

CITY OF OAKLAND

AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND

TO: Office of the City Administrator
Dan Lindheim
2010 MAY 27 AM 10:24
FROM: Community and Economic Development Agency
DATE: June 8, 2010

RE: **A Resolution Appropriating and Allocating Annual Administrative Fees Paid by the Cities of Berkeley and Emeryville for Their Participation in the Oakland Enterprise Zone to Cover Current and Past Operating Expenses of the Enterprise Zone Program**

SUMMARY

Staff is requesting authorization to appropriate and allocate annual administrative fees collected from the cities of Berkeley and Emeryville for their participation in the Oakland Enterprise Zone (EZ) program. The administrative fees, which are negotiable on an annual basis based on approximated numbers of EZ Hiring Tax Credit vouchers to be processed for businesses in each city, is in addition to the \$75 voucher processing fee charged to each business. The annual administrative fees are intended to cover current and past EZ program operating expenses.

FISCAL IMPACT

The annual administrative fee negotiated with the City of Berkeley is \$50,000 for FY 2009-2010. The fee being negotiated with the City of Emeryville should be comparable to Berkeley's, if not higher, depending upon the size of expansion that is ultimately approved. These fees will be appropriated to Fund 2195, Org. 88559, and Enterprise Zone Project G245810. The fees will cover current and past EZ program operating expenses.

BACKGROUND

The Enterprise Zone program was not initially intended to be cost covering. From 1993 to 2002, the City covered Enterprise Zone program costs through General Fund, CDBG, and Workforce Investment Act funds. Oakland was the first Enterprise Zone in the State to charge Hiring Tax Credit voucher processing fees, which was authorized by way of Resolution No. 78088 C.M.S. on September 30, 2003.

While the availability of General Purpose, CDBG and Workforce Investment Act (WIA) funds declined, demand on the Enterprise Zone voucher processing fee revenues increased, to support EZ program administration and other business services. In 2006, when the City's structural deficit came to light, staff learned that the Enterprise Zone was among the projects that had overspent. The current accumulated deficit with negative interest included for the Enterprise Zone project is \$539,927.

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KEY ISSUES AND IMPACTS

Direct staff and operating costs required to administer the Enterprise Zone program are approximately \$360,000 annually. Other indirect program costs not charged to the EZ project but declared as match to the State as required, are estimated at \$140,000.¹ The \$75 voucher processing fee generates approximately \$265,000 per year, based on a projection of 3,500 vouchers. The annual fee negotiated with the City of Berkeley is \$50,000 for FY 2009-2010. That fee is based on an estimated 400 Hiring Tax Credit vouchers to be processed for businesses in West Berkeley. Oakland has not yet settled on an annual fee with the City of Emeryville. Based upon the parts of Emeryville that were previously in the Enterprise Zone, Hiring Tax Credit voucher numbers will be approximately 500² per year, thus making the annual fee even higher than that paid by Berkeley. Should Oakland agree to Emeryville's request to expand the Enterprise Zone to other parts of its city, the fee would increase proportionately to the estimated number of vouchers to be processed.

PROJECT DESCRIPTION

The second phase of the Emeryville expansion is still open to negotiation. Emeryville officials have requested that all or most of the city be part of the Oakland Enterprise Zone. Staff will continue to analyze the pros and cons of further expansion in Emeryville with the authority granted through Resolution No. 82249 C.M.S., adopted on July 28, 2010.

The administrative fees for Berkeley and Emeryville will be renegotiated each year based upon the projected number of hiring tax credit vouchers to be processed. Staff is committed to paying down the EZ program deficit, which can only be achieved by the following actions:

1. Covering costs going forward. This requires matching funds from other City funding sources. By accepting re-designation as an Enterprise Zone, Oakland committed to providing matching resources to support the program.
2. Raising the voucher processing fee. Oakland increased its fee from \$20 per voucher to \$75 per voucher from 2003 to 2009. Staff intends to recommend another fee increase up to \$100 per voucher during the 2011-2013 budget cycle.

¹ The EZ program match estimation of \$140,000 includes CEDA senior management, administration, fiscal management, marketing and legal support.

² In tax year 2009, nine (9) Emeryville-based businesses hired and claimed Hiring Tax Credits for 514 Oakland residents.

3. Increasing the number of vouchers processed. In FY 2008-2009, Oakland processed 3,682 vouchers. Staff conservatively budgets for a projected 3,500 vouchers annually to avoid deficit problems encountered in the past when projected revenues for overly ambitious voucher estimates were not realized and actual revenues were not reconciled against actual expenditures for a number of years. With the improved economy and expansion of EZ into Berkeley and Emeryville, actual voucher counts should increase to 4,000.

