

Agenda Report

November 25, 2013

TO: Honorable Mayor and City Council

THROUGH: Economic Development and Technology Committee

FROM: Economic Development, Office of the City Manager

**SUBJECT: ESTABLISHMENT OF PASADENA LOCAL DEVELOPMENT AREA
AS SUCCESSOR TO PASADENA ENTERPRISE ZONE**

RECOMMENDATION:

It is recommended that the City Council:

1. Establish the Pasadena Local Development Area as successor to the Pasadena Enterprise Zone; and
2. Direct the City Attorney to draft an ordinance, and return within 30 days, which amends Ordinances 7098 and 6691 replacing references to the Pasadena Enterprise Zone, with the Pasadena Local Development Area, and extends the local financial incentives provided to businesses in the Pasadena Enterprise Zone to businesses in the Pasadena Local Development Area.

On October 7, 2013, Council's Economic Development and Technology Committee (Edtech Committee) provided comments to staff that formed the basis for the recommendations conveyed in this report.

BACKGROUND:

The Pasadena Enterprise Zone (EZ) was established as part of a state-designated economic development program designed to stimulate economic growth and private investment within economically disadvantaged areas. Pasadena received two 15 year state designations, the first on April 10, 1992 and the second on April 10, 2007. This state program provided tax benefits to companies that invested in equipment and hired qualified workers. Since fiscal year 2007, in excess of 13,600 hiring credit vouchers, representing more than \$500 million in tax credits were processed, contributing to the creation of over 2,600 new jobs in Pasadena.

As a condition of participation in the EZ Program, Pasadena and other cities were required to offer local incentives to complement those provided by the state. In response, the city divided the EZ into two areas: the Enterprise Zone-Business Development Area (EZBDA), depicted in blue and the Enterprise Zone-Technology Development Area (EZTDA), depicted in green on Attachment A. The following waiver criteria and types of waivers offered within the two EZ areas are:

EZBDA

- Business license fee waivers for commercial and industrial use tenants;
- Planning and Building permit fees (e.g. building permits, zoning permits; variances, conditional use permits, and processing fees) and construction tax waivers for commercial and industrial use tenants and property owners;
- Waiver of the Transportation Traffic Reduction and Transportation Improvement Fee (PMC § 4.19) for commercial and industrial uses; and
- Fee waivers for pushcart owners (Ordinance 6691)

EZTDA

- Business license fee waivers for research and development use tenants;
- Planning and Building permit fees and construction tax waivers for research and development property owners and tenants; and
- Fee waivers for pushcart owners (Ordinance 6691)

Since fiscal year 2009, implementation of the EZ local incentives has waived an average of \$270,000 in business license fees and \$200,000 in planning and building permit fees each year.

On July 12, 2013, Governor Brown signed into law the repeal of all statewide EZ designations effective January 1, 2014 to recapture revenue for the State's general fund. However, the new law allows impacted businesses to apply for state hiring tax credits through the end of calendar year 2014 for employees hired in 2013 or prior. Since Pasadena's local incentives are codified in ordinances referencing the State's EZ program, the City's local incentives will also terminate effective January 1, 2014 unless the City Council takes action to maintain them.

In the absence of the tax credits, the City's local incentives are unlikely to be sufficient to attract or retain businesses; consequently the sun-setting of these incentives may not be particularly problematic. However, elimination of the local incentives will require businesses in the former EZ to pay business license and other fees identified above beginning in 2014. Based on the five year average since fiscal year 2009, approximately 720 local businesses would incur an average of \$375 dollars in business license fees in 2014.

Recognizing that application of these fees may come as a surprise as well as a hardship for businesses within the former EZ area; staff is recommending that the City Council extend the local incentives until January 1, 2015 in conjunction with the State's extension of the hiring credits. Extending the local incentives for an additional year would maintain the status quo in terms of General Fund revenues associated with the EZ. Specifically, the City would

continue to receive revenue, estimated at \$230,000, for processing EZ tax credit vouchers until the end of the next calendar year and continue to waive a combined average of \$470,000 in both business license and planning and building permit fees, which have long been factored into the City's anticipated revenues.

Should the Council approve the staff recommendation, staff will return to Council no later than the third quarter of next calendar year with a recommendation as to whether the local incentives should be continued, discontinued or modified in light of any new State programs as well as an assessment of local economic development needs.

COUNCIL POLICY CONSIDERATION:

The proposed action is consistent with the City Council's Strategic Plan Goal to: (1) maintain fiscal responsibility and stability and (2) support and promote the quality of life and local economy.

