

DATE ISSUED: July 31, 2002

REPORT NO. 02-179

ATTENTION: Honorable Mayor and City Council
Docket of August 5, 2002

SUBJECT: ENTERPRISE ZONE EXPANSION

REFERENCE: None.

SUMMARY

Issues -

- 1) Should the City Council authorize the Manager or his designee to file documents with the California Technology, Trade & Commerce Agency to expand a) the South Bay Enterprise Zone and b) the Metropolitan Enterprise Zone in accordance with regulations promulgated by the Technology, Trade & Commerce Agency pursuant to state law (AB 251 of 1989) to include commercial and industrial properties within the City of San Diego and the City of National City;
- 2) Should the City Council authorize the Manager or his designee to file documents with the Technology, Trade & Commerce Agency to expand the City's Targeted Employment Area (TEA) to include the City of National City's low and moderate income census tracts; and
- 3) Should the City Council direct the Manager to execute a Memorandum of Understanding (MOU) with the City of National City (Attachment 1), subsequent to its execution by the City of National City, for the expansion and administration of the South Bay Enterprise Zone and the City's TEA?

Manager's Recommendation -

- 1) Authorize the Manager or his designee to file documents with the California Technology, Trade & Commerce Agency to expand a) the South Bay Enterprise Zone and b) the Metropolitan Enterprise Zone in accordance with regulations promulgated by the Technology, Trade & Commerce Agency pursuant to state law (AB 251 of 1989) to include commercial and industrial properties within the City of San Diego and the City of National City;
- 2) Direct the Manager or his designee to file documents with the Technology, Trade & Commerce Agency to expand the City's Targeted Employment Area (TEA) to include the City of National City's low and moderate income census tracts; and
- 3) Direct the Manager to execute a Memorandum of Understanding (MOU) with the City of National City (Attachment 1), subsequent to its execution by the City of National City, for the expansion and administration of the South Bay Enterprise Zone and the City's TEA.

Other Recommendations - None.

Fiscal Impact - If the South Bay Enterprise Zone is expanded as proposed, the City Manager will execute a MOU with National City to, in addition to other commitments, provide the City with approximately \$87,000 annually (for the term of the state Enterprise Zone designation which could expire in 2007) for a City staff person

(Community Development Specialist II) to assist with additional administrative/reporting requirements and provide services to businesses within the expanded Enterprise Zone Program.

BACKGROUND

Enterprise Zones

An Enterprise Zone is a defined geographic area. Companies doing business within an Enterprise Zone can claim significant state income tax credits for qualifying employees and expenditures. Enterprise Zones were created in California to stimulate business investments in areas where investment has lagged and to make jobs available in areas of high unemployment. The state of California has designated 39 Enterprise Zones, two are in the City of San Diego: the Metropolitan Zone, designated in October 1986; and the South Bay Enterprise Zone, designated in January 1992 (Attachment 2). Each Enterprise Zone designation is for 15 years; however, in 2001, the term of the Metropolitan Zone was extended five (5) years until 2006.

Businesses in Enterprise Zones can claim substantial state tax credits. Tax credits are subtracted directly from a business' tax liability, thus are far more valuable than tax deductions. Additionally, if a business' earned tax credits exceed taxes owed in any given year, unused credits can be carried forward to future tax years.

Tax credits can be claimed on:

Wages paid to each new qualified employee in excess of \$31,500 over a five-year period.

Up to \$1.35 million in sales tax credits per year for qualifying manufacturing equipment.

Additional benefits for Enterprise Zone businesses and their employees include:

No-cost Job Referral Service available to Zone businesses.

100 percent net operating loss carry forward.

Tax savings on loans to Enterprise Zone businesses.

Tax savings for Enterprise Zone employees.

Expedited plan/permit processing and possible development fee reductions/waivers.

Since the inception of the City's Enterprise Zone Program in 1986, over \$210 million in private sector capital investments have been made within the two Enterprise Zones. These capital investments in private property were made to redevelop existing commercial and industrial facilities and to develop new facilities. Nearly 8,000 low-income and unemployed people have been placed in jobs within the City's Enterprise Zones; more than half of these jobs went to residents of the two Enterprise Zones.

