

# MEMORANDUM

TO: Interested Parties

FROM: Assemblyman Juan Arambula, Chairman  
Assembly Committee on Jobs, Economic Development, and the Economy

RE: California Enterprise Zone Program

---

The California Enterprise Zone (CAEZ) Program is one of the state's largest economic development initiatives. Eligibility for enterprise zone designation is limited to areas within communities that can demonstrate blighted conditions such as high poverty or high unemployment rates.

The CAEZ Program is based on the principle that targeting significant economic incentives to low-income communities allows these communities to more effectively compete for new businesses and retain existing businesses, resulting in increased tax revenues, less reliance on social services, and lower public safety costs. Residents and businesses directly benefit from these more sustainable economic conditions through improved neighborhoods, business expansion, and job creation.

The 42 enterprise zones are located in portions of 54 Assembly Districts and 34 Senate Districts. Each zone designation is for a period of 15 years, although the initial zones were given an additional five years due to the slow start-up of the program. No other extensions have been authorized.

Enterprise zones range in size from one square mile to over 70 square miles and in geographic locations ranging from Eureka and Shasta Valley near the Oregon border to San Diego and Calexico along the Mexican border. With the approval of the 2006 reforms (discussed later in the memorandum), each zone is governed by a comprehensive economic strategy that details local government commitments, benchmarks, and baselines. A current listing of California's 42 enterprise zones can be found in an attachment to this memorandum (Appendix – California's Enterprise Zones).

## **Community Development Incentives**

Under the CAEZ Program, businesses and other entities located within targeted areas are eligible for a variety of local- and state-provided incentives. Examples of incentives commonly offered by local governments include subsidizing the cost of development, funding related infrastructure improvements, providing job training and technical assistance to local businesses, and/or establishing more streamlined processes for obtaining permits.

The state also offers a number of incentives, including tax credits, priority notification when selling state surplus lands, access to certain Brownfield clean-up programs, and preferential treatment for state contracts. Below is additional information on several of these incentives.

- **The Income Tax Hiring Credit:** The largest tax incentive in the enterprise zone program is the hiring credit. By offering up to \$36,600 in credits over a five-year period, the hiring credit encourages businesses to hire workers that have historically experienced barriers to employment. Examples include people who may have been stigmatized due to low-income status, being on public assistance, serving in Vietnam, being a former felon, or being a dislocated worker due to a plant closure, natural disaster, or military base closure.
- **Income Tax Credit for Sales Tax Paid:** A business operating in an enterprise zone is eligible to receive an income tax credit equal to the amount of sales or use tax paid by the businesses on machinery or parts. The credit calculation is limited to the first \$1 million paid in sales and use tax.

This credit effectively provides businesses within an enterprise zone with a modified Manufacturers Investment Credit.

- **Net Interest Deduction:** A financial lender may claim a deduction of net interest received from loans made to businesses located in an enterprise zone. This incentive encourages lenders to provide loans and terms that it may not otherwise offer to businesses in these historically credit limited areas.

### **Legislative Improvements in 2005-06 Session**

The Assembly Committees on Jobs, Economic Development, and the Economy (JEDE) and Revenue and Taxation undertook a comprehensive, four-month examination of the CAEZ Program during the 2005-06 Session.

One of the primary objectives of the hearings was to evaluate the program's return on investment (ROI). The committees were, however, unable to make any reasonable ROI determination due to the Legislature's historic 20-year failure to establish benchmarks and implement a meaningful auditing process. At the conclusion of the hearings, JEDE chose to discount much of the previous research based on the lack of reliable and comparable data.

In June of 2006, a reform measure was put forward, AB 1550 (Arambula and Karnette), which better targeted the enterprise zone selection criteria and set benchmarks for measuring a zone's progress. AB 1550 also required each local enterprise zone program be actively managed to ensure the program's objectives were being met and established a new de-designation process for zones where the local government failed to fund the administrative support necessary to implement the economic strategies that had been agreed to in their application. With these improvements, the CAEZ Program has been re-established as an initiative that can be measured, monitored, and its success evaluated in the future.

Since the enactment of AB 1550, 26 enterprise zone designations expired and 26 new designations awarded. Some of the new designations were awarded to communities which had previously had zone designations, although the zone boundaries are different to reflect current economic conditions within the community. Further, existing law requires each zone designation to meet current poverty and economic dislocation thresholds and propose a comprehensive economic development strategy that addresses the unique needs of the community.