The only source of revenue that can be used to pay down the EZ deficit is the administrative fee paid to Oakland by the cities of Berkeley and Emeryville. The State Department of Housing and Community Development tracks voucher processing fees received and requires that the revenue be used to support current EZ program costs. The State does not currently track the kind of administrative fee Oakland will receive from Berkeley and Emeryville. That revenue, therefore, is best to use for paying down the deficit.

SUSTAINABLE OPPORTUNITIES

Economic: The Enterprise Zone program saves Oakland businesses an estimated \$12,000,000 per year in State income taxes and helps to create and save jobs for more than 3,500 Oakland residents. Berkeley and Emeryville-based businesses can only claim the hiring tax credits by employing people who reside in Targeted Employment Areas (TEA). Oakland has the largest TEA in the Bay Area.

Environmental: There is no direct environmental impact associated with the Enterprise Zone program.

Social Equity: By definition, Targeted Employment Areas have high unemployment and poverty rates. Employers in Oakland, Berkeley and Emeryville have a strong financial incentive to hire Oakland residents who live in the TEA.

DISABILITY AND SENIOR CITIZEN ACCESS

Seniors and people with disabilities will not be impacted by this project.

RECOMMENDATION(S) AND RATIONALE

Staff recommends City Council authorization to appropriate and allocate annual administrative fees collected from the cities of Berkeley and Emeryville for their participation in the Oakland Enterprise Zone (EZ) program. The annual administrative fees are intended to cover current and past EZ program operating expenses.

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ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that the City Council adopt the resolution.

Respectfully submitted,



Walter S. Cohen, Director
Community and Economic Development Agency

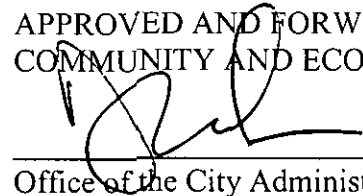
Reviewed by:

Gregory Hunter, Deputy Director of Economic
Development and Redevelopment

Prepared by:

Al Auletta, Redevelopment Area Manager

APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE:



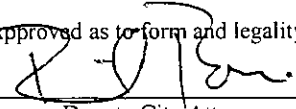
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Approved as to form and legality:


Deputy City Attorney

OAKLAND CITY COUNCIL

RESOLUTION No. _____ C.M.S

A RESOLUTION APPROPRIATING AND ALLOCATING ANNUAL ADMINISTRATIVE FEES PAID BY THE CITIES OF BERKELEY AND EMERYVILLE FOR THEIR PARTICIPATION IN THE OAKLAND ENTERPRISE ZONE TO COVER CURRENT AND PAST OPERATING EXPENSES OF THE ENTERPRISE ZONE PROGRAM

WHEREAS, California Government Code Sections 7073 and 7074 allow for each California designated enterprise zone area to be expanded contiguous to the current enterprise zone by an aggregate amount not to exceed fifteen (15) percent of the geographic area within the boundaries of the enterprise zone as originally designated by the California Department of Housing and Community Development; and

WHEREAS, the Oakland Enterprise Zone, as originally designated by the California Department of Housing and Community Development encompasses an area of 23,438.9 acres; and

WHEREAS, the Oakland Enterprise Zone could be expanded by an amount not to exceed 3,515.84 acres; and

WHEREAS, the City Council adopted Resolution No. 82249 C.M.S. on July 28, 2009 authorizing the expansion of Oakland's re-designated Enterprise Zone into parts of the cities of Berkeley and Emeryville up to a total of 1,350 acres; and

WHEREAS, Resolution No. 82249 C.M.S. also authorized the City Administrator to negotiate and enter into Administrative Management Agreements with the cities of Berkeley and Emeryville; and

WHEREAS, said Agreements will include payments to be negotiated annually from the cities of Berkeley and Emeryville to the City of Oakland for the administration of the Enterprise Zone program in their respective cities; now, therefore, be it

RESOLVED: That the City Administrator is authorized to appropriate and allocate the annual payments to the City of Oakland from the cities of Berkeley and Emeryville to Fund 2195, Org. 88559, and Enterprise Zone Project G245810, for the administration of the Enterprise Zone program to cover current and past operating costs for the Enterprise Zone program; and be it

FURTHER RESOLVED: That the City Administrator is further authorized to take whatever action is necessary with respect to the Enterprise Zone Expansion and Administrative Management Agreements with the cities of Berkeley and Emeryville consistent with this Resolution and its basic purposes.

IN COUNCIL, OAKLAND, CALIFORNIA, _____

PASSED BY THE FOLLOWING VOTE:

AYES -BROOKS, DE LA FUENTE, KAPLAN, KERNIGHAN, NADEL, QUAN, REID, AND
PRESIDENT BRUNNER

NOES -

ABSENT -

ABSTENTION -

ATTEST:

LATONDA SIMMONS
City Clerk and Clerk of the Council of
the City of Oakland, California