



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: May 12, 2010

REPORT NO: 10-063

ATTENTION: Council President and City Council

SUBJECT: State Regional Enterprise Zone

REQUESTED ACTION:

Adopt and authorize the following actions in order to seek final designation and expand the boundaries of the San Diego Regional Enterprise Zone (SDREZ) and to submit the required documents to the State Housing and Community Development Department (HCD):

1. Authorize the Mayor or his designee to execute a Memorandum of Understanding (MOU) between the cities of San Diego, Chula Vista, National City and the San Diego Unified Port District ("SDREZ Partners") effective July 1, 2007;
2. Authorize the Mayor or his designees to execute a Memorandum of Understanding (MOU) between the State HCD and SDREZ Partners; and
3. Authorize the Mayor or his designee to submit documentation to HCD to expand the boundaries of SDREZ.
4. Authorize to accept funds into Special Revenue Fund 200445.
5. Authorize the CFO to appropriate and expend funds from Special Revenue Fund 200445, based upon Comptroller's certification of fund availability, for purposes of Enterprise Zone Program administration.

STAFF RECOMMENDATION: Approve actions as requested.

SUMMARY:

BACKGROUND

In 1986 and 1992 the City of San Diego received approval for two enterprise zone (EZ) 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 San Diego Bay front 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 San Diego Unified Port District, provided funding to the City of San Diego to support the cost of managing

the program and marketing the zone. The Metro Enterprise Zone expired on October 14, 2006, and the South Bay Enterprise Zone was set to expire on January 27, 2007.

On August 15, 2006, the San Diego City Council approved a resolution (R-301845) authorizing submission of an application to the State of California Housing and Community Development Department (HCD) for a regional EZ designation for the cities of San Diego, Chula Vista and National City (“SDREZ Partners”), directing the Mayor to execute the necessary documents and agreements related to the application process, and forwarding same to HCD to complete the State’s EZ application process. The process for EZ designation is competitive and is based on economic need (distressed communities, need for private investment, high unemployment, and low income census tracts). The application also had to include realistic yet ambitious marketing and job development strategies to implement the EZ program along with other local economic development strategies and tools.

The legislative purpose of the EZ program is to “stimulate business and industrial growth in the depressed areas of the State”. The other purposes are to establish a program “to help attract business and industry to the state, to help retain and expand existing state business and industry, and to create increased job opportunities for all Californians. Local jurisdictions must provide additional local incentives throughout the 15-year designation.

DISCUSSION

In November 2006, the City of San Diego, as the lead agency for the SDREZ, was notified that it was awarded a conditional EZ designation. Final designation is contingent upon completion of the conditions imposed for the designation by HCD. The SDREZ Partners have completed all required conditions and engaged in the task of seeking final designation of the SDREZ. These tasks include executing the necessary Memoranda of Understanding (MOU) between the SDREZ Partners outlining administrative roles and responsibilities (EXHIBIT “1” SDREZ Operating MOU) as well as the budget for the SDREZ, and between the SDREZ Partners and the HCD (EXHIBIT “2” HCD MOU). Once the documents are accepted by HCD, final designation will be awarded.

Benefits of the SDREZ Program

Businesses located within the SDREZ 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’s liabilities. EXHIBIT “3” (SDREZ Fact Sheet) provides a brief description of the state tax benefits available to SDREZ businesses.

The EZ program has made a significant impact on the local economy. The SDREZ program is a fifteen (15) year designation and offers tremendous business incentives and helps the region retain employers and attract new ones. Since the conditional designation was awarded in October 2006, the following SDREZ outcomes and activities have occurred: Conducted and/or assisted in at least a dozen EZ business workshops, including six (6) “Your Business Matters Workshops”; organized an EZ technical workshop targeting accountants, bookkeepers, real estate brokers and bankers; placed SDREZ street banners in various communities; and placed SDREZ OneZone ads in various community newspapers and newsletters.

SDREZ Partnership MOU

As grantee of the "SDREZ" designation, the City of San Diego will assume lead-agency responsibility for the administration of the "SDREZ" for the fifteen (15) year designation period. Responsibilities will include coordinating day-to-day program management; collection of program data and the submittal of reports to the State HCD; overseeing the employment certification and vouchering process; and administering the job placement/referral services. The SDREZ Partnership's role and responsibilities for implementing the goals and objectives for the "SDREZ" Application are detailed in the Operating MOU (EXHIBIT "1"). In consideration of the City 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 for staff 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.

Upon notification that the SDREZ was successful in receiving a conditional designation, The City of San Diego began implementing administrative changes to accommodate the new EZ designation. These changes include, reallocating existing Economic Development staffing resources to add 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, the City of San Diego has issued over 11,500 EZ hiring credit vouchers of which 9,100 were to San Diego companies. The potential community investment for tax credits earned in San Diego for the first year is more than \$100 million.

Zone Expansion

The State EZ Act allows the expansion of the EZs up to 15% of the original acreage at any time during the fifteen year designation after final EZ designation is awarded. The expansion must meet the EZ Act expansion requirements and comply with the economic strategies stated in the SDREZ application. Expansions are effective the date HCD approves the expansion request.

