

Business Incentives for the City of Los Angeles

Presented by:
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Discussion Topic

The Benefits Of Being Located In the “State Enterprise Zone”





State Enterprise Zones


- ◆ **Provide state tax credits and incentives within specifically designated areas of the City.**

These tax credits and incentives include:

- ◆ **Accelerated business expense deductions**
- ◆ **DWP electrical rate discounts**
- ◆ **Hiring tax credits that can reduce your State Tax obligation**
- ◆ **Net operating loss carry forwards**
- ◆ **Net interest deductions**
- ◆ **Sales or use tax credits**
- ◆ **Work Opportunity Tax Credit (WOTC)**
- ◆ **Los Angeles Business Assistance Program**
- ◆ **WorkSource Centers**

Business Expense Deductions

- ◆ **Include Accelerated Depreciation of qualified personal property purchased for exclusive use in the Zone (equipment, furnishings, etc.)**
- ◆ **It does not include non-depreciable property such as office supplies**
- ◆ **It allows you to claim up to a maximum of \$20,000**



DWP Electrical Rate Reductions

- ◆ They are provided over a five-year period
- ◆ Beginning at 35% the first year
- ◆ New businesses less than 18 months in the zone qualify
- ◆ Businesses with a minimum of 35% increase in electrical usage in the last six months average from the prior twelve months average can also qualify

Hiring Tax Credits

- ◆ **Can provide up to \$37,440 in credit over a five-year period**
- ◆ **In order to obtain the credit the employee must fall into a designated category**
- ◆ **Employees living in low-mod census tracts within L. A. qualify**
- ◆ **Employer must receive an approved voucher to receive tax credit**
- ◆ **There is a \$35 processing fee payable to the City of Los Angeles per voucher request**

Hiring Tax Credit Example

Year One

\$12.00 AN HOUR X 2,080 HOURS = \$ 24, 960 X 50% \$ 12,480

Year Two

\$12.00 AN HOUR X 2,080 HOURS = \$ 24, 960 X 40% \$ 9,984

Year Three

\$12.00 AN HOUR X 2,080 HOURS = \$ 24, 960 X 30% \$ 7,488

Year Four

\$12.00 AN HOUR X 2,080 HOURS = \$ 24, 960 X 20% \$ 4,992

Year Five

\$12.00 AN HOUR X 2,080 HOURS = \$ 24, 960 X 10% \$ 2,496

TOTAL SAVINGS

\$37,440

**\$12.00 is the credit cap value. (150% x current minimum wage \$8.00)
A business may pay more or less than the cap, but will only receive the
credit for the actual wages paid to a maximum of \$12.00 per hour.**



Net Operating Loss Carry Forward

- ◆ **100% of Net Operating Loss can be carried forward up to 15 years to reduce taxable Zone income for those years.**
- ◆ **Any business operating within a State Enterprise Zone is eligible**



Net Interest Deductions

- ◆ **Provides incentives to lenders to make loans to Enterprise Zone businesses**
- ◆ **Lenders earn tax-free interest for loans made to Enterprise Zone businesses**
- ◆ **Deductions from income are allowed on the amount of 'net-interest' earned from loans made to businesses operating in an Enterprise Zone**



Sales or Use Tax Credit

- ◆ You can write off 100% of the current sales tax paid for:
- ◆ Qualifying machinery and parts purchased for use in the Zone
- ◆ Equipment purchased after 1998 such as computers, copiers, fax machines, and telephones for use in the Zone

**For more specific information on what qualifies, contact the Franchise Tax Board
(916) 845-3464**



Work Opportunity Tax Credit (WOTC)

- ◆ **It's a Federal Program with the credit being available until September 2011**
- ◆ **Annually provides \$2,400 in hiring credits**
- ◆ **Residents in designated communities must be 18-39 years of age, not yet 40.**



Work Opportunity Tax Credit (WOTC)

- ◆ There are 8 other categories that can qualify the employee for this credit
- ◆ Any business can take advantage of this credit and does not have to be in an Incentive Zone
- ◆ Hiring tax credits can be taken from the State & Federal government
- ◆ Visit the IRS website for additional information www.irs.gov



L. A. Business Assistance Program

- ◆ **Targeted Retail Component**
- ◆ **Serving existing retail and service businesses located in the Historic Downtown Core.**

Services include:

Market Analysis

Space & Tenant Improvement Planning

Financial Planning & Analysis

Assistance with Development/Refinement of Business Plans



Economic Development Division Contact Information

Community Development Department

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Industrial Development Authority

Presentation Of Tax-Exempt Bond Program

Presented by:

May M. Smith

April 19, 2010



Tax-Exempt Bond Programs

Private Activity Bonds (4)

- Industrial Development Bonds
- Empowerment Zone Facility Bonds *
- Recovery Zone Facility Bonds
- Non-Profit 501(c)3 Certificates of Participation
- Companion Loan Program
- Subordinate Loans Revolving Special Fund

