

Enterprise Zone Reform 2013 – FAQ

What do the Enterprise Zone reforms do?

- The reforms eliminate the retroactive vouchering loophole, which allows employers to receive tax credits years after a decision to hire.
- Going forward, all voucher applications must be made within one year of an employee's date of hire.
- The reforms streamline the vouchering process for hiring veterans and recipients of public assistance.
- These new rules are common-sense. They will achieve as much reform as can be accomplished under the current Enterprise Zone statute.

Why does the Enterprise Zone program need reform?

- The [PPIC released a study in 2009](#) showing that the current Enterprise Zone program fails to increase the level of employment within Zones.
- 30% of all Enterprise Zone voucher applications are retroactive, where employers claim tax credits by amending prior year returns.
- Retroactive vouchering is a significant cost to the General Fund, and rewards employers for past hiring decisions not incentivized by Enterprise Zones.

How much will the reforms save the State General Fund?

- The new rules are expected to increase General Fund revenue by \$10 million in 2012-13 and \$50 million in 2013-14.
- The reforms are expected to save \$310 million over the first five years of implementation.
- After the first five years, projections estimate annual \$55 million in savings.

How do the reforms deal with retroactive vouchering?

- The reforms will limit voucher applications to within one year of an employee's date of hire.
- A one-year limit will create a reasonable link between the decision to hire, and the availability of a tax credit.
- Employers who hired prior to these reforms will have a one-year grace period to voucher any current eligible employees.

Enterprise Zone Reform 2013 – FAQ

How are the reforms affecting Targeted Employment Area (TEA) Vouchers?

- 79% of all voucher applications are made on the basis of whether an employee lives in a Targeted Employee Area.
- The current regulations provide no means for local Zone administrators to verify employee residency.
- The new rules will require third party verification of residency, such as an employee's driver's license or a utility bill.

What other changes are in the Enterprise Zone reforms?

- The reforms streamline and modernize the program's regulations, many of which have remained unchanged for decades.
- The reforms allow HCD to collect significant data from Zones as well as update audit procedures.

What is the State Enterprise Zone program?

- The Enterprise Zones are a series of geographic areas in California where companies receive special tax breaks.
- The biggest piece of the Enterprise Zone program is a hiring credit. Companies may receive up to a five-year \$37,440 tax credit per eligible employee.
- HCD is responsible for issuing regulations for Zone operations. Local governments operate Zones and issue tax vouchers to employers.
- A list and map of all 40 Zones in California is located on HCD's website.

How large is State Enterprise Zone program?

- The cost of the Enterprise Zone program has grown significantly over time. Below are estimates from the Franchise Tax Board on the general fund costs for Enterprise Zone program for past tax years (in millions):

2006	2007	2008	2009	2010
\$410	\$454	\$465	\$516	\$732

- The number of vouchers issued each year under the Enterprise Zone program nearly doubled between 2007 and 2012.

	FY2007/2008	FY2008/2009	FY2009/2010	FY2010/2011	FY2011/2012
Applications Received	69,236	91,757	114,781	134,938	133,326

For More information on Enterprise Zone Reforms: <http://www.hcd.ca.gov/ezregs/>

What to Look for in 2013

- Governor's Proposed Budget was released on January 10, 2013. The Budget includes savings relating to new regulations for the Enterprise Zone program. The proposed regulations:
 - Limit retroactive vouchering by requiring all voucher applications to be made within one year of the date of hire.
 - Require third party verification of employee residence within a Targeted Employment Area.
 - Change the vouchering process for hiring veterans and recipients of public assistance.
 - Create stricter zone audit procedures and audit failure procedures.
 - The regulations are expected to increase General Fund revenue by \$10 million in 2012-13 and \$50 million in 2013-14.
 - The Administration will be pursuing further Enterprise Zone reform through legislation.
- The League is willing to engage in the discussion of reform. However, jamming something through the regulatory process to accomplish would otherwise be done through the legislative process takes away the ability of the Legislature and vested parties to engage in the enterprise zone discussion and instead places the entire decision making within the Housing and Community Development Department (HCD).
- The League believes that many of the "reforms" being put forth by the Department make the Enterprise Zone program more difficult to implement as opposed to actually addressing criticisms of the program.

League's Principles on Enterprise Zones

- The League's longstanding policy is to support enterprise zones as a way to assist cities with economic development.
- With the loss of redevelopment, protecting any remaining local economic development tools has become even more important.
- While the League is ready to discuss reforms to the current enterprise zone program, any changes should improve the enterprise zone program. The negative consequences of an ill-considered decision for California's economy will vastly outweigh a temporary benefit to the budget.

