



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: March 25, 2009 REPORT NO: 09-033

ATTENTION: Council President and City Council

SUBJECT: Enterprise Zone Fee Increase

REFERENCE:

REQUESTED ACTION: Authorization to increase the Enterprise Zone Fee

STAFF RECOMMENDATION: Approve the fee increase.

SUMMARY:

BACKGROUND

The Enterprise Zone Program (EZ) was developed by the California Legislature to provide targeted areas with a means to stimulate business growth and attract new companies, jobs and private investment in low/moderate income communities. Businesses located with an EZ are eligible for state tax incentives that can substantially reduce the cost of doing business. Previously the State of California had awarded the City of San Diego two EZ designations, the Metro EZ and the South Bay EZ, that expired as of Oct. 14, 2006. The San Diego Regional Enterprise Zone (SDREZ) designated as of Oct. 15, 2006 is pending final designation as a multi-jurisdictional zone with the cities of San Diego, Chula Vista, and National City and with San Diego as the lead agency. Additionally, the city's other EZ is the Local Agency Military Base Recovery Area (LAMBRA) at Liberty Station which was awarded a designation in 2001. The first EZ hiring credit vouchers for the LAMBRA were issued in 2008. San Diego is responsible for issuing all vouchers including retroactive vouchers for all of the active and expired zones. This program is administered by the Government Incentives (GI) Team, Economic Growth Services Division (EGS).

Of all of the state tax incentives associated with the EZ, the hiring credit is the most utilized by companies of all sizes and industries. A qualified business may reduce its state income tax by a percentage of wages paid to one or more qualified employees over a five-year period. An EZ hiring voucher can be issued for each qualifying employee hired by an EZ business. The benefit that companies can potentially derive for each approved hiring credit voucher is over \$36,000 in state tax credits over the maximum five-year period and over \$12,000 in the first year. Before a business can utilize this incentive, it must receive an EZ hiring credit voucher for each eligible employee issued by the vouchering agency, the City of San Diego. The GI Team reviews and approves all EZ hiring credit applications and issues the EZ hiring credit vouchers. This is a time consuming process and the state provides no funding to administer the program. Since the

EZ program's inception in 1986, San Diego has issued over 35,000 vouchers. San Diego's EZ program has been cited as one of the most efficient and productive zones in a report by O'Keefe and Dunstan evaluating the success of the California EZ Program.

EGS has not been through a Business Re-engineering Process (BPR) but is developing a tactical plan and looking for ways to optimize its efficiency. It is not anticipated that EGS will do a formal re-engineering process for this division of eight (8) employees.

DISCUSSION

Enterprise Zone Fee:

On August 16, 2004, the Governor signed a bill authorizing the State to collect \$10 for each EZ hiring application reviewed for issuance of an EZ hiring tax credit voucher. The City collects this fee at the time it accepts an EZ hiring credit voucher application. This fee allows the State's Housing and Community Development Department (HCD) to staff and administer the State EZ Program effectively. Subsequently, the City may also collect an additional application fee to help offset the cost of administering the local program. In 2005, Council approved a \$40 EZ fee in addition to the State mandated \$10 fee to help offset program costs the city incurs associated with administering the state mandated fee and the local program. The EZ fee has not been revised since it was initially approved in 2005.

The current \$50 EZ fee generated approximately \$175,000 in FY 08 and did not fully recover the city's costs associated with the program. A second economic development program assesses a contract based fee. This is a an annual \$10,000 fee to operators of the Foreign Trade Zone, however, there are currently no active contracts in place, therefore the total revenue generated by EGS was \$175,000 in FY 08. The EZ fee and the FTZ operator fee are the only fees assessed by EGS. In order to generate sufficient revenue to recoup all or the majority of program related costs, staff is recommending increasing the voucher fee to \$100 per application. From this fee, the City will remit \$10 for each EZ hiring credit application reviewed to HCD on a monthly basis and the balance of the fee is the city's revenue to cover EZ related program expenses. It is anticipated that the \$100 EZ fee will generate approximately \$450,000/yr for the EZ program in FY 10 based on an estimated 4,500 EZ hiring credit vouchers. The voucher fees collected are in addition to the SDREZ Partners Memorandum of Understanding (MOU) contribution of \$194,000 annually to offset program costs (see detailed explanation of MOU below). The combined anticipated revenue generated from the proposed EZ fee and the MOU is \$644,000 and is below the anticipated expenditures and does not recover 100% of the costs associated with administration of the EZ program in FY10 (ATTACHMENT A- FY 10 Estimated Enterprise Zone Program Expenses and Revenue). However due to the fact that the amount of applications the City has received since the SDREZ was approved in 2006 has increased significantly, it is anticipated that more voucher application will be received than initial 4,500 applications projected. Staff will reevaluate the program budget and revenue projections in FY10 to ensure sufficient revenue is generated for the EZ Program.

