



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Kim Welsh
Jennifer A. Maguire

SUBJECT: ENTERPRISE ZONE PROGRAM

DATE: May 27, 2011

Approved

Date

5-27-11

RECOMMENDATION

Approve the following amendments to the 2011-2012 Proposed Operating Budget to transfer the Enterprise Zone (EZ) from the Redevelopment Agency to Office of Economic Development and institute a full cost-recovery fee to fund the administration of the program.

1. Amend the 2011-2012 Proposed Fees and Charges to establish an Enterprise Zone Voucher Application Fee in the amount of \$109 per Enterprise Zone application in the Office of Economic Development.
2. Approve the following amendments to the 2011-2012 Proposed Budget in the General Fund:
 - a. Increase the Departmental Charges estimate by \$218,000;
 - b. Increase the Office of Economic Development Personal Services appropriation in the amount of \$156,400;
 - c. Increase the Office of Economic Development Non-Personal/Equipment appropriation in the amount of \$42,000; and
 - d. Increase the 2012-2013 Future Deficit Reserve by \$19,600 or distribute this funding as part of the 2011-2012 budget process.
3. Add 1.0 Economic Development Officer position with a limit date of June 30, 2012 to the Office of Economic Development.

BACKGROUND

San José was designated an Enterprise Zone by the State of California in 1986. The original designation was for fifteen years. In 2001, a five-year extension was granted. In 2006, the City applied for and received a new EZ designation for 15-years with expanded boundaries. In July 2008, the management of the City's Enterprise Zone program was transferred from the Office of Economic Development to the Redevelopment Agency.

The Enterprise Zone covers a 12 square mile area that encompasses the Downtown, Monterey Corridor, Edenvale, Rincon de Los Esteros, Japantown and also includes the Santa Clara/Alum

Rock Business District. The Enterprise Zone is a key business retention tool. Businesses located in the Enterprise Zone are eligible to receive state tax credits valued at up to \$37,000 per eligible employee for hiring individuals from 13 targeted categories including San José residents, military veterans, Workforce Investment Act (WIA) clients, low income individuals, ex-offenders, welfare recipients and other individuals with employment barriers.

On August 16, 2004 SB 1097 became law and required that all California Enterprise Zones remit to the State a \$10 fee for each application accepted for issuance of an Enterprise Zone Hiring Tax Credit. Subsequently on December 1, 2010, pursuant to the passage of SB 856, the administrative fee was increased from \$10 to \$15 per application.

Earlier this year there was a proposal by the Governor to eliminate the California Enterprise Zone program. The Governor's revised budget, released on May 16, 2011, retains the Enterprise Zone incentives, but proposes some changes that may reduce the credit.

As a result of the downsizing of Redevelopment Agency activity, staff is proposing to return the Enterprise Zone program to the Office of Economic Development and institute a full cost-recovery fee to fund the resources administering the program, program technology, and the State-required \$15 application fee.

As more information about the Governor's revised budget becomes available staff will identify any changes to the administration of the Enterprise Zone program and determine if revisions to this fee proposal are necessary.

ANALYSIS

In order for a business to receive a tax credit for hiring eligible employees, the State of California requires the business to submit a tax voucher application. The EZ program administrator must review the voucher application along with documented proof of eligibility to determine if the business hired an EZ eligible employee. The voucher is the document that certifies the employee's eligibility to the State. The voucher must be processed, copied and tracked. Once the voucher is approved, a \$15 fee payment for each voucher issued is submitted to the State.

Since July 2008 over 6,000 tax credit vouchers have been issued to local businesses. The EZ geography was expanded in 2009-2010, resulting in a 17% increase in vouchers over 2008-2009, and an anticipated 13% increase from 2009-2010 to 2010-2011.

Fiscal Year	Number of Vouchers Issued
2008-2009	1,674
2009-2010	1,952
2010-2011	2,200 (estimated)

Unlike most Enterprise Zones, the City of San José does not currently charge businesses for reviewing applications or for the \$15 State-required application fee. The San Jose Redevelopment Agency budget currently covers the administrative costs and pays the State

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administrative fee on behalf of companies participating in the EZ program. Of the 42 designated Enterprise Zones in California, all but three have cost recovery fees in place. These fees range from \$15 to \$125 per application. With the recommended changes, the City of San José would also charge a fee for this service.

Based on past and current activity, staff anticipates processing applications for 2,000 vouchers during 2011-2012. Staff recommends establishing an application fee in the amount of \$109 per voucher that will generate \$218,000 in revenue for 2011-2012. These funds will cover the cost of the Enterprise Zone administrator, the required \$15 application fee to be paid to the State for each voucher application accepted, and the costs of required quarterly meetings, and annual training. The revenue from this fee will provide resources to administer and promote the program and increase the number of participating companies.

The program administrator will administer the voucher activity on a regular ongoing basis, and will conduct a mid-year check of number of vouchers and revenue generated to date to ensure that program activity is progressing as projected. The program administrator will also be responsible for submitting an annual report of all Enterprise Zone activity in San José to the State of California. A temporary position will be added in 2011-2012 to serve as the program administrator.

Program costs for 2011-2012 would be incurred as follows:

One temporary Economic Development Officer	\$176,371 (includes overhead)
State of California application fee (\$15) (2,000 vouchers at \$15.00 each)	\$ 30,000
Voucher database upgrade	\$ 10,000
Quarterly meetings and annual training	\$ 2,000
Total Cost	\$218,371

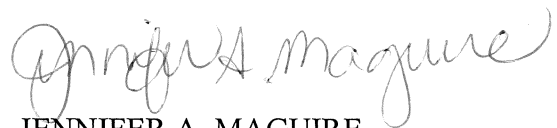
The program will be evaluated during 2011-2012 to determine if changes are needed based on State budget actions and actual activity levels. The ongoing staffing and program needs will be factored into the 2012-2013 budget process.

COORDINATION

This memo has been coordinated with the City Attorney's Office.

/s/

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JENNIFER A. MAGUIRE
Budget Director