Enterprise Zone Talking Points

- Enterprise zones are the only remaining tool that focuses on economic development and creating jobs. By providing incentives for businesses to open or relocate to these areas, local employees are hired and the local economy is revitalized. California needs more tools to attract jobs to the State.
- Enterprise zones help California attract business. The State may approve up to 42 enterprise zones for a 15-year period through a competitive process. Once a zone is approved, businesses construct facilities, purchase equipment, hire workers and make other investments. California must keep the commitment with businesses that have made location, investment and hiring decisions; to do otherwise, sends a negative message about California's business climate.
- Enterprise zones help create jobs. By providing tax benefits to businesses that create jobs in areas with high unemployment and lower levels of economic activity, enterprise zones help create jobs in economically distressed areas. In 2010, with unprecedented levels of unemployment, California's 42 enterprise zones employed more than 118,000 employees in 10,000 companies.
- Local governments support enterprise zones too. The state is not the only source of benefits for enterprise zones. Local governments themselves do not directly receive benefits from enterprise zones, yet the program means enough to cities that when putting together an application to propose an enterprise zone, the Housing and Community Development Department (HCD) ranks the applications based upon what local resources, incentives and

programs the local jurisdictions are willing to provide. What benefits is your city providing to enterprise zones?

- There are accountability standards. Before an enterprise zone can exist, it must be approved by (HCD) on a competitive basis. In addition, local governments must commit local resources; local jurisdictions must submit an economic development strategy; HCD may audit an enterprise zone program at any time, but no less than every five years, and enterprise zones are subject to dedesignation if the department determines that an enterprise zone fails to exceed 75% percent of the goals, objectives and commitments in the application. Talk about your enterprise zone audits. What goals have you met? What are the accomplishments according to the state's own HCD?
- Stop the regulatory process. We recognize that there are criticisms of the enterprise zone program, and we want to make changes to improve the program. As such, a healthy dialogue should take place between affected parties and the Legislature. The Governor is seeking to do through regulatory reforms, what would otherwise require a two-thirds vote of the Legislature. Comments regarding the Department's proposed rulemaking changes are due on February 28, 2013. Once these regulatory changes are adopted, the opportunity to save the integrity of the enterprise zone program may be gone.

How Local Governments Can Help

- Call or write your Assembly Member and Senator. While cities themselves do not receive any direct benefits from the enterprise zone program, there are many indirect benefits like economic development and increased jobs. Businesses in enterprise zones will tell their story, but cities have the ability to tell the story from a bigger picture, that is also less self-interested. With the most recent statewide election, over half of the Legislature is new. Educate your legislators about the benefits that enterprise zones bring to your community. The League has a sample letter of support for the enterprise zone program.
 - Write a letter to the editor. Talk about the successes of your enterprise zone. Because there are 40 enterprise zones in the state of California, almost every Senator has an enterprise zone in the district. The League can help you personalize a letter to the editor or Op Ed.
 - Visit the California Association of Enterprise Zones' web site at: www.caez.org. Join the coalition to protect enterprise zones, send letters to the Governor, your Assembly Member and Senator, as well as read the latest news articles on the benefits of enterprise zones.
 - Consider having your city council adopt a resolution supporting enterprise zones. The League has drafted a sample resolution as a template for your convenience. It can be located at: [website](#).
 - Talk to businesses in your enterprise zone to ask them how the proposed regulatory changes would affect them. Send written comments to the Department of Housing and Community Development. The League will be sending comments on behalf of cities, but individual cities with specific comments are encouraged to send in additional comments. The written comment period closes at 5:00pm on February 28, 2013. Please e-mail comments to: ezregcomments@hcd.ca.gov. Written comments can also be sent via mail to:
Enterprise Zone Program
Department of Housing and Community Development
P.O. Box 942054
Sacramento, California 94252-2054
- Attend a public hearing by the Department of Housing and Community Development.

Tuesday, February 12, 2013

1:00 PM - 5:00 PM

Ronald Reagan Building

300 South Spring Street, Suite 1726
Los Angeles, CA 90013

Wednesday, February 13, 2013
1:00 PM - 5:00 PM
Liberty Station Conference Center, Barracks 17
2590 Truxton Rd.
San Diego, CA 92106

Wednesday, February 20, 2013
1:00 PM - 5:00 PM
Elihu M. Harris Building
1515 Clay St. Room 1
Oakland, CA 94612

Thursday, February 28, 2013
1:00 PM - 5:00 PM
Department of Housing
1800 Third Street
Rooms 183-185
Sacramento, CA 95811

February 26, 2013

Responses to Proposed Rulemaking for the Enterprise Zone Program

Submitted by:

Jay Salyer, Enterprise Zone Manager

On behalf of Don Warkentin, Chairman of the Board

Kings County Economic Development Corporation

120 North Irwin Street

Hanford, CA 93230

559-585-7393

jay.salyer@co.kings.ca.us

Kings County EDC wants to commend the staff of the Department of Housing & Community Development for a job well done on the proposed changes to the California Enterprise Zone regulations. In particular, Mr. Colin Parent, Director of External Affairs, should be congratulated for the enormous effort. His participation in the balance of the process will be missed.