FISCAL IMPACT:

Establishment of the Local Development Area will result in the continued annual business license and planning permit fee waivers of approximately \$470,000 of General Fund revenue. The City will continue to generate EZ voucher revenue of approximately \$230,000 until December 31, 2014.

Respectfully submitted,



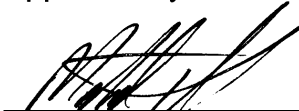
Steve Mermell
Assistant City Manager

Prepared by:



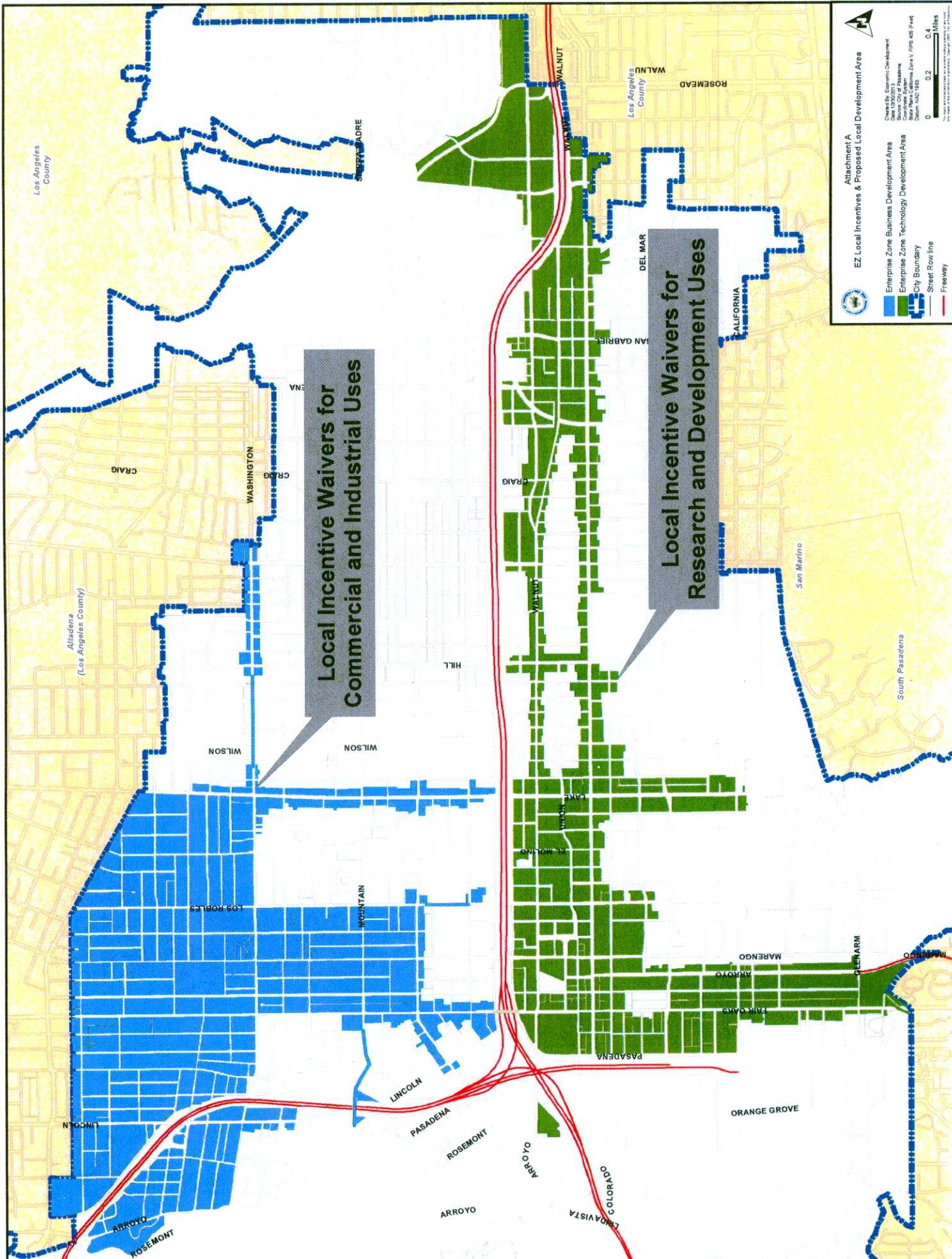
Melissa Alva
Enterprise Zone Manager

Approved by:



Michael J. Beck
City Manager

Attachment A – Pasadena Local Development Area Map



Attachment A
EZ Local Incentives & Proposed Local Development Area

City of Pasadena
 Planning Department
 Date: 10/20/2013
 Prepared by: [Name]
 State: New California Zone V, FHS 405 (1999)

0 0.2 0.4 Miles

Street Row line
 Freeway