

**CITY OF OAKLAND
AGENDA REPORT**

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2004 APR -8 PM 6:41

TO: Office of the City Manager
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: April 22, 2004

RE: **RESOLUTION IN SUPPORT OF SENATE BILL 1179, A PROPOSAL TO
EXTEND THE LIFE OF OAKLAND'S ENTERPRISE ZONE AND OTHER
ZONES IN CALIFORNIA FOR AN ADDITIONAL FIVE YEARS**

SUMMARY

Changes in the Enterprise Zone Act by the California Legislature have allowed Enterprise Zones established prior to 1990 to seek a five year extension. Senate Bill 1179 would allow the remaining Zones including Oakland the same benefit.

Enterprise Zones target economically distressed areas through the use of special and local tax incentives that encourage business investment and promote the creation of new jobs. An additional five years will provide employers with the assurance that the benefits that allowed them to retain, expand or locate in Oakland will be in place longer. It will enable the Oakland Enterprise Zone and others throughout the state to continue their work to create jobs, encourage investment in disadvantaged areas, and build local economies.

FISCAL IMPACT

There is no direct fiscal impact to the City. However, there will be indirect benefits that arise due to increased tax revenue from new and expanding businesses that locate in Oakland due to the Enterprise Zone designation.

BACKGROUND

Recognizing the need to encourage business investment and promote creation of new jobs in the City of Oakland, the City applied for and received a 15-year State Enterprise Zone designation on September 28, 1993. This program enables businesses located in the Enterprise Zone to receive several different tax credits from the California Franchise Tax Board in order to encourage business investment in the Enterprise Zone areas. The credits can be taken for the hiring of qualified employees, purchase of qualified equipment, for the depreciation of qualified business real property and against net operating losses. The Enterprise Zone program complements other City business retention and attraction efforts and provides the City with a locally competitive edge as Oakland has the only Enterprise Zone in Alameda County.

Item: 6

Rules and Legislation Committee
April 22, 2004

KEY ISSUES AND IMPACTS

Under existing law, the Department of Housing and Community Development (HCD) can designate up to 42 Enterprise Zones. The twenty Enterprise Zones designated in 1989 or earlier were given the opportunity to seek a five year extension. The nineteen Zones designated after 1989 do not have the authority to seek an extension of the initial 15 year term. Senate Bill 1179 allows Enterprise Zones designated after 1989 to seek a five year extension under the same rules and procedures prior to that date.

Purpose of the Bill

According to the author, there is no logical rationale for discriminating between older and newer Enterprise Zones when it comes to allowing extensions. The distinction is arbitrary and, in essence, makes post-1989 Enterprise Zones second class Zones. This bill ensures equity among all Zones, regardless of the date of designation, when it comes to seeking an extension. Moreover, it gives communities that continue to struggle economically a little more time to promote economic development and expand job opportunities for disadvantaged individuals.

Affected Areas

The nineteen Enterprise Zones that were designated after 1989 represent a diverse cross-section of California communities, many of which continue to face significant economic challenges. These zones are located in Antelope Valley, Coachella Valley, Delano, Kings County, Lindsey, Long Beach, Merced, Oakland, Oroville, Pasadena, Redding, Richmond, San Diego South Bay, San Francisco, Santa Ana, Shafter, Siskiyou, Stockton, and Watsonville.

SUSTAINABLE DEVELOPMENT

Economic: Enterprise Zone incentives encourage business investment and promote the creation of new jobs in the City of Oakland. The hiring tax credit targets low-income and disadvantaged residents in finding and retaining jobs, including the unemployed, victims of lay offs, and public assistance recipients. In addition to general local economic vibrancy from business and job growth, benefits to the City include added sales and property tax, building permit fees, the land use benefits of in-fill development, and reduced blight.

Social Equity: Enterprise Zone incentives promote social equity by immediately improving clients' earning power through job placements.

DISABILITY AND SENIOR CITIZEN ACCESS

There is no impact on disability or senior citizen access.

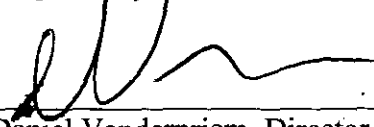
RECOMMENDATION

Staff recommends that the City Council adopt a supporting position.

ACTION REQUESTED OF THE CITY COUNCIL

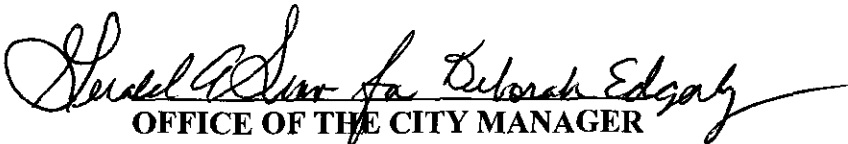
Staff recommends that the City Council approve and adopt the resolution in support of Senate Bill 1179, a proposal to extend the life of Oakland's Enterprise Zone and other Zones in California for an additional five years.