### **The Path Forward**

Much debate has occurred regarding the effectiveness of the CAEZ Program. Local governments, economic development professionals, and business leaders believe the program is necessary for lower income communities to be competitive and slow the downward spiral of poverty and blight. Many tax policy advocates remain unconvinced. Due to poor historical data and a lack of realistic economic modeling based on substantial data assumptions, neither side can wield a defining blow.

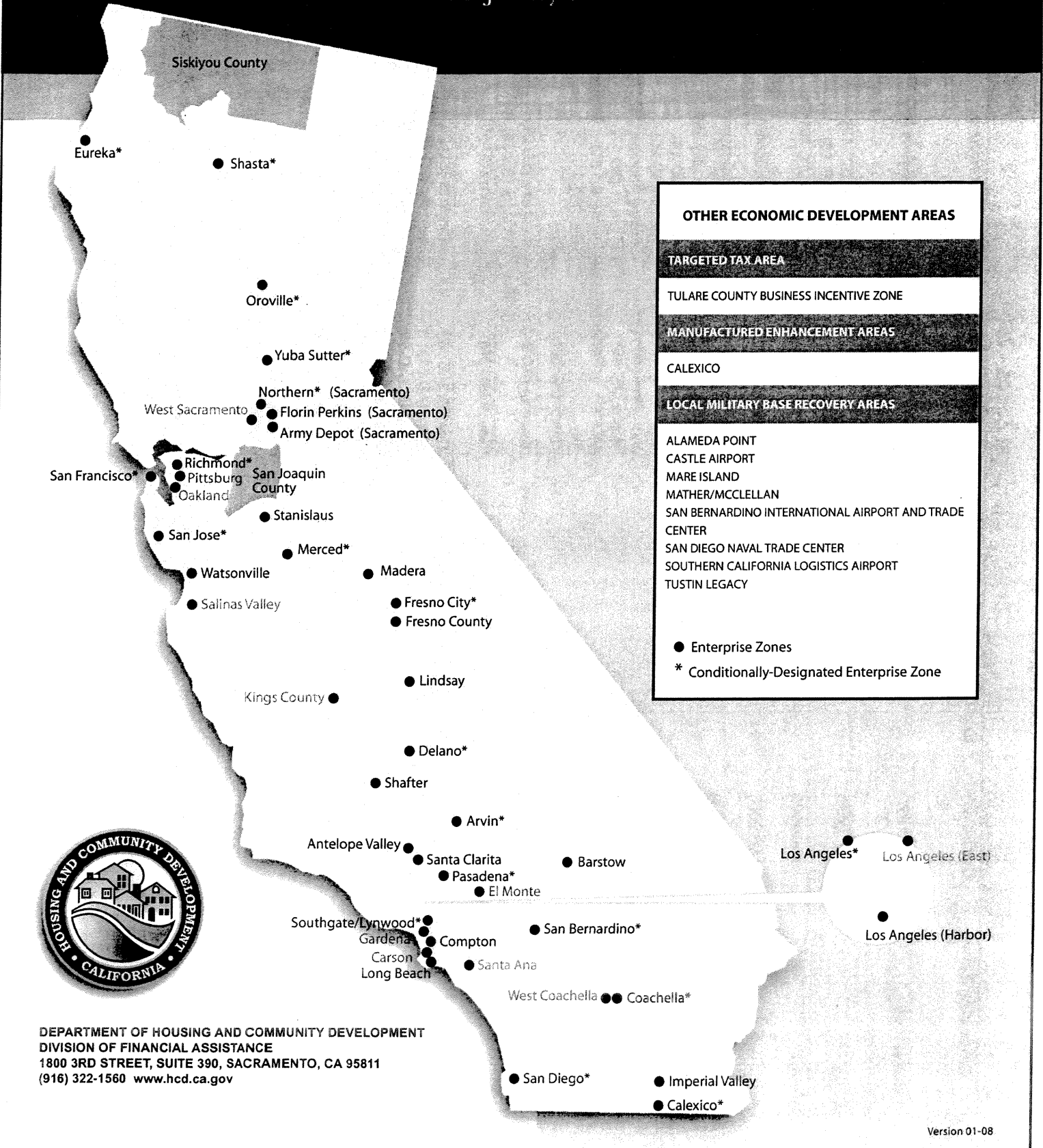
After its extended review of the CAEZ Program, JEDE has concluded that without this type of focused and sustained economic initiative California communities, their residents, and the small- and medium-size businesses that form the core of the economy would be significantly inhibited in creating the necessary momentum to attract further private investment and reduce the areas' and residents' dependence on public programs and services.

