MOTION

Los Angeles has a wealth of committed and effective community development organizations (CDOs) working to make the City's economy more equitable and inclusive. CDOs are nonprofits engaged in a range of activities aimed at improving the economic conditions faced by low-income communities: affordable housing development; economic development, including business assistance and development; community planning pertaining to physical and economic development; and asset development programs to build up the economic capacity, mobility, and stability of low-income persons (e.g., homeownership assistance, financial education, foreclosure prevention, Individual Development Accounts (IDAs) and savings programs, job training, and job creation programs). These organizations are most attuned to the specific social and economic needs of low-income Angelenos, and they understand the strategic investments required to strengthen neighborhood economies while ensuring no one is left behind.

CDOs face structural challenges, however, when it comes to financing their vital activities. Both philanthropic and governmental sources of funding are generally tied to specific projects, rather than allowing CDOs the discretion to deploy resources based on their own knowledge of community needs. Project funding, some of which is administered by the City of Los Angeles through traditional RFP processes, produces tangible benefits for disadvantaged neighborhoods in the City. A community development sector that relies heavily on project-based funding, though, is unable to innovate or design strategic, long-term programming that tackles systemic barriers to economic mobility in low-income communities. Moreover, the project-based funding model requires that CDOs devote a large share of their resources to raising money – whether in bidding for government contracts or liaising with potential private donors – as opposed to fulfilling their core mission of community development.

Cities and states around the country have sought to address this problem by creating tax incentive programs that encourage the private sector to finance community development organizations with long-term, flexible funds. Philadelphia's pioneering program, the Community Development Corporation Tax Credit, is widely recognized as a successful model. The program offers a 100% local tax rebate against their contribution to any business that commits to giving $100,000 per year for 10 years to a qualifying CDO. Having run for 20 years with broad support from the Philadelphia City Council, community development organizations, and neighborhood advocates, the program is widely considered a major success and has been expanded multiple times due to its popularity and efficacy. According to the Philadelphia Association of Community Development Corporations, "The program is leveraging millions of dollars in private and public investment to bolster neighborhood economies, expand local access to goods, services, and jobs while growing the City's tax base to help ensure its long-term fiscal health." Not only do CDOs in Philadelphia benefit from a predictable source of flexible funds; the

Philadelphia program has seeded fruitful relationships between CDOs and local businesses, with the latter frequently offering additional financial and in-kind support beyond the assistance for which they receive a tax rebate.

The model originated by Philadelphia is catching on elsewhere, with states such as Massachusetts and New Jersey implementing similar programs. Los Angeles already offers tax incentives to businesses, such as the Entertainment and Multimedia Business Tax Limitations, in order to facilitate economic development. A Community Development Tax Incentive could significantly strengthen the local community development sector in ways that are equitable and inclusive, paying large dividends over time when it comes to creating intergenerational wealth in low-income neighborhoods, ensuring that residents are able to stay in these communities, and expanding the City's small business sector.

If the City of Los Angeles offered total tax relief of $5 million annually from its City Business Tax for a Community Development Tax Incentive, this relief would amount to only 0.7% of projected revenue from the City Business Tax and only 0.05% of total projected revenue from all sources based on revenue forecasts from the Controller's Office. The City should adopt Philadelphia's model and facilitate 10-year partnerships between CDOs and local businesses, with CDOs receiving $100,000 per year in flexible funds. With the right set of accountability and oversight mechanisms, the program will result in significant benefits for the City's low-income neighborhoods without a significant administrative burden for City departments. And in the long-term, the additional tax revenues generated by such a program would more than offset its costs.

I THEREFORE MOVE that the City Council instruct the Economic and Workforce Development Department (EWDD), with support from the Office of Finance, City Administrative Officer, and the City Attorney, as needed, to report back within 90 days with a framework for implementing a Community Development Tax Incentive in Los Angeles. The framework should include the following:

- Eligibility for any business registered in the City of Los Angeles to establish a 10-year funding partnership with a Community Development Organization (CDO), in which the business would provide $100,000 per year in unrestricted grant funds to the CDO, granting the business, in turn, a rebate against its tax liability under the Los Angeles City Business Tax (but not against any other tax levied by the City);
- A maximum of $5 million per year in tax incentives, equating to up to 50 active partnerships between businesses and CDOs in any given year;
- The following definition of a Community Development Organization:
    - A nonprofit corporation or other such entity or organization, including a limited equity cooperative housing corporation;

- Serving low-income residents within the City of Los Angeles, i.e., those whose incomes are at or below 80% of the Area Median Income;
- Engaged primarily in one or both of the following activities:
  - Improving the economic well-being of a target area or areas by increasing or retaining primary employment and capital, where primary employment is defined as employment with wages at least 1.5x the minimum wage and with fringe benefits including health insurance, or by other means; and/or
  - Preserving existing or creating new affordable housing;

- As an accountability mechanism, a requirement that any CDO seeking to participate in the program be certified by EWDD based on both the above criteria and additional required or preferred criteria the Department establishes to ensure the CDO's activities are transparent and accountable to the community, such as:
  - Demonstrated history of successful, broad-based economic development initiatives that have not led to displacement of residents and businesses;
  - Financial transparency and annual reporting mechanisms; and
  - Demonstration that the organization's constituency, including low-income people, is meaningfully represented on the board of directors of the organization;
- A requirement that CDOs seeking to participate in the program must develop and submit a Community Development Plan (CDP) outlining their strategic vision for supporting low-income Angelenos in the communities where they work, against which they will be required to track progress in the form of an annual report submitted to EWDD;
- A programmatic structure wherein CDOs will be responsible for establishing their own relationships with private businesses, but EWDD can facilitate these relationships by creating a registry of businesses who would like to partner with a CDO; and
- Recommendations from EWDD on:
  - Additional accountability and oversight mechanisms;
  - Geographic or other forms of equity-based targeting for the program;
  - A possible cap on the size of the budgets of the CDOs eligible for the program;
  - Required roles and responsibilities of other City Departments;
  - Administrative costs associated with running the program; and
  - An implementation timeline, with the possibility of a phased approach in which the City gradually builds up to 50 approved partnerships over 2-3 years.

PRESENTED BY:

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