Targeted Employment Area

In 1998, the City of San Diego received designation approval from the Technology, Trade & Commerce Agency establishing a Targeted Employment Area (TEA) incorporating all of the low and moderate 1990 census tracts within the City's jurisdiction. TEA's are state designated areas that create incentives for Enterprise Zone businesses to hire TEA residents in order to receive state tax credits on the wages paid to these employees. An expansion of the TEA to include low and moderate census tracts within National City's jurisdiction would benefit businesses and residents within San Diego and National City (Attachment 3).

DISCUSSION

South Bay Enterprise Zone Expansion

In April of 2002, City of San Diego staff received a request from National City and the San Diego Unified Port District to consider the possibility of expanding the boundaries of the South Bay Enterprise Zone to include the property in National City's redevelopment area and property owned by the Port of San Diego located in the City of National City.

Properties in the proposed National City expansion, as shown in Attachment 4, include the following:

Knight and Carver Yachtcenter, Inc., 8.40 acres;
R.E. Staite Engineering, Inc., 3.79 acres;
PASHA Properties, 35.57 acres;
Reliance Metal Center, Inc., 3.72 acres;
Motivational Systems, Inc., 1.77 acres;
Vacant Land, 12.23 acres; and
Approximately 19 acres of right-of-way for contiguity with existing Zone boundaries.

TOTAL EXPANSION AREA *84.48 acres*

Benefits to the City of National City:

National City is not able to apply for its own Enterprise Zone designation as state legislation only allows for 39 Zones, all of which have already been designated throughout California. By utilizing the City's remaining expansion capacity in the South Bay Enterprise Zone, National City will be able to offer significant tax incentives to companies located within the expanded Enterprise Zone boundaries. The Enterprise Zone designation becomes an effective marketing tool for attracting new business investment into National City's two redevelopment areas which include the marina and Port of San Diego owned property. Enterprise Zone incentives also encourage existing businesses to stay or expand within the area. Knight and Carver, for example, will gain substantial state income tax credits for paid sales taxes on new equipment and qualifying employee wages for their facility in National City. The proposed Enterprise Zone expansion will generate new tax revenue and create jobs for National City and the South Bay region.

Benefits to the City of San Diego:

The Enterprise Zone Program provides the City with effective economic and employment development incentives to offer existing businesses within (or businesses considering locating, expanding or doing business within) the City's two enterprise zones. The City has utilized the Enterprise Zone to attract Fortune 500 companies such as Parker Hannifan, Matsushita/Panasonic, and Howard Leight Industries to the South Bay region. International companies such as Graphite Design International (Japanese), San Diego Coil Center (Japanese), and Hitachi Transport, have located or expanded their operations in Otay Mesa because of Enterprise Zone incentives. The Enterprise Zone Program has already created thousands of new jobs for residents of the South Bay and the larger San Diego region.

Recognizing that the City's Enterprise Zone Program has resource limitations and that additional administrative/reporting requirements will be created by the proposed Enterprise Zone expansion, the City of National City (in conjunction with the Port of San Diego) has offered to provide funding for an additional City staff person to provide services to businesses in the Enterprise Zone Program. These additional resources would enable the City to provide better services to businesses in both jurisdictions. City Economic Development Division staff have met with representatives from National City's Community Development Commission to discuss a draft Memorandum of Understanding (MOU) which details the proposed resource offer and establishes a framework for an effective working relationship between the agencies.

Metropolitan Enterprise Zone Expansion

The City of San Diego, the Centre City Development Corporation, the San Diego Regional Economic Development Corporation, the Downtown San Diego Partnership and private sector developers are currently collaborating to develop an innovative marketing program designed to 1) create a downtown branding strategy and 2) attract commercial businesses (and perhaps new industries) into the downtown region. A key component of this program will be public agency incentives for business attraction and development. Given that downtown San Diego has more than 2 million square feet of commercial office space planned for development or redevelopment over the next 3 to 5 years, the aforementioned public and private entities believe that a strategic expansion of the Metropolitan Enterprise Zone, aimed at downtown business attraction / retention "opportunity" sites, will create targeted employment opportunities and significantly bolster the downtown marketing program.