In accordance to the EZ Act, proposed expansions are to be contiguous to the original EZ boundaries, however, a noncontiguous area may be acceptable if HCD finds that:

- a. The noncontiguous area is needed to implement the EZ's economic development strategy; and
- b. The excluded areas between the proposed new boundaries would not, based on the EZ's economic development strategy, also benefit from the expansion.

The expansion capacity for the SDREZ is 5,157 acres. The proposed SDREZ expansion includes areas identified that comply with the expansion requirements within the cities of San Diego, National City, and Chula Vista. The expansion request shall not exceed 3,500 acres for the areas

identified in SDREZ including required public right-of-way. The expansion for San Diego will not exceed 2,500 acres within the communities of Kearny Mesa, Navajo, Eastern Area, Midway-Pacific Highway, and Linda Vista (EXHIBIT "4" SDREZ San Diego 2010 Expansion #1. The expansion for National City and Chula Vista will not exceed 1,000 acres combined. EXHIBIT "4" identifies the areas for expansion in the City of San Diego. Final expansion to be determined after extensive review by HCD.

San Diego's proposed expansion includes areas/properties that meet the following economic strategic priorities: 1) Are within or adjacent to the city's redevelopment project areas; and/or 2) identified as "Prime Industrial" properties in the City's adopted 2008 General Plan; and/or 3) meet stated economic development strategic goals and objectives for San Diego and the SDREZ.

San Diego has identified Prime Industrial properties which are most vital for San Diego and the region's economic prosperity plus for a variety of factors, are the most industrial of all of the City's industrial lands. These areas include major industrial parks identified as Prime Industrial Lands in the City's General Plan's Economic Prosperity Element. The Prime Industrial properties identified for expansion into the Enterprise Zone are entire industrial business parks that include significant base sector companies, i.e., manufacturers, wholesale distributors, and international trade companies, employing the region's highest paying blue collar workers occupying large floor-plate industrial buildings manufacturing aerospace products, microelectronics, drugs, medical devices, and a broad range of other manufactured goods. These are also the base sector industrial employers that are very mobile and frequently move out of the city and out of the state when more attractive locations are presented. The retention and expansion of these business types is essential to ensure economic prosperity for the region.

The Mayor is identifying additional properties within the city that meet the above mentioned economic priorities and the EZ Act expansion requirements for inclusion in the SDREZ. Once these areas have been identified, staff will return to Council and request approval.

CONCLUSION:

The official designation of the SDREZ by the State HCD will allow a significant economic and employment incentive program to continue in the cities of San Diego, Chula Vista and National City. A cooperative framework for managing this unique opportunity to provide business tax incentives in the region is formalized in the Memorandum of Understanding (MOU) between the SDREZ Partners (EXHIBIT "1") as well as the SDREZ Partners' commitment to the fifteen (15) year SDREZ designation (EXHIBIT "2"). The SDREZ is a special opportunity for the Mayor to continue to implement economic development and job creation program incentives in areas within the region with significantly high levels of unemployment and/or help residents of low and moderate income census tract communities to obtain employment.

Because San Diego's economy is regional in nature, continuing the collaborative relations with other local cities and the state to offer business incentives increases the San Diego region's ability to compete with other regions, create new jobs and increase investment in our county. The SDREZ program offers tremendous business incentives and helps the region assist employers and attract new ones as well as address employment needs of the region.

FISCAL CONSIDERATIONS:

There will be ongoing staff time required to administer the SDREZ during the designation period as detailed in the SDREZ Partnership MOU. A first year budget was approved (Resolution #301845) and the approval of this MOU will ensure the SDREZ Partnership contributes funding to appropriately maintain the SDREZ Program. The SDREZ Operating MOU (EXHIBIT "1") identifies the financial contribution levels of the SDREZ Partners through 2012. The term of the SDREZ is 15 years, expiring in 2021. Funding for years 2013 through 2021 will be determined by the parties and set forth in an amendment to the MOU at that time. Additional funding for the administration of the program is generated by an EZ Voucher fee of \$100 assessed for each EZ Hiring Credit application reviewed. This fee includes the State's HCD fee of \$10 per application. The EZ program is anticipated to be fully cost reimbursable via revenue generated by the aforementioned sources.

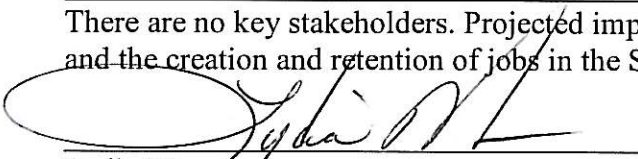
PREVIOUS COUNCIL and/or COMMITTEE ACTION:

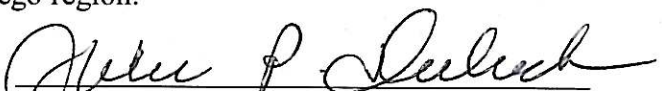
Rules Committee heard this item on March 24, 2010. Committee forwarded the item to full City Council with no recommendation and requested a map identifying the expansion areas. EXHIBIT "4" addresses this request.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: See Staff Report # 06-112.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

There are no key stakeholders. Projected impacts for the SDREZ are new private investments and the creation and retention of jobs in the San Diego region.


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