



DATE ISSUED: August 2, 2006

REPORT NO: 06-112

ATTENTION: Council President and City Council
Docket of August 8, 2006

REPORT TO THE CITY COUNCIL

SUBJECT: State Regional Enterprise Zone Application

REFERENCE:

REQUESTED ACTION:

1. Adopt a resolution supporting and authorizing the application and proposed first-year budget for a regional enterprise zone.
2. Authorize staff to prepare all required documents and submit an application for a regional enterprise zone to the California Department of Housing and Community Development.
3. Authorize staff to execute a Memorandum of Understanding with the cities of Chula Vista and National City for the administration of a regional enterprise zone, delineating and allocating financial, staffing, reporting, and all other responsibilities.

STAFF RECOMMENDATION: Approve actions as requested

SUMMARY:

BACKGROUND

In 1986 and 1992 the City of San Diego received approval for two enterprise zone designations, the Metro Enterprise Zone (1986) and the South Bay Enterprise Zone (1992). In 2000 and again in 2004, the South Bay Enterprise Zone was expanded to include properties along the Bayfront redevelopment areas of the cities of Chula Vista and National City. In turn, the cities of Chula Vista and National City, in collaboration with the Port of San Diego, provided funding to the City of San Diego to support the cost of managing the program and to enhance a marketing campaign for the zone. Because San Diego's economy is regional in nature, collaborating with other local cities and the state to expand business incentives increases San Diego's ability to compete with other regions, create new jobs, and increase investment in our county. The California State Enterprise Zone Program [Enterprise Zone Program] offers tremendous business incentives and helps the region assist and attract employers. These two existing enterprise zones are due to expire shortly. The Metro Enterprise Zone will expire on October 14, 2006, and the South Bay Enterprise Zone will expire on January 27, 2007.

DISCUSSION

The Economic Development Division staff in collaboration with the cities of Chula Vista and National City is engaged in the task of completing an application for designation for a multi-jurisdictional or regional enterprise zone (EZ) due to be filed with the California Department of

Housing and Community Development (HCD) no later than September 6, 2006. HCD has a Request for Proposals (RFP) for new applications by local governments to be designated as Enterprise Zones (EZs). HCD has done so because twenty-three EZs expire in 2006-2007.

An “enterprise zone” is a geographical area in which companies are eligible for exclusive state incentives and programs including: tax credits for hiring qualified employees; interest deductions for lenders on loans to firms within the areas; fifteen-year net operating loss carry-forward; accelerated expense deduction; and priority for various state programs, such as state contracts. The express legislative purposes of the Enterprise Zone Program are as follows: to stimulate business and industrial growth in economically distressed areas of the state; help attract business into the state; help retain business and expand business and industry; and create increased job opportunities for all Californians.

The Enterprise Zone Program is a long-term (15 year) partnership between local governments and private companies to generate new private sector investment and growth with the state providing performance-based tax credits and incentives to enterprise zone businesses to: (1) promote “smart growth” by revitalizing chronically deteriorated areas; (2) hire the most difficult-to-hire residents in private sector jobs; and (3) retain, expand, and reward businesses that participate in these objectives. State law currently authorizes forty-two enterprise zones in California. In addition, the law allows existing zones to expand up to 15% in geographic size.

The local agency’s primary responsibility is the administration of the enterprise zone which includes the following: funding and staffing as no state funds are provided to the community to operate this program; maintaining a substantial and sustained level of targeted economic revitalization and development resources for the life of the zone to ensure the success and accountability of the Enterprise Zone Program; and submitting annual reports to the HCD providing, among other items, a self-evaluation of its progress in addressing its stated goals. The types of incentives local jurisdictions provide may include, but are not limited to, the following: assistance in targeted employee training, recruitment, hiring, and vouchering; expedited permit processing, fee waivers and reductions; redevelopment agency-related incentives and financing; business-improvement districts; capital-improvement programs; and business financing.

In sum, enterprise zones are competitively designated based upon distress criteria (primarily poverty and unemployment levels) and the local government’s capacity to carry out an economic development program. They must provide additional local incentives, and are designated for 15 years.

San Diego’s current enterprise zone program has made a significant impact on the local economy. Since its inception in 1986, the program has assisted in retaining and creating over 19,000 area jobs, increasing private investment by nearly \$1 billion, and providing permit expediting, financial and technical assistance to thousands of local companies. San Diego companies have earned between \$250 and \$400 million in state enterprise zone tax credits.