Properties in the proposed Metropolitan Enterprise Zone expansion, as shown in Attachment 5, include:

- Catellus (Site 1) - 1.7 Acres
- Catellus (Site 2) - 1.38 Acres
- Lankford (Site 3) - 1.71 Acres
- 401 'A' St. (Site 4) - 1.38 Acres
- 'W' Hotel (Site 5) - 1.38 Acres
- 5th Avenue Landing (Site 6) - 8.78 Acres

TOTAL EXPANSION AREA - 16.33 acres

The total expansion area does not include a nominal amount of acreage required to connect these sites to the existing Enterprise Zone boundaries and other expansion sites that were previously approved. The required amount of connecting acreage will be determined prior to submitting the proposed expansion request to the state.

Benefits to the Metropolitan Area:

The Metro Enterprise Zone has been a significant economic development tool used in conjunction with the benefits of redevelopment to attract new development and companies to downtown and to create a new image for the area by revitalizing the community. With less than five (5) years remaining for this state designation, the City is looking to maximize its expansion capacity within the next 12 months to include properties with new investment/development potential thereby creating new and targeted job opportunities for San Diegans. Sites included in the proposed expansion will generate 1) new and recurring tax revenue for the City's General

Fund and 2) new tax increment for the Redevelopment Agency to facilitate new development projects including public infrastructure projects, affordable housing projects, and private/public development projects generating new jobs and revenue for the city.

Expanding the Metropolitan Enterprise Zone to targeted employment and development sites can stimulate significant economic impacts. For example, staff of the Community and Economic Development Department (CED) was recently informed that a successful downtown business was contemplating moving to different out-of-state locations citing lower operating costs and other considerations. After several meetings between CED staff and company representatives, the company has elected to remain downtown and further expand its downtown presence by leasing an additional 12,000 sq. ft. for a total of 82,000 sq. ft. Their decision will retain and

create approximately 500 jobs for the downtown area. This company's decision to remain downtown was strongly influenced by the possibility of inclusion into the Metropolitan Enterprise Zone.

In light of recent concerns associated with the lack of affordable housing in San Diego, the Housing Trust Fund fee waiver will not be offered as a local incentive to new development projects within the proposed Enterprise Zone expansion areas.

CONCLUSION

The proposed Enterprise Zone expansions (Attachment 4 & 5) would confer a significant economic/employment incentive program to the City of National City, to new areas in downtown San Diego and to existing and prospective businesses. When considered in conjunction with the recent Federal Renewal Community designation in the downtown area, the proposed expansion of the Metropolitan Enterprise Zone creates a significant package of tax credits and exemptions (Federal and State) for downtown businesses. The proposed expansion of the Metropolitan Enterprise Zone further supports an innovative collaboration between public and private sector interests to develop an effective marketing program for downtown San Diego.

If the proposed South Bay expansion is approved, there may be instances where National City and San Diego pursue common business development interests. The attached MOU establishes a cooperative framework for managing these situations and formalizes a financial commitment by the City of National City to support the City's expanded Enterprise Zone Program. Given the offer of needed financial support and the geographic/cultural connectivity of the area, City staff views this proposal as a unique opportunity for continued regional collaboration of an economic development partnership for the South Bay region.

ALTERNATIVE

Do not authorize the Manager to file documentation with the California Technology, Trade & Commerce Agency to expand the South Bay Enterprise Zone, the Metropolitan Enterprise Zone and the City's Targeted Employment Area.

Respectfully submitted,

Hank Cunningham
Director
Community and Development Dept.

Approved: Bruce Herring
Deputy City Manager

CUNNINGHAM/JSK/LAM

Note: Only Attachment 1 is available in electronic format. All attachments are available for review in the Office of the City Clerk.

- Attachments: [1. MOU Between City of San Diego and City of National City](#)
2. Map of Existing Enterprise Zone and TEA Boundaries
3. Map of TEA Expansion Area
4. Map of South Bay Enterprise Zone Expansion Area
5. Map of Metro Enterprise Zone Expansion Area