

MEMORANDUM

DATE: July 5, 2006

TO: Interested Parties

FROM: Assembly Committee on Jobs, Economic Development, and the Economy

RE: AB 485 (Arambula) – Reforms to the California Enterprise Zone Program

The most recent amendments to AB 485 make a number of significant changes to the California Enterprise Zone Program (EZ Program) and other geographically-targeted economic development areas (G-TEDAs). Specific elements of the bill are described below.

Legislative Notice on New Designation Rounds

AB 485 requires the Department of Housing and Community Development (HCD) to notify the Legislature 60 days prior to soliciting any new G-TEDA applications.

Streamline the Selection Criteria

AB 485 revises the enterprise zone (EZ) eligibility criteria for EZs designated after January 1, 2007 by redefining an eligible area as an area that meets at least two of the following criteria:

- An unemployment rate 3% higher than either the state or county-wide average for the previous three years, rather than 3% higher than the statewide average the previous year;
- More than 70% of the areas children enrolled in public schools, serving census tracts in the proposed zone, participate in the federal free lunch program, rather than measuring county-wide numbers of participants in free lunch programs; and,
- A median household income for a family of four within the census tracts that does not exceed 80% of the statewide median income.

Track G-TEDA Eligibility Criteria

AB 485 requires HCD to:

- Maintain a log of the designation criteria selected by G-TEDAs designated after January 1, 2007;

- Identify the designation criteria in the memorandum of understanding (MOU) between the G-TEDA and HCD and use it to establish a baseline for measuring the G-TEDA's progress;
- Track whether the conditions that qualified the G-TEDA for designation have been impacted over time by its activities; and,
- Make this information available to the Legislature annually.

Definition of a G-TEDA

AB 485 defines a G-TEDA as an area designated as any of the following: an EZ, manufacturing enhancement area (MEA), targeted tax area (TTA), or local agency military base recovery area (LAMBRA).

Authority for Noncontiguous Areas

AB 485 authorizes cities and counties to apply for an EZ designation that includes noncontiguous boundaries, if the Director of HCD determines the area is needed to implement the applicant's economic development strategy and that areas between the noncontiguous areas were not excluded for discriminatory purposes.

Definition of "targeted employment area" (TEA)

AB 485 makes a number of changes to the definition of a TEA including:

- Requiring a TEA related to an EZ designated on or after January 1, 2007, be composed exclusively of census block groups with at least 61% of its residents be low- or moderate-income. Existing law defines a TEA as having at least 51% of the residents within a proposed census tract be low- and moderate-income. EZs would also have to designate TEAs under the more restrictive TEA standard.
- Requiring TEA designations be updated within 180 days of U.S. Department of Census data becoming available.

Outcome Oriented Selection Process

AB 485 revises the selection process for EZ designations after January 1, 2007. Key changes include, but are not limited to:

- Effective application design: Providing that a succinct and focused economic development strategy include an assessment of current financial and community development strengths, needs, and opportunities; clear articulation of goals; measurable objectives; specific implementation tasks; and identification of timeframes and a framework for evaluating performance.
- Local approval: Requiring benchmarks, goals, and objectives be approved by the local legislative body.

- Ranking criteria: Requiring applications be ranked based on the effectiveness of the economic development strategy and implementation, as prescribed.
- Quality not quantity: Expressing intent that HCD's review criteria not inadvertently reward length of the applicant's response rather than the quality and effectiveness of the response.

Setting Formal Designation Process

AB 485 provides for a single, comprehensive G-TEDA designation process, including: issuance of a letter of preliminary designation, minimum content for the MOU between the G-TEDA and HCD, and, set the local legislative body's management and oversight responsibilities, including funding levels for administration of the G-TEDA.

Elimination of Discriminatory Designation Criteria

AB 485 deletes the new EZ designation requirement that HCD consider an applicant's proximity to existing zones and makes every effort to locate new zones in a manner that does not adversely affect current zones.

