

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: May 11, 2015

TO: Honorable Members of the Rules, Elections, and Intergovernmental Relations
Committee

FROM: Sharon M. Tso 
Chief Legislative Analyst

Council File No:
Assignment No: 15-04-0347

SUBJECT: H.R. 855 New Markets Tax Credit Extension Act of 2015.

CLA RECOMMENDATION:

Adopt the attached Resolution to include in the City's 2015-2016 Federal Legislative Program a position to support H.R. 855 the New Markets Tax Credit Extension Act of 2015.

SUMMARY

The New Markets Tax Credit (NMTC) has been a valuable source of funding for economic development projects in the City of Los Angeles since first authorized by the United States Congress in 2000. The program is currently reauthorized on an annual basis. H.R. 855 proposes to extend the tax credit program indefinitely, increase the allocation, and index future allocations to inflation. This Office has prepared the attached Resolution in support of this proposal as it would provide an additional economic development tool and/or financing to the City for economic development purposes.

BACKGROUND

The NMTC was authorized in the Community Renewal Tax Relief Act of 2000 as part of a bi-partisan effort to stimulate investment and economic growth in low income urban neighborhoods and rural communities that lack access to long-term capital needed to support and grow businesses, create jobs, and sustain healthy local economies. The NMTC program attracts capital to low income communities by providing private investors with a federal tax credit for investments made in businesses or economic development projects located in distressed communities— census tracts where the individual poverty rate is at least 20 percent or where median family income does not exceed 80 percent of the area's median income.

NMTC investors receive a tax credit equal to 39 percent of the total Qualified Equity Investment made in a Community Development Entity (CDE) with the Credit realized over a seven-year period, amounting to 5 percent annually for the first three years and 6 percent in years four through seven. If an investor redeems the NMTC investment before the seven-year term has run its course, all Credits taken to date will be recaptured with interest.

The NMTC model is a proven economic development tool in the City of Los Angeles and across the country. The NMTC program provides funds to qualified CDEs to facilitate commercial and service-oriented economic development in economically distressed communities. Investors receive a deferral tax credit in exchange for making equity investments in CDEs. In Los Angeles, the Los Angeles Development Fund (LADF), a qualified CDE, was formed in 2006 to apply for and manage an allocation of NMTC. LADF has received allocations totaling \$125 million and awarded these funds to projects located throughout the City.

Since 2000, New Markets Tax Credit allocations have been authorized annually. Although the program has received broad, bipartisan support, allocations have not yet been authorized for longer periods than one year. H.R. 855 would extend reauthorization indefinitely. In addition, the amount authorized would be increased above the \$3.5 billion approved each year since 2010. H.R. 855 would increase this amount by a cost of living adjustment formula and would index future authorizations to the same formula.

This report recommends support for H.R. 855 the New Markets Tax Credit Extension Act of 2015, legislation that would extend the New Markets Tax Credit program indefinitely, increase the total allocation and index future allocations to inflation.

DEPARTMENTS NOTIFIED

EWDD

BILL STATUS

2/10/2015 Introduced

2/10/2015 Referred to the House Committee on Ways and Means



Matt W. Mason
Legislative Analyst

SMT: mwm

Attachment: Resolution supporting H.R. 855 New Markets Tax Credit Extension

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, since 2000, the Federal New Markets Tax Credits program has assisted state efforts for local economic development, including job creation by providing matching funds for small businesses and business-related real estate ventures in low-income areas; and

WHEREAS, the New Markets Tax Credit program has attracted national pools of investment capital for commercial and service-oriented development projects in the City's low-income communities; and

WHEREAS, the New Markets Tax Credit currently requires an annual authorization; and

WHEREAS, the City of Los Angeles supported previous legislation to re-authorize federal New Markets Tax Credit allocations;

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 2015-2016 Federal Legislative Program SUPPORT of H.R. 855 New Markets Tax Credit Extension Act of 2015.