Local administrative fees collected by other California EZ jurisdictions currently range from \$12 to \$102. However, jurisdictions are also reevaluating their current fee structure to determine if increases are needed. The staff recommended fee of \$100 (\$90/City and \$10/State) is in line

with what other cities are charging to review EZ hiring credit applications. In February, the City of Long Beach increased its fee to range from \$60 (for employees hired with 18 months from the date of submittal) to \$95 (for employees hired later than 18 months from date of submittal) and an additional \$25 per application for expedite status. The FY 10 budget for EGS includes one-time funding to develop and implement a paperless, electronic vouchering system to process applications in a more expeditious manner and is not included in the new fee projections.

Upon notification that the SDREZ was awarded a conditional EZ designation in the fall of 2006, San Diego implemented administrative changes to accommodate the new EZ designation and to keep up with the increasing demand for EZ hiring credit vouchers. These changes included, reallocating existing city staffing resources by adding a new EZ hiring credit vouchering agent to the EZ program and implementing the marketing and planning strategies identified in the 2006 EZ application. As a result, San Diego has received more than 9,000 hiring credit vouchers from October 2006 through December 2008, an average monthly increase of 62%.

SDREZ MOU:

As grantee of the SDREZ designation, San Diego assumed lead-agency responsibility for the administration of the SDREZ which includes implementing the goals and objectives for the SDREZ Application; coordinating day-to-day program management; collecting program data and submitting reports to HCD; overseeing the hiring credit certification and vouchering process; and administering the job placement/referral services. In consideration of San Diego's role as lead agency and recognizing the additional administrative/reporting requirements and EZ program resource limitations created by a multi-jurisdiction EZ, Chula Vista and National City in conjunction with the Port District have offered to provide: 1) funding to cover some of the administrative costs including staffing in order to provide services to businesses within the SDREZ ; 2) maintain economic development staff or appropriate staff to market the EZ and other economic development activities within their respective jurisdictions; and 3) maintain marketing/promotional funds to augment expenditures currently made by the City to promote the EZ. These additional resources will enable the City to provide better services to businesses within the SDREZ jurisdictions.

Staff will return to City Council in the next few months requesting authorization to execute a MOU between the SDREZ Partners formalizing the cooperative framework for managing and fiscally supporting the SDREZ throughout the fifteen (15) year designation period.

Conclusion:

The proposed fee of \$100 per EZ hiring voucher application is an increase of 100% from the existing \$50 fee and is needed in order to implement the EZ Program. The benefit to a company receiving an EZ hiring credit voucher is substantial. In the first year alone, an EZ company's credit could potentially range from approximately \$8,000 to more than \$12,000 in state tax credits per full time employee, a savings that will allow EZ companies to invest back into the San Diego economy. The fee increase will allow the city to recover program costs associated with administering the EZ program to the more than 12,000 businesses within the boundaries of the SDREZ. The SDREZ program offers tremendous business incentives to help the region assist companies as well as attract new ones and does not anticipate any significant

impacts to the program or the EZ business community. The estimated annual increase in revenue to the City is \$275,00. The new fee will be effective on July 1, 2009

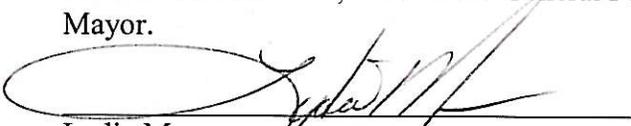
FISCAL CONSIDERATIONS:

There will be ongoing staff time and resources required to administer the SDREZ during the fifteen-year designation period. The SDREZ Partnership's funding contribution of \$194,000 annually and the proposed fee increase will offset the city's costs associated with the program to appropriately maintain the SDREZ Program throughout its designation period. Staff will return to Council requesting authorization to execute the MOU between the SDREZ Partnership to formalize fiscal and mangement support for the SDREZ. The anticipated revenue from the EZ fee increase for FY 10 is \$450,000.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: The Council authorized the collection of an EZ application fee for each application accepted by San Diego in 2005 (R-300214). Council authorized staff to submit an application for a new EZ designation in 2006 (R-301845).

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: Notices will be sent to EZ companies and their consultants informing them of the pending fee increase.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: Staff presented the proposed fee increase on March 17, 2009 at the General Fund Fees stakeholder meeting organized by the Mayor.