* Pending extension - sunset on December 31, 2009



Common Characteristics

- **City acts as “conduit” issuer to pass through tax exempt status**
- **Tax exempt refers to the interest earned by investors**
- **Offers below market-rate financing by 20-30%**
- **Each bond carries its own credit rating and is 100% secured by a credit commitment from an acceptable lending institution**
- **Must be credit worthy**
- **No Federal, State or local/City guaranties**



Common Characteristics

(continued)

- **No start-ups, housing, working capital or refinances**
- **Bond proceeds can be used for land, building and equipment acquisition + 2% of the cost of issuance**
- **State and City have a public benefit overlay for project approvals i.e. Job creation/retention; prevailing and living wages; target distress areas**
- **Minimum \$2 million bond sizing**
- **Bond proceeds can be spent over a 36-month period after issuance**

Assembled Bond Team

- **Financial Advisors**
- **Bond counsels**
- **Underwriter/Remarketing agents**
- **Bond trustees**
- **Rating agency**




Industrial Development Bonds (IDBs)

- **Must be a manufacturing facility**
- **Examples: Food processing, commercial printing, toy manufacturer, machine tools, apparel etc.**
- **Can be located anywhere within the City**
- **Bond issues range from \$2 to \$10 million maximum**
- **Apply to the State Treasurer for allocation. Applications are competitively scored and granted periodically as allocation exists**



Empowerment Zone Bonds (EZBs)

- **Must be located within the City's Empowerment Zone (Expired on December 31, 2009)**
- **Extender bill to prolong thru the end of 2010; plus two bills to extend through December 31, 2015**
- **City was awarded \$230 million bonding allocation of which \$100 million has not been earmarked and is available**
- **Any type of commercial operation can qualify**



Empowerment Zone Bonds

(continued)

- **Examples: Parking structure, seafood and produce distribution center; gift basket assembly**
- **35% of project jobs must be filled by EZ residents**
- **Typical bond issues range from \$2 to \$20 million**

Recovery Zone Facility Bonds

- **Introduced in the 2/09 Stimulus Bill**
- **Refers to areas having significant poverty, unemployment, home foreclosures or general distress; or within an Empowerment Zone or Renewal Community**
- **City's Recovery Zone measures 210 sq. miles**
- **City received an allocation of \$269 million**

Recovery Zone Facility Bonds (continued)

- **Most activities qualify except land acquisition, residential and refinancing**
- **95% of bond proceeds must be used for rehab**
- **Must be shovel and credit ready**
- **Program sunsets on December 31, 2010**




Non-Profit Certificates of Participation

- **Must be an IRS designated 501(c) (3) organization**
- **Examples: Healthcare facilities, animal shelters, cultural & arts pavilions, private schools etc.**
- **Refinancing existing taxable debt is permitted**
- **Bond issue ranges are unlimited**
- **No State application is required**

Processing Timeline - Overview

<u>PHASE I</u> <u>PRE-QUALIFICATION</u>	<u>PHASE II</u> <u>APPROVALS</u>	<u>PHASE III</u> <u>ISSUANCE</u>
<ul style="list-style-type: none">• Site control• Credit commitment• Federal, State and local requirements• Project analysis• Credit underwriting by lending institutions	<ul style="list-style-type: none">• Issuer application• Issuer adopts Reimbursement Resolution• Public hearing• Approval of draft documents• City Council approval• State Treasurer approval	<ul style="list-style-type: none">• IDA Board approval of final documents & resolution• Bond rating• Bond sale• Execution of bond docs• Bond closing• Funding to trustee





Subordinate Loans Revolving Special Fund

- **Community Development Department (CDD) loan fund**
- **Available to bond borrowers only**
- **Targets the Federal Recovery/Empowerment Zone and State Enterprise Zone businesses plus worthwhile non-profit projects**
- **\$250,000 - \$550,000 loan sizing**
- **Loan term and interest rate corresponds with collateral according to program guidelines**



Workforce Development

Provide workforce development services through eighteen (18) WorkSource Centers located throughout Los Angeles.

They offer:

- **Pre-screening of job applicants**
- **Applicant referral services**
- **Customized training to meet individual needs**
- **Labor market data to assist in the decision process**

Legal Disclaimer

This document is not a comprehensive prospectus nor illustrative of all aspects of the Industrial Development Authority (the “IDA”) bond program. The City of Los Angeles (the “City”) and the IDA make no representation as to accuracy and completeness of this document. The statements, opinions and estimates contained in this document constitute an indicative perspective as of this date, and it is subject to change at any time without notice. The users should consult with their financial advisors for their qualification and eligibility under the program. This material may not be quoted, reproduced nor used as sales material without the prior written permission of the City and the IDA.





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