROMISE ZONE INITIATIVE

The U.S. Department of Housing and Urban Development announced a second round of competitive applications for the Promise Zone Initiative designation. The designations will allow the federal government to invest in communities to create jobs and increase economic security by expanding access to quality affordable housing and improving public safety. An estimated fifteen designations are to be made nationwide in this second round by the end of 2016. As part of the application process, HUD has requested public comments by June 16, 2014.

Based on a review of the criteria, it appears those established for the Promise Zone designation are applied nationwide as a "one-size fits all" standard. These standards do not take into account the unique characteristics of large metropolitan areas like the City of Los Angeles. For example the city's current population is approximately 4 million and the unemployment rate stands at 8.5% as of April 2014, well above the national average of 6.3%. Some of the city's communities are densely populated with high levels of poverty and unemployment.

Pursuant to Council File No. 14-0565, the Economic and Workforce Development Department is submitting the following comments. These are based on the application criteria for the second round contained in the federal register, and pertain to the characteristics unique to large metropolitan areas such as the City of Los Angeles.

1. The rate of poverty or extremely low income rate found in a Promise Zone should be increased from 33% to 40%.
2. The Promise Zone boundaries should allow for a population density of more than 200,000 residents and increase the limits to 300,000 residents.
3. Large metropolitan areas like the City of Los Angeles, with populations of more than 3 million, should be allowed to submit more than one application per round. The current limits allow only one application per Unit of General Local Government.

4. Urban metropolitan areas that have higher than the national average of unemployment and poverty rates should be allowed to submit up to 3 applications. (The unemployment rate for the city is 8.5% as of April 2014, while the national average is 6.3%)

EWDD recommends your office review and submit these comments to the City Council for submission to HUD on behalf of the City.