Lydia Moreno
Economic Growth Services
Originating Department


Julie Dubick
Community & Legislative Services
Director

Economic Growth Services Division
 Government Incentive Team
 FY 10 Enterprise Zone Program Estimated Program Expenses and Revenue

PE	Direct Costs		Indirect Costs			TOTAL INDIRECT COSTS	TOTAL INDIRECT COSTS	TOTAL PE DIRECT AND INDIRECT COSTS
	Salary	Fringe (50% salary)	TOTAL DIRECT COSTS	Labor Load (14.2%)	Fringe Load (14.2%)			
CDS II	\$65,333	\$32,666	\$97,999	\$9,277	\$4,639	\$3,581	\$17,497	\$115,496
CDS II	\$65,333	\$32,666	\$97,999	\$9,277	\$4,639	\$3,581	\$17,497	\$115,496
CDS IV	\$80,891	\$40,446	\$121,337	\$11,487	\$5,743	\$4,434	\$21,664	\$143,000
CDC	\$92,893	\$46,446	\$139,339	\$13,191	\$6,595	\$5,092	\$24,878	\$164,217
Temp. Help	\$26,000	\$0	\$26,000	\$0	\$0	\$1,248	\$1,248	\$27,248
	\$ 330,449	\$ 152,225	\$482,674	\$ 43,232	\$ 21,616	\$ 16,689	\$82,784	\$565,459

NPE

Misc. Contract Services (IT)	\$5,000
Misc. Supplies and Expenses	\$45,902
Misc. Contract Services (State fee = \$10 x 4500 voucher applications)	\$45,000
	\$95,902

Total Annual Program Cost for FY10

PE (Direct and Indirect Costs)	\$565,459
NPE	\$95,902
	\$ 661,361

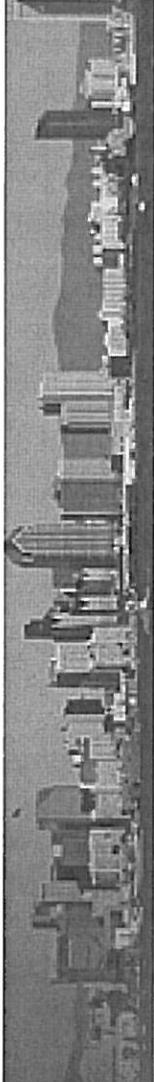
Revenue

Partnership MOU	\$194,000
Enterprise Zone Voucher Fee	\$450,000
\$100 New fee x 4,500 vouchers	
(\$90 City fee + \$10 State fee = \$100)	

