

DATE ISSUED: March 9, 2005

REPORT NO. 05-045

ATTENTION: Honorable Mayor and City Council
Docket of March 14, 2005

SUBJECT: ENTERPRISE ZONE HIRING CREDIT APPLICATION FEE

REFERENCE:

SUMMARY:

Issue(s) –

Should the City Council authorize the Manager to collect a fee for all Enterprise Zone Hiring Credit applications.

Manager's Recommendation(s) –

Authorize the Manager to collect a \$50 fee for each Enterprise Zone Hiring Credit application approved of which \$10 per application will be remitted to the State Department of Housing and Community Development in accordance with recently adopted State law.

Other Recommendation(s) – None.

Fiscal Impact –

If the recommended Hiring Credit application fee is approved as proposed, it is estimated that the fee will recover related administrative staff costs for the City's Enterprise Zone program (approximately \$100,000 annually over the term of the state Enterprise Zone/LAMBRA designation which will not expire before 2014). The proposed Hiring Credit application fee will fund the Community Development Specialist II (CDS II) position currently providing technical assistance for State Hiring Credits to Enterprise Zone businesses. This CDS II will enable the City to comply with administrative/reporting requirements imposed by the new State mandated fee.

BACKGROUND

Enterprise Zones

The Enterprise Zone Program (EZ) was developed by the California Legislature to provide targeted low and moderate income areas with a means to stimulate business growth and attract new companies, jobs and private investment. Businesses located within an EZ are eligible for State tax incentives that can substantially reduce their cost of doing business. The State of California has awarded the City three EZ designations.

The Metro EZ was designated in 1986 for 15 years and received a 5-year extension in 2001. The South Bay EZ received a 15-year designation in 1992. On December 7, 2004, Senator Denise Ducheny introduced a new bill (SB 6) that proposes to extend the life of the South Bay EZ for another five years. If SB 6 is approved by the State Legislature, the South Bay EZ will remain designated through 2012. The LAMBRA (Liberty Station) zone was given an 8-year designation in 2001 and will be activated once the City's Redevelopment Agency records all properties and the first EZ Hiring Voucher is issued. It is anticipated that this should occur in FY 2006 and that the LAMBRA designation will remain effective through 2014.

Of the five State tax incentives associated with the EZ, the Hiring Credit is the most popular. 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 (up to \$31,500 per qualified employee). Before a business can utilize this incentive, they must obtain, from the City, an EZ Hiring Credit voucher for each eligible employee.

A CDS II within the Community and Economic Development Department (CED) reviews EZ Hiring Credit applications and issues EZ vouchers. This is a specialized task that involves meeting with employers, interviewing employees, reviewing employee eligibility questionnaires, and collecting documents to prove eligibility. The State provides no funding to local jurisdictions to administer the program. Since the program's inception, the City has issued over 15,000 vouchers. In 2001, the City's EZ program was 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.

DISCUSSION

New Mandated EZ Program Fee

On August 16, 2004, the Governor signed Senate Bill 1097 into law amending California Government Code section 7076C mandating the State to collect a maximum \$10 fee from each designated EZ for each EZ Hiring Credit application approved for the issuance of an EZ Hiring Tax Credit. The \$10 fee will be used to fund statewide EZ program administration costs incurred by the State Department of Housing and Community Development (HCD). In order to comply with the State mandate, the City must collect the \$10 fee for each EZ Hiring Credit application received and approved after October

31, 2004. The City would then forward \$10 for each application approved to HCD on a monthly basis.

Local EZ jurisdictions may also require an additional application fee to help offset the costs associated with effectively administering Enterprise Zone programs. City Council Policy 100-05 and HCD staff currently support a cost recovery practice for special services. CED is recommending a \$40 fee in addition to the State mandated \$10 fee to recover some of the City's EZ administrative costs related to Hiring Credits including those associated with collecting and processing the new \$10 fee.

In recent years CED staff has been challenged to find sufficient resources to meet employer demand for hiring vouchers. CED staff estimates that a new City EZ fee of \$40 (in addition to the State's \$10 fee) will allow the City to recover approximately \$100,000 of related EZ administrative costs annually. The proposed Hiring Credit application fee will fund the Community Development Specialist II (CDS II) position currently providing Hiring Credit technical assistance to benefiting Enterprise Zone businesses. This CDS II will enable the City to comply with administrative/reporting requirements imposed by the new State mandated fee.

CONCLUSION

The State has adopted legislation requiring local EZ jurisdictions to remit a \$10 fee to the State for each EZ Hiring Credit application approved. This fee will enable the State Department of Housing and Community Development to effectively staff and administer the statewide EZ Program.

HCD staff has encouraged local EZ jurisdictions to recover program costs associated with collecting the new mandated \$10 State fee and providing for effective EZ program management. Accordingly, other California EZ jurisdictions have implemented fees to recover costs related to the new State fee and effective program management ranging from \$22 to \$50. City staff recommends a combined fee of \$50 per approved EZ Hiring Credit application (\$40 to recover City EZ program costs and \$10 for the State) to be charged to the benefiting applicant EZ business.

The proposed Hiring Credit application fee recovers related City EZ administrative costs and is comparable to new fees charged by other EZ designated cities. If the proposed fee is approved, CED staff will send notice to all affected or interested parties within the City's Enterprise Zones in accordance with Council Policy 100-05. The proposed fee will be implemented no earlier than 30 days after notifications are mailed.

ALTERNATIVE

Do not authorize the Manager to implement a fee to recover costs for the administration of the EZ Hiring Credit application. This is not recommended as the City would incur new staff costs to administer the collection and payment of fees to the State. Additionally, in order to continue an effective EZ program that creates targeted workforce opportunities and offers business investment incentives, the City would need

to budget approximately \$25,000 annually to fulfill the State mandate of remitting \$10 per approved EZ Hiring Credit to the State Department of Housing and Community Development.

Respectfully Submitted,

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Director
Community and Economic Dev. Dept.

Approved: Patricia T. Frazier
Deputy City Manager

CUNNINGHAM/JSK/LAM