The best public program is a job. While not perfect, the CAEZ Program provides the tightest alignment currently available between the public and private sectors by linking incentives with retaining and creating jobs.

# California Enterprise Zones and Other Economic Development Areas

## Department of Housing and Community Development

As of January 2008



DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT  
DIVISION OF FINANCIAL ASSISTANCE  
1800 3RD STREET, SUITE 390, SACRAMENTO, CA 95811  
(916) 322-1560 [www.hcd.ca.gov](http://www.hcd.ca.gov)

**Current Enterprise Zones - 2008**

Enterprise Zone	Designated	Expiration Date	Status	Assembly Members	Senators	Jurisdiction had Previous Enterprise Zone
Antelope Valley	2/1/1997	4/1/2012	Designated	Adams (AD 59) Sharon Runner (AD 36) Strickland (AD 37)	George Runner (SD 17)	
Arvin	11/3/2006		Conditionally Designated	Fuller (AD 32) (AD 30)	Ashburn (SD 18) Florez (SD 16)	
Barstow	3/10/2005	3/1/2021	Designated	Sharon Runner (AD 36) Maze (AD 34)	Ashburn (SD 18)	
Calexico	11/3/2006		Conditionally Designated	Garcia (AD 80)	Ducheny (SD 40)	X
City of LA - Central, East Valley, and Hollywood	11/3/2006		Conditionally Designated	Davis (AD 48) (AD 45) (AD 52) 42) 39) Nunez (AD 46) (AD 51) 44) Smyth (AD 38)	DeLeon Dymally Feuer (AD Fuentes (AD Krekorian (AD 43) Price Portantino (AD Vincent (SD 21) Scott (SD 25)	
City of LA - Harbor Area	3/4/1989	3/4/2009	Designated	Karnette (AD 54)	Oropeza (SD 28) Vincent (SD 25)	
Coachella	11/3/2006		Conditionally Designated	Garcia (AD 80)	Ducheny (SD 40)	X
Compton	11/3/2006	8/1/2022	Final Designation Awarded	Dymally (AD 52) Price (AD 51) Furutani (AD 55)	Oropeza (SD 28) Vincent (SD 25) Lowenthal (SD 27)	
Delano	11/3/2006		Conditionally Designated	Parra (AD 30) Maze (AD 34)	Ashburn (SD 18) Florez (SD 16)	X
East Los Angeles	1/31/2008		Conditionally Designated	Calderon (AD 58) De Leon (AD 45) De La Torre (AD 50) Eng (AD 49) Nunez (AD 46) Portantino (AD 44)	Calderon (SD 30) Cedillo (SD 22) Romero (SD 24) Scott (SD 21)	X
Eureka	11/3/2006		Conditionally Designated	Berg (AD 01)	Wiggins (SD 02)	X
Fresno City	11/3/2006		Conditionally Designated	Arambula (AD 31) Villines (AD 29)	Florez (SD 16) Cogdill (SD 14)	X