We find ourselves in agreement with a great deal of the proposed regulation changes. Those most meaningful to our organization are highlighted below. Those changes which cause concern are highlighted below as well.

Comment(s):

§ 8464. Content of a Voucher Application (a)(1)(C)

The proposed change requires the employer to forecast the percentage of time the employee works within the boundaries of the zone. That "guess" seems unreasonable given that some employees spend a good part of their day away from the employer's location. Instead of the forecast, our suggestion would be to require the employer initial an acknowledgement of the 90% and 50% rules on the application.

§ 8465. Issuance of a Voucher (a)(2)

The proposed change places a 12 month limit on the period between the date of hire and the receipt of a Voucher Application. We agree to the establishment of a time limit for submittal and that a fairly sophisticated company or a company availing themselves of consultant services could reasonably be expected to meet that time limit. However,

experience tells us that less sophisticated businesses, those we try so hard to retain, take a longer time to pursue Enterprise Zone benefits even though the program influenced hiring decisions. Perhaps 24 months after the date of hire would be more appropriate.

§ 8465.1 Establishing and Certifying a Targeted Employment Area

*Kings County feels strongly that the requirement to use only HUD **county** low-moderate income levels to determine qualifying census tracts puts poor rural areas at a great disadvantage to the balance of the State. The Enterprise Zone statutes clearly state that the comparison is to the Median Income Statewide Averages.*

Kings EDC is concerned about the wide range of incomes dispersed throughout large census tracts. This is especially true for rural areas within the State. Our solution would be to base the TEA's on census block groups where there is more income homogeneity. Removing the State median income comparison as a solution can be crippling to many enterprise zones, potentially losing half of their TEA's, while more affluent counties could gain significant new TEA's. This seems to run counter to the intent of concentrating enterprise zone benefits in areas of significant economic challenges.

§ 8466. Acceptable Documentation Demonstrating Employee Qualification

(b)(1)(B) WIA Veteran

Officials of the Kings County Job Training Office (the WIB) have indicated that a veteran is not automatically deemed eligible for WIA intensive services. (S)He must receive an evidence-based eligibility determination and a letter stating such from the WIA administrator or their designee.

(b)(1)(C) WIA Over 55

Please see comment in (b)(1)(B) above.

(b)(3) Economically Disadvantaged Individual Category

The proposed new rule requires an employer to obtain from an employee local, state or federal "low income" program enrollment documentation to verify eligibility. Obtaining that information by an employer is difficult at best; in some respects, potentially illegal. In spite of this issue, Kings EDC has always felt that the employee statement was problematic and should be eliminated.

(b)(4) Terminated, Laid-off Category

Kings EDC agrees with the decision to refine the term "unlikely to return." We agree that someone having been laid-off from one industry and returning to a similar job at a similar industry should not meet the definition. We also agree with the drawing of a bright line for the job-decline requirement. We believe, however, that a 20% decline could be too onerous. Our suggestion would be an annual average of 15%.

(b)(6) Long Term Unemployed Category

Please see comment in (b)(4) above.

(b)(9) Armed Forces or National Guard Separation Category

Kings EDC agrees that the list of acceptable documentation be expanded for all Veteran categories.

(b)(18) TEA Resident Category

While one of the consistent themes in the above categories is making the approval process simpler by expanding the acceptable document list and using more easily obtained documents, HCD has chosen to propose the elimination of two documents universally available to the employer who is responsible for the completion of the application. The I-9 is the perfect document, with the date of hire expressed as such, and the employer is required to sign the document making fraud an easy determination in an audit. If the Department of Homeland Security is uncomfortable with the program using the I-9, possibly some form of redaction would satisfy their requirements. While the W-4 does not have an employer signature, it is completed by the employee when hired. Both forms are maintained by the employer. The new list of acceptable documentation puts onerous demands on the employer to obtain those documents, and an attempt to obtain some of them could be considered unlawful. What was once a relatively simple category to utilize by the employer may now require the intrusion of a third party to obtain many of the approved documents at great expense to the employer. Is this tact an effective inducement for company investment and retention?