



Legislation Text

File #: 09-1145, **Version:** 1

Recommendation to receive supporting documentation in the record, conclude the public hearing, and adopt resolution designating the City of Long Beach Recovery Zone for purposes of sections 1400U-1, 1400U-2 and 1400U-3 of the Internal Revenue Code of 1986. (Citywide)

As part of the American Recovery and Reinvestment Act (ARRA), Congress added new provisions to the Internal Revenue Code (Code) for the establishment of Recovery Zones that enable state and local governments to provide additional capacity for public and private bond financing. These bonds are intended to positively stimulate the economy in Recovery Zones.

In order to be eligible for Recovery Zone designation, the area must be identified as having significant poverty, high unemployment, a high rate of home foreclosures or general distress; any area designated by the issuer as economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990; and any area for which a designation as an empowerment zone or renewal community is in effect as of the effective date of ARRA, February 17, 2009. ARRA does not specify more definitive criteria and provides the issuer with latitude in making the designations.

Due to the current high rate of unemployment, the current rate of home foreclosures and the general economic distress in the City of Long Beach (City), staff proposes to adopt the entire territory within the City as the Long Beach Recovery Zone for the purposes of Section 1400U-1 (b) of the Code. The designation of the Long Beach Recovery Zone will enable staff to provide additional access to capital in a highly constrained market and to explore the viability of utilizing the City's allocation for qualifying projects.

Recovery Zone Bonds consist of two categories, Economic Development and Facility Bonds. Economic Development Bonds are taxable governmental bonds, which can be utilized for the promotion of economic development in areas such as construction of infrastructure, public facilities, and various other economic development purposes. The City's allocation of Recovery Zone Economic Development Bonds is \$22,235,000. The City does not receive the allocation as a direct payment. The City's issuer will receive an advance tax credit equal to 45 percent of the interest payable on the bonds to reduce the effective rate below that of a tax-exempt issuance. The City must identify a viable funding source to pay the debt service if the City decides to issue these bonds. Staff will review potential uses for these allocations and the ability of the City's various funds to support related debt services costs. If there are projects that are financially viable, staff will return to the City Council with a recommendation for action and request authority to issue the bonds.

Recovery Zone Facility Bonds are tax-exempt, private activity bonds, which allow issuers to provide tax-exempt financing for private business development and improvement projects such as large manufacturing plants, distribution centers, hotels, research facilities, etc. As with the Economic Development Bonds, the City does not receive the allocation as a direct payment. The purpose of the bond is to increase the City's ability to provide financing for projects that historically would not qualify.

The bonds are structured so that the City's General Fund will not be liable in the event that the business is unable to meet annual debt service. The City's allocation of Recovery Zone Facility Bonds is \$33,353,000. Staff will review the best-proposed uses for these funds and return to the City Council with recommendations for issuance on a case-by-case basis.

The City's ability to take advantage of these allocations is ultimately dependent upon the existence of a revenue stream to support the related debt service payments once the debt is issued. Please note that, while the federal government has provided Recovery Zone Bond allocations to local jurisdictions, this does not mean that there is actual funding being provided to local governments. What is actually being provided is the ability to issue certain amounts of debt, with new tax benefits, up to a certain amount. Recovery Zone bonds may only be issued until December 31, 2010.

This letter was reviewed by Chief Assistant City Attorney Heather A. Mahood on September 14, 2009 and by Budget and Performance Management Bureau Manager David Wodynski on September 17, 2009.

City Council action is requested on November 3, 2009, as development costs prior to the establishment of the Recovery Zones are not eligible for Recovery Zone Bond financing.

This action does not obligate the City to issuing any debt. All future requests for Recovery Zone Bonds will be brought to the City Council for approval.

Approve recommendation.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LONG BEACH DESIGNATING THE TERRITORY IN THE CITY AS A RECOVERY ZONE FOR PURPOSES OF THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

CRAIG BECK
DIRECTOR OF DEVELOPMENT SERVICES

LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT

NAME
TITLE

APPROVED:

PATRICK H. WEST
CITY MANAGER