Respectfully submitted,



Daniel Vanderprieem, Director of Redevelopment,
Economic Development, and Housing
Community & Economic Development Agency

APPROVED AND FORWARDED TO THE
RULES AND LEGISLATION COMMITTEE:



OFFICE OF THE CITY MANAGER

Prepared by: Susana Villarreal
Enterprise Zone Coordinator,
Workforce Development Unit CEDA

Item: 6
Rules and Legislation Committee
April 22, 2004

OAKLAND CITY COUNCIL

OFFICE OF THE CITY CLERK

City Attorney

RESOLUTION No. _____ C.M.S.

DRAFT

2004 APR -9 PM 6:42

RESOLUTION IN SUPPORT OF SENATE BILL 1179, A PROPOSAL TO EXTEND THE LIFE OF OAKLAND'S ENTERPRISE ZONE AND OTHER ZONES IN CALIFORNIA FOR AN ADDITIONAL FIVE YEARS

WHEREAS, the City of Oakland supports SB 1179's goals of extending post 1989 Enterprise Zones for an additional five years; and

WHEREAS, the Oakland Enterprise Zone has greatly contributed to the revitalization of our community creating jobs for local residents; attracting and retaining businesses; and

WHEREAS, under current law the Oakland Enterprise Zone will expire in 2008 and Senate Bill 1179 would extend it for an additional five years enabling Oakland to continue work to create jobs, encourage investment in disadvantaged areas, and build local economies; and

WHEREAS, SB 1179 would not impose on the State any additional costs, now, therefore be it

RESOLVED: That the best interests of the City of Oakland would be served by extending the Enterprise Zone for an additional five years; and be it

FURTHER RESOLVED: that the City of Oakland City Council declares as follows:

The City of Oakland supports the Extension of Post 1989 Enterprise Zones for an additional five years SB 1179.

The City of Oakland shall draft a letter to the State Legislature affirming its support of SB 1179.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 20____

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, BRUNNER, CHANG, NADEL, QUAN, REID, WAN and PRESIDENT DE LA FUENTE

NOES-

ABSENT-

ABSTENTION-

ATTEST: _____

CEDA FLOYD
City Clerk and Clerk of the Council
of the City of Oakland, California

RULES & LEGISLATION
OMTE

APR 22 2004

**CITY OF OAKLAND
BILL ANALYSIS FORMAT**

DEPARTMENT INFORMATION

Contact: Susana Villarreal

Date: March 31, 2004

Department: CEDA/Workforce Development

Telephone: 238-7794 FAX # 238-2230 E-mail: svillarreal@oaklandnet.com

Bill Number: SB 1179

Bill Author: Duchaney

Topic: Enterprise Zones, allows five year extension of the initial 15 year term

Summary of the Bill

Extends the life of Oakland's Enterprise Zone and other zones throughout California by five years.

Positive Factors for Oakland

The Oakland Enterprise Zone has greatly contributed to the revitalization of our community. Since its inception, over 15,000 hiring credit vouchers have been issued for disadvantaged individuals employed through Oakland's zone program. It remains as the most powerful economic incentive in attracting and retaining businesses to Oakland. An additional five years will provide employers with the assurance that the benefits that allowed them to remain, expand or locate in Oakland will be in place longer. It will enable the Oakland Enterprise Zone and others throughout the state to continue their work to create jobs, encourage investment in disadvantaged areas, and build local economies.

Negative Factors for Oakland

None

Other Information:

RECOMMENDED POSITION:

(Support, Support with Amendments, Neutral, Watch, Oppose, Oppose with Amendments or Not Relevant)

Support

PLEASE RATE THE EFFECT OF THIS MEASURE ON THE CITY OF OAKLAND:

X 1 Urgent (top priority for city lobbyist, city position required ASAP)

___2 Very Important (priority for city lobbyist, city position necessary)

___3 Somewhat Important (position desired if time and resources are available)

___4 None (do not review with City Council, position not required)

Other known support: California Association of Enterprise Zones (sponsor)

Apex Technology Management, Inc.

City of Anderson

City of Lancaster

City of Long Beach

City of Long Beach, Economic Development Commission

City of Palmdale

City of Redding

City of Santa Ana

City of Shasta Lake

Deluxe Financial Services

Elliott, Lewis, Lieber & Stumpf, Inc.

Greater Antelope Valley Economic Alliance

Hathaway & Ksenzulak, LLP

Hilltop Medical Clinic

Lockheed Martin Aeronautics Company

Madera County Economic Development Commission

M/E Systems Engineering

Michaels Stores, Inc.

