



# CITY OF LONG BEACH

# H-2

DEPARTMENT OF DEVELOPMENT SERVICES

333 West Ocean Blvd., 4<sup>th</sup> Floor Long Beach, CA 90802 Phone: 570.5237 Fax: 570.6215

November 3, 2009

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

## RECOMMENDATION:

Receive the supporting documentation in the record, conclude the public hearing and adopt the 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)

## DISCUSSION

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.

#### TIMING CONSIDERATIONS

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.

#### FISCAL IMPACT

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.

#### SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

*Lawrence Buggie*

For CRAIG BECK  
DIRECTOR OF DEVELOPMENT SERVICES

*Lori Ann Farrell*

LORI ANN FARRELL  
DIRECTOR OF FINANCIAL MANAGEMENT

CB:AJB:DSW:TF  
Attachments: City Council Resolution (1)

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APPROVED:

*Patrick H. West*  
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PATRICK H. WEST  
CITY MANAGER

OFFICE OF THE CITY ATTORNEY  
ROBERT E. SHANNON, City Attorney  
333 West Ocean Boulevard, 11th Floor  
Long Beach, CA 90802-4664

1 RESOLUTION NO.

2  
3 A RESOLUTION OF THE CITY COUNCIL OF THE  
4 CITY OF LONG BEACH DESIGNATING THE TERRITORY  
5 IN THE CITY AS A RECOVERY ZONE FOR PURPOSES  
6 OF THE AMERICAN RECOVERY AND REINVESTMENT  
7 ACT OF 2009  
8

9 WHEREAS, Section 1401 of Title 1 of Division B of the American Recovery  
10 and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009) (the "Federal  
11 Stimulus Act"), added Sections 1400U-1 through 1400U-3 to the Internal Revenue Code  
12 of 1986 (the "Code"), authorizing state and local governments to issue recovery zone  
13 economic development bonds ("Recovery Zone Economic Development Bonds") and  
14 recovery zone facility bonds ("Recovery Zone Facility Bonds") upon compliance with  
15 various requirements of the Code; and

16 WHEREAS, among other requirements, the net proceeds of any Recovery  
17 Zone Economic Development Bonds must be used for a "qualified economic  
18 development purpose," including to fund capital expenditures paid or incurred with  
19 respect to property located in a "recovery zone", and the net proceeds of any Recovery  
20 Zone Facility Bonds must be used for "recovery zone property," including property in a  
21 "recovery zone" constructed, reconstructed, renovated or acquired after the date on  
22 which the designation of the recovery zone took effect; and

23 WHEREAS, under the Federal Stimulus Act, the City of Long Beach (the  
24 "City") has been allocated the authority to issue up to \$22,235,000 principal amount of  
25 Recovery Zone Economic Development Bonds and up to \$33,353,000 principal amount  
26 of Recovery Zone Facility Bonds, and Section 1400U-1(b)(1) of the Code allows for the  
27 City to designate an area as a "recovery zone" if the area has significant poverty,  
28 unemployment, rate of home foreclosure or general distress; and

1           WHEREAS, due to the current high rate of unemployment, the current rate  
2 of home foreclosures and the general distress in the City, the City Council now desires to  
3 designate the entire territory within the City as a “recovery zone” for purposes of Section  
4 1400U-1(b) of the Code, so that the City may be in a position to issue its allocations of  
5 Recovery Zone Economic Development Bonds and of Recovery Zone Facilities Bonds as  
6 projects to be funded are identified by City staff and the funding of those projects is  
7 approved by the City Council.

8           NOW, THEREFORE, the City Council of the City of Long Beach resolves as  
9 follows:

10           Section 1.    The City Council hereby finds and determines, based upon  
11 information provided by City Staff, that the area within the boundaries of the City currently  
12 have significant unemployment, significant rates of home foreclosures and/or significant  
13 general distress.

14           Section 2.    The City Council hereby designates the entire area within the  
15 boundaries of the City as a “recovery zone” for purposes of Section 1400U-1(b) of the  
16 Code.

17           Section 3.    This resolution shall take effect immediately upon its adoption  
18 by the City Council, and the City Clerk shall certify the vote adopting this resolution.

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OFFICE OF THE CITY ATTORNEY  
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I hereby certify that the foregoing resolution was adopted by the City Council of the City of Long Beach at its meeting of November 3, 2009 by the following vote:

Ayes: Councilmembers: \_\_\_\_\_

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Noes: Councilmembers: \_\_\_\_\_

\_\_\_\_\_

Absent: Councilmembers: \_\_\_\_\_

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\_\_\_\_\_  
City Clerk