Total Revenue \$644,000

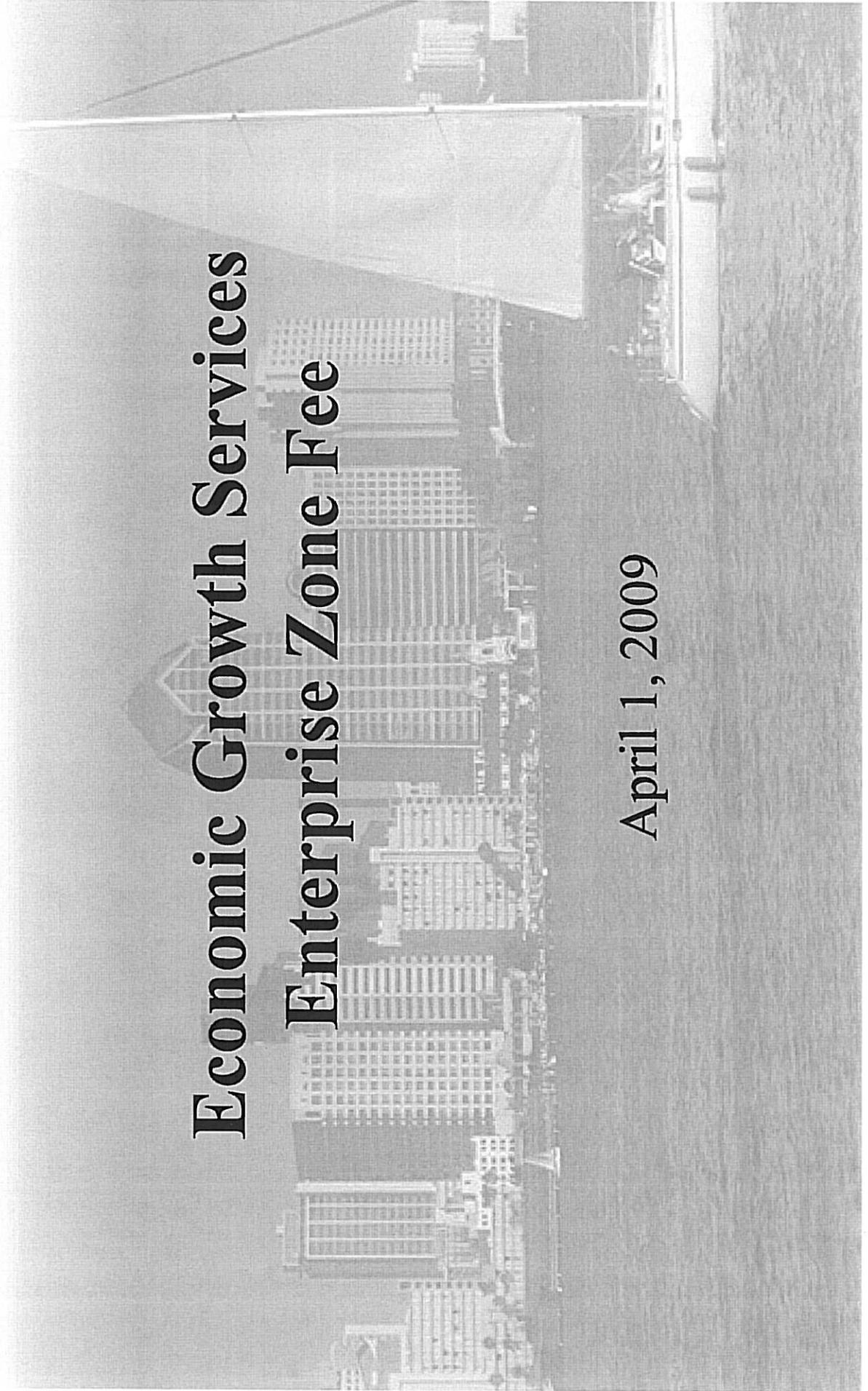


City of San Diego



Economic Growth Services Enterprise Zone Fee

April 1, 2009





Economic Growth Services –

Enterprise Zone Fee

Introduction to department fees:

- Total department revenues:
\$369,000 (FY 08)
- Revenue generated from user fees: \$175,000 (FY 08)
- Total number of user fees in department: 2
 - Enterprise Zone Fee
 - Foreign Trade Zone Annual Fee (contract based fee)
- Fee has not been revised since implementation in 2005
- Number of user fees proposed to increase: 1
- Potential increase in revenue if proposed user fees are approved: \$275,000



**Economic Growth Services –
Enterprise Zone Fee (cont.)**

- An additional \$194,000/annually is anticipated to be received from the San Diego Regional Enterprise Zone partners to offset the costs associated with the administration of the EZ Program.



Economic Growth Services –

Enterprise Zone Fee

- In FY 05, State mandated implementation of the \$10 per EZ hiring credit application
- An additional local EZ program fee is allowed at the discretion of the local jurisdiction
- Other CA EZ jurisdictions are evaluating EZ fees which currently range from \$12 to \$102



Economic Growth Services –
Enterprise Zone Fee (cont.)

- FY10 PE and NPE expenses & revenue:
 - \$661,361 (expenses)
 - \$175,000 (revenue based on current EZ fee)
 - \$194,000 (SDREZ MOU revenue)
 - \$292,361 (44% gap)



Economic Growth Services –
Enterprise Zone Fee (cont.)

- **Current EZ fee: \$50/application**
\$10 State mandated fee/application
\$50 Local EZ program fee/application
- **Proposed EZ fee: \$100/application**
\$10 State mandated fee/application
\$90 Local EZ program fee/application



Economic Growth Services –
Enterprise Zone Fee (cont.)

- Projected EZ applications for FY10: 4,500
- FY10 PE and NPE expenses & revenue:
 - \$661,361 (expenses)
 - \$450,000 (revenue based on \$100 EZ fee)
 - \$194,000 (SDREZ MOU revenue)
 - \$ 17,361 (3% gap)



Economic Growth Services – Enterprise Zone Fee (cont.)

- Program costs include direct and indirect costs (load and overhead)
- Implement new fee on July 1, 2009
- Projected increase in revenue is \$275,000
- No anticipated issues or impacts to EZ benefits due to the fee increase
- Notice will be mailed to EZ stakeholders prior to City Council meeting



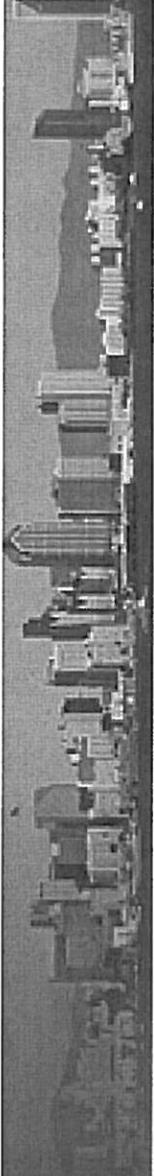
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Stakeholder Meetings

- Staff presented information at Mayor's stakeholder meeting on March 17, 2009



City of San Diego



Economic Growth Services – Enterprise Zone Fee

Questions?