Update to G-TEDA Performance Review

AB 485 makes a number of revisions to the auditing requirements, including:

- Scoring Audits: Revising the audit scoring procedure by requiring each element of the review be scored on a performance-based sliding scale;
- Sharing Audit Findings: Requiring local legislative bodies be given copies of their G-TEDA audits;
- Comprehensive Audit: Expanding the elements in the audit to include how well the G-TEDA's activities fit within the community's overall economic development plan, and the extent G-TEDA management comprehensively presents its accomplishments and work plan to the local jurisdiction. A description of the work plan; and,
- Program Continuity: Conforming the MEA, TTA, and LAMBRA audit requirements to the EZ requirements above.

Annual Progress Report and Work Plan

AB 485 makes a number of revisions to the oversight and monitoring of the G-TEDAs' progress in meeting their goals, objectives, and commitments set forth in their MOU, including:

- Requiring G-TEDAs report to HCD by October 1 on their previous years' activities and their plans for the current fiscal year, including: a specified annual work plan, previous years funding levels, and progress the G-TEDA has made toward meeting the goals, objectives and commitments set forth in both the initial application and the MOU;

- Requiring the local legislative body to receive a copy of the G-TEDA's annual report to HCD and to annually review the G-TEDA's progress in meeting its goals, objectives, and commitments set forth in the MOU;
- Requiring the local legislative body to approve the G-TEDA's annual work plan, and requires:
 - ✓ The work plan identify the major projects, programs, and activities the G-TEDA will undertake during the year to meet its goals, objectives, and commitments set forth in its MOU;
 - ✓ The work plan identify the funding levels necessary to accomplish its goals; and,
 - ✓ The G-TEDA administrator make a finding that the proposed funding level is sufficient to complete the project, activities, and programs identified in the work plan.

Update Goals and Objectives of Current Zones

AB 485 requires G-TEDAs designated prior to January 1, 2007, to update their goals and objectives by April 15, 2008, and to meet the annual reporting requirements by October 1, 2009. Further this bill:

- Requires the local legislative body and HCD to approve the updated goals and objectives;
- Requires the updated goals and objectives be amended into the MOU;
- Requires a G-TEDA, which fails to obtain approved goals and objectives by April 15, 2008, be dedesignated effective July 1, 2008;
- Authorizes HCD to provide up to two 60-day extensions; and,
- Provides that businesses located in a dedesignated G-TEDA that have previously accessed tax incentives may continue to access those tax incentives for a period equal to the original designation term of the G-TEDA.

Local Administrative Support

AB 485 requires HCD monitor the levels of financial and in-kind support provided by the local government. In addition, the bill:

- Requires HCD take all actions necessary to encourage the legislative body to provide additional support, if, in the determination of the director of HCD, the legislative body has demonstrated a pattern of providing inadequate support to meet the G-TEDA's goals, objectives, and commitments set forth in its MOU;

- Defines "a pattern of inadequate support" to mean providing support of less than 75% of the amount committed in the G-TEDA's work plan, initial application, and MOU, for a period of three of the last five years;
- Specifies that dedesignation of the G-TEDA is a last resort for legislative bodies that fail to meet their funding commitments; and,
- Provides that businesses located in a dedesignated G-TEDA that have previously accessed tax incentives may continue to access those tax incentives for a period equal to the original designation term of the G-TEDA.

Statewide Marketing Plan

AB 485 requires HCD, in conjunction with the California Business Investment Services, to ensure that G-TEDAs have a comprehensive statewide marketing plan.

Franchise Tax Board (FTB) Information for the Legislature

AB 485 expands the information FTB is required to annually make available to the Legislature to include the length of employment of vouchered employees; i.e. how many vouchers were claimed for workers in their first year of employment.

HCD Report to the Legislature

AB 485 expands HCD reporting requirements by requiring the department to annually make available to the Legislature, information on:

- The progress of each G-TEDA is making in meeting the goals, objectives, and commitments set forth in the MOU;
- The extent training programs were used by each G-TEDA; and,
- The number of vouchered employees that are participating, or have participated in, public assistance programs.

Further Information

Please refer any comments or questions regarding AB 485 to Toni Symonds or Andrew Hoag, at 916-319-2090.