### Current Enterprise Zones - 2008

Enterprise Zone	Designated	Expiration Date	Status	Assembly Members	Senators	Jurisdiction had Previous Enterprise Zone
Fresno County	11/3/2006	6/27/2022	Final Designation Awarded	Arambula (AD 31) Berryhill (AD 25) Galgiani (AD 17) Maze (AD 34) Parra (AD 30) Villines (AD 29)	Ashburn (SD 18) Denham (SD 12) Florez (SD 16) Cogdill (SD 14)	
Imperial Valley	3/10/2005	3/1/2021	Designated	Garcia (AD 80)	Ducheny (SD 40)	
Kings County	1/31/2008		Conditionally Designated	Parra (AD 30)	Florez (SD 16)	X
Lindsay	10/6/1995	10/6/2010	Designated	Maze (AD 34)	Florez (SD 16) Ashburn (SD 18)	
Long Beach	11/3/2006	1/8/2023	Final Designation Awarded	Dymally (AD 52) Karnette (AD 54) Furutani (AD 55)	Oropeza (SD 28) Lowenthal (SD 27) Vincent (SD 25)	X
Madera	3/4/1989	3/4/2009	Designated	Villines (AD 29)	Cogdill (SD 14)	
Merced County	11/3/2006		Conditionally Designated	Arambula (AD 31) Galgiani (AD 17)	Denham (SD 12) Florez (SD 16) Cogdill (SD 14)	X
Oakland	1/31/2008		Conditionally Designated	Hancock (AD 14) Hayashi (AD 18) Swanson (AD 16)	Perata (SD 09)	X
Oroville	11/3/2006	11/6/2021	Final Designation Awarded	Keene (AD 03) La Malifa (AD 02)	Aanestad (SD-04)	X
Pasadena	11/3/2006	10/14/2023	Final Designation Awarded	Eng (AD 49) Portantino (AD 44)	Cedillo (SD 22) Margett (SD 29) Scott (SD 21)	X
Richmond	11/3/2006		Conditionally Designated	Hancock (AD 14)	Perata (SD 09)	X
Sacramento - Army Depot	10/4/1994	10/4/2009	Designated	Jones (AD 09) Nakanishi (AD 10) Niello (AD 05)	Steinberg (SD 6)	
Sacramento - Florini/Perkins	4/5/1989	4/5/2009	Designated	Nakanishi (AD 10)	Cox (SD 01) Steinberg (SD 06)	
Sacramento - North	11/3/2006		Conditionally Designated	Jones (AD 09) Niello (AD 05)	Steinberg (SD 06)	X
Salinas Valley	1/31/2008		Conditionally Designated	Caballero (AD 28)	Denham (SD 12)	

### Current Enterprise Zones - 2008

Enterprise Zone	Designated	Expiration Date	Status	Assembly Members	Senators	Jurisdiction had Previous Enterprise Zone
San Bernardino	11/3/2006		Conditionally Designated	Carter (AD 62) Cook (AD 65) Emmerson (AD 63) Adams (AD 59)	Dutton (SD 31) Runner (SD 17) Negrete McLeod (SD 32)	X
San Diego	11/3/2006		Conditionally Designated	Horton, S. (AD 78) Anderson (AD 77) Plescia (AD 75) Saldana (AD 76) Salas (AD 79)	Kehoe (SD 39) Ducheny (SD 40) Hollingsworth (SD 36) Wyland (SD 38)	X
San Francisco	11/3/2006		Conditionally Designated	Leno (AD 13) Ma (AD 12)	Migden (SD 03) Yee (SD 08)	X
San Joaquin County	1/31/2008		Conditionally Designated	Aghazarian (AD 26) Galgiani (AD 17) Nakanishi (AD 10)	Cogdill (SD 14) Machado (SD 5)	X
San Jose	11/3/2006		Conditionally Designated	Beall (AD 24) (AD 23) (AD 22)	Alquist (SD 13) Corbett (SD 10)	X
Santa Ana	1/31/2008		Conditionally Designated	Solorio (AD 69) Spitzer (AD 71)	Correa (SD 34)	X
Santa Clarita	7/1/2007	7/1/2022	Final Designation Awarded	Smyth (AD 38)	McClintock (SD 19) Runner (SD 17)	
Shafter	10/4/1995	10/4/2010	Designated	Parra (AD 30)	Florez (SD 16)	
Shasta	11/3/2006		Conditionally Designated	LaMalfa (AD-2)	Aanestad (SD-04)	X
Siskiyou County	1/3/2008		Conditionally Designated	LaMalfa (AD 02)	Aanestad (SD 04)	X
Southgate/Lynwood	11/3/2006		Conditionally Designated	De La Torre (AD 50) Dymally (AD 52)	Calderon (SD 30) Lowenthal (SD 27) Vincent (AD 25)	X
Stanislaus County	3/10/2005	3/1/2021	Designated	Aghazarian (AD 26) Berryhill (AD 25)	Cogdill (SD 14) Denham (SD 12)	
Watsonville	5/1/1997	5/1/2012	Designated	Laird (AD 27) Caballero (AD 28)	Maldonado (SD 15)	
West Sacramento	1/31/2008		Conditionally Designated	Wolk (AD 08)	Machado (SD 05)	X
Yuba/Sutter	11/3/2006		Conditionally Designated	Keene (AD 03) LaMalfa (AD 02)	Aanestad (SD-04)	X