SPECIFIC BENEFITS OF THE ENTERPRISE ZONE PROGRAM

The specific benefits of being in an enterprise zone are that businesses located within the zone may receive individual or corporate state tax incentives/credits to reduce a company's state tax

liability dollar per dollar. Any unused tax credits may be carried forward to reduce future tax year liabilities. Businesses can also receive local incentives, including local regulatory relief. Enterprise zone state tax benefits include the following:

- Credit for hiring certain disadvantaged individuals; qualified hires must fall within one of 14 categories, including economically disadvantaged, dislocated workers, veterans, or individuals receiving public assistance. Credits are:
50% for the first year of wages
40% of second year wages
30% of third year wages
20% of fourth year wages
10% of fifth year wages.
The maximum credit is about \$32,000 per qualified hire over a 5-year period.
- Net operating losses - 100% of losses can be carried over for 15 years.
- Credit for sales/use tax paid on the first \$1 million in purchases (for individuals) or first \$20 million (for corporations).
- Business expense deduction - 40% of property costs (personal property, equipment, furnishings) can qualify as a business expense, rather than as a capital expense subject to depreciation.
- Net interest deduction for lenders, based upon the net interest received from loans made to enterprise zone businesses.

CONCLUSION:

The enterprise zone program has provided San Diego's Economic Development Division with an effective economic and employment development incentive to offer qualifying businesses that are currently in, or are considering locating into, San Diego's two existing enterprise zones.

Recognizing the additional administrative and reporting requirements and enterprise zone program resource limitations created by the proposed EZ, the cities of Chula Vista and National City will provide the following: (1) funding to support San Diego city staff services to businesses within the EZ, and (2) marketing/promotional funds to augment expenditures currently made by the City of San Diego to promote the EZ. The compilation of these resources will enable the City of San Diego to provide services to businesses within the EZ. The City of San Diego EZ staff are meeting with representatives from Chula Vista's Community and Economic Development Department and National City's Community Development Commission to formalize a Memorandum of Understanding (MOU) delineating and allocating financial, staffing, reporting, and all other responsibilities.

The proposed EZ application would confer a significant economic and employment incentive program to the cities of San Diego, Chula Vista, and National City. If approved, there will inevitably be instances when each agency pursues common business development interests and it will be important to establish a cooperative framework for managing these situations within the MOU. Given the offer of financial support and the geographic and cultural connectivity of the area, the City of San Diego staff views this application as a unique opportunity to continue and expand the regional collaboration of an economic development partnership.

FISCAL CONSIDERATIONS: There will be ongoing staff time required to complete the EZ Application and then to administer the EZ after designation. As part of the Application, a proposed First-Year Budget must be approved by the City of San Diego as the Regional Enterprise Zone Administrator. This is a projected operating budget for the first year of marketing and administration of the proposed EZ. Our local jurisdiction is required to adopt the attached line item budget for Year One of the proposed EZ, which also reflects the partners' (Chula Vista and National City) sources and uses of funds. This budget is intended to represent a multi-year financial commitment by San Diego, Chula Vista and National City for the 15-year life of the EZ. This budget is also intended to ensure that the EZ Manager is properly budgeted and staffed at a level that will ensure compliance with the voucher program requirements as promulgated by the HCD and to meet the demands of a large regional EZ. Additionally, a RFP was issued to hire a consultant to assist with the submittal of the EZ application. Tassa Consulting Group, LLC from Sacramento was selected. San Diego's obligation of the contract is not to exceed \$25,500.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: None

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On July 12, 2006, the Otay Mesa/Nestor Community Planning Group unanimously voted to support the City's application for a new Enterprise Zone designation.

On July 18, 2006, the San Ysidro Community Planning Group voted unanimously to support the City's application for a new Enterprise Zone designation.

On July 19, 2006, the Otay Mesa Community Planning Group unanimously voted to support the City's application for a new Enterprise Zone designation.

On August 17, 2006, staff is scheduled to do a presentation at the Diamond BID Board meeting. In August, staff will do a presentation to the Barrio Logan PAC.

On September 11, 2006 staff will do a presentation to the Southeast Planning Committee.

Economic Development Division staff will continue its public outreach efforts during the month of August and September 2006 to the various community groups within the application area.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: There are no key stakeholders. Projected impacts for the EZ are new private investment and the creation and retention of jobs to the EZ communities.

Scott Kessler
Originating Department

James T. Waring
Deputy Chief/Chief Operating Officer

ATTACHMENTS

[Attachment A: Map of proposed EZ boundaries](#)

[Attachment B: Proposed first-year administration budget for EZ.](#)

Attachment C: Existing Memorandum of Understanding between the City of San Diego and the City of Chula Vista

Attachment D: Existing Memorandum of Understanding between the City of San Diego and the City of National City