Sacramento Housing and Redevelopment Agency

Sierra Toyota/Lancaster Mitsubishi

Tulare County Targeted Tax Area

Watts Anderson Barrows

Other known opposition: California Tax Reform Association

Is state/federal legislative committee analysis available? Yes

SENATE HOUSING & COMMUNITY DEVELOPMENT COMMITTEE

Senator Denise Moreno Ducheny, Chair

Bill No: SB 1179 Hearing: March 22, 2004

Author: DuchenyFiscal: Yes

Version: March 17, 2004 Consultant: Mark Stivers

EXTENSIONS FOR POST-1989 ENTERPRISE ZONES

Background and Existing Law:

Under existing law, the Department of Housing and Community Development (HCD) can designate up to 42 enterprise zones. Within an enterprise zone, cities and counties can relax regulatory controls such as permits and development fees, provide tax incentives, expand infrastructure, and target federal grants for education, health and welfare, economic development, vocational education, transportation, and housing. The state provides a number of tax credits and deductions, including credits for sales and use tax paid on manufacturing equipment purchased; hiring credits for qualified employees; 100% net operating loss carryover for losses associated with operations within the enterprise zone; deduction of interest earned by lenders who loan money to

enterprise zone businesses; and an election to expense rather than amortize equipment used within the enterprise zone.

Based on a competitive process, HCD selects the enterprise zone applications that propose the most effective, innovative, and comprehensive regulatory, tax, program, and other incentives in attracting private sector investments. The most economically challenged communities, those that meet at least two criteria such as a poverty rate over 17.5%, an unemployment rate 5% above the state average, or unique distress factors, are given bonus points in the competition. Once designated, an enterprise zone is binding for 15 years.

The twenty enterprise zones designated in 1989 or earlier were given the opportunity to seek a five year extension. In order to be granted an extension, the zone managers must submit an updated economic development plan to HCD justifying the need for an additional five years by defining goals and objectives that still need to be achieved and indicating what actions are to be taken to achieve these goals and objectives. In addition, the zone must have received a superior or passing grade in a state audit.

The nineteen zones designated after 1989 do not have the authority to seek an extension of the initial 15 year term.

Proposed Law:

Senate Bill 1179 allows enterprise zones designated after 1989 to seek a five year extension under the same rules and procedures as those required for zones designated prior to that date.

Comments:

1. Purpose of the bill. According to the author, there is no logical rationale for discriminating between older and newer enterprise zones when it comes to allowing extensions. The distinction is arbitrary and, in essence, makes post-1989 enterprise zones second class zones. This bill ensures equity among all zones, regardless of the date of designation, when it comes to seeking an extension. Moreover, it gives communities that continue to struggle economically a little more time to promote economic development and expand job opportunities for disadvantaged individuals.
2. Affected areas. The nineteen enterprise zones that were designated after 1989 represent a diverse cross-section of California communities, many of which continue to face significant economic challenges. These zones are located in Antelope Valley, Coachella Valley, Delano, Kings County, Lindsey, Long Beach, Merced, Oakland, Oroville, Pasadena, Redding, Richmond, San Diego South Bay, San Francisco, Santa Ana, Shafter, Siskiyou, Stockton, and Watsonville.
3. New zones available. To the extent that post-1989 zones are allowed to seek an extension under this bill, these zones are unavailable to be allocated to other communities across the state. However, there are currently three unallocated zones for which HCD intends to open an application period shortly. Moreover, 13 of the pre-1989 zones that have already received extensions expire in 2006. As a result, it is unlikely that allowing post-1989 zones an extension will negatively affect other communities who wish to participate in the program.
4. Double Referral. The Rules Committee referred SB 1179 to both this committee and the Committee on Revenue and Taxation. Any motion to approve the bill should include a motion to re-refer it to the Committee on Revenue and Taxation.

Related Legislation:

SB 1823 changes all references in the Enterprise Zone statute from "agency" to "department" to reflect the transfer of the program to HCD.

Support and Opposition: (3/17/04)

Support:

California Association of Enterprise Zones (Sponsor)
Apex Technology Management, Inc.
City of Anderson
City of Lancaster
City of Long Beach
City of Long Beach, Economic Development Commission
City of Palmdale
City of Redding
City of Santa Ana
City of Shasta Lake
Deluxe Financial Services
Elliott, Lewis, Lieber & Stumpf, Inc.
Greater Antelope Valley Economic Alliance
Hathaway & Ksenzulak, LLP
Hilltop Medical Clinic
Lockheed Martin Aeronautics Company
Madera County Economic Development Commission
M/E Systems Engineering
Michaels Stores, Inc.
Sacramento Housing and Redevelopment Agency
Sierra Toyota/Lancaster Mitsubishi
Tulare County Targeted Tax Area
Watts Anderson Barrows

Opposition : California Tax Reform Association

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