



NATIONAL UNIVERSITY SYSTEM
INSTITUTE FOR POLICY RESEARCH

A POWERFUL ENGINE FOR SOUTH BAY:

CHULA VISTA AND THE SAN DIEGO

REGIONAL ENTERPRISE ZONE

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Executive Summary

Through its participation in the San Diego Regional Enterprise Zone (EZ), the City of Chula Vista has received a high return on its investment and helped improve its local economy.

- * Chula Vista's participation in the San Diego Regional Enterprise Zone produced an estimated **total economic impact of \$11.57 million** in 2008.
- * Small businesses have been the biggest beneficiaries of the enterprise zone – **65% of companies receiving one of the main benefits from participation in the program have 50 or fewer employees.**
- * More than **650 hiring credit vouchers** have been issued throughout Chula Vista's participation in the California enterprise zone program, **a sum worth more than \$3.2 million in state tax credits.**
- * Since 2004, at least 385 low income residents of the City living West of Interstate 805 have been employed by EZ participating companies.

- * The participation costs to the City of Chula Vista are minimal. In Fiscal Year 2007, the City provided approximately \$97,000 towards the operational, marketing and training costs of the EZ program.

Enterprise Zones in California

Enterprise zones (EZs) are special packages of tax and other incentives designed to increase jobs and investment opportunities within a limited, economically-distressed area. Invented in Great Britain in the 1970's, and popularized in the United States under the leadership of President Ronald Reagan, EZs have become a major component of urban renewal strategies across the nation.

More than 40 states have established EZ programs tailored to their own unique needs and goals. Created in 1984, California's Enterprise Zone program exists in 42 zones throughout the state and is designed to stimulate business investments in areas where they are traditionally slow, and to increase job opportunities in areas of high unemployment. The program provides new and established companies within the zone four key state benefits:¹

- 1) Sales Tax Credit: A tax credit against the purchase of new qualified machinery and machinery parts, valued up to \$1.35 million annually.
- 2) Hiring Credit: A tax credit on up to 50 percent of the wages to qualified new employees over a five-year period on a sliding scale (up to 50 percent in the first year, 40 percent in the second year, etc.). This credit could exceed \$31,500 per eligible employee. The types of workers qualified include military veterans, ex-offenders, recipients of government assistance, and residents of the designated enterprise zone area.
- 3) Net Interest Deduction for Lenders: this benefit allows financial lenders a deduction on the net interest earned from loans (business loans, mortgages) made to participating Enterprise Zone businesses.
- 4) Net Operating Loss Carry-Forward: up to 100% of a business' net operating losses may be carried forward as a tax deduction for fifteen years.

In addition, municipalities that have EZ typically expedite local permits and provide technical assistance for EZ participants. Combined, these incentives have helped retain businesses in some of the state's

¹ For more information about Enterprise Zone benefits, please visit the program's website at the State of California's Department of Housing and Community Development, <http://www.hcd.ca.gov/fa/cdbg/ez/#EZ>

most economically distressed areas through two recessions, spurring greater capital expenditures, and expanding workforce opportunities for at-need, disadvantaged and economically challenged Californians. Since 1986, California's EZ program has been a net gain for San Diego's economic climate – assisting in the creation and retention of more than 25,000 area jobs, and spurring nearly \$1 billion in private investment.

The South Bay Enterprise Zone – A Historical Look

Chula Vista's participation in the state EZ program has only been a recent development; city officials had previously filed an application to receive an EZ designation in the mid-1980's, but it was rejected. The "South Bay Zone" was ultimately established in 1992 to include 6,563 acres in Otay Mesa and San Ysidro, and later expanded in 2000 to include 447 acres in Chula Vista's bay front area, as well as 84 acres in National City.² Many large employers were located in the South Bay Enterprise Zone including Delimex, Sony, Honeywell, Howard Light Industries, Panasonic, Martin Furniture, Raytheon, and Sanyo. From 1990-2000, unemployment dropped in the South Bay EZ, which also saw a significant drop in the poverty rate (22% to 16%) compared to the City of San Diego's overall rate, which increased from 13% to 15%.

The South Bay Zone proved to be a key component of economic development. After expanding to include Chula Vista's bay front area in 2000, the benefits under the South Bay Enterprise Zone were a significant benefit of a local economic relief package created for aerospace giant Goodrich Corporation, which was under high pressure to relocate and slash hundreds of local jobs. Goodrich became the first Chula Vista business to participate in the South Bay EZ, which they anticipated would net them \$1.25 million in benefits.³ The company gave glowing reviews of its EZ participation:

"BFGoodrich Aerospace Aerostructures Group is the first Chula Vista business to take advantage of the Enterprise Zone designation. 'They said this certainly was a major enticement to stay here,' says Jeri Gulbransen, public information officer for the city of Chula Vista. 'The potential for tax savings and other incentives is tremendous,' says Ken Wood, vice president and general manager for BFGoodrich."⁴

Other businesses quickly capitalized on the program. In July 2003, the South Bay Boat Yard, a small repair business in Chula Vista stated that the EZ program "has been absolutely terrific for us," crediting its benefits to help its business grow, including doubling the size of its workforce and utilizing more than \$150,000 in tax benefits to purchase fork lift machines and repair tools.⁵ Over all, more than \$1.1

² "SD Enterprise Zone." *City News Service*. 21 May 2004.

³ Oakes, Amy. "South Bay Enterprise Zone adds Chula Vista bay front." *San Diego Union-Tribune*. 20 April 2001.

⁴ Burke, Terence. "Airport Parking is Up; The Stennis Ships Out." *San Diego Metropolitan*. May 2001.

⁵ Green, Frank. "Stuck in the danger zone; Huge California budget deficit puts county's enterprise areas in jeopardy." *San Diego Union-Tribune*. 6 July 2003, pg. H-1.

million in hiring credits have been received from Chula Vista businesses. From 2000-2006, at least six Chula Vista based employers have participated in the enterprise zone program, creating 114 jobs with an average wage of \$14.58 per hour.⁶

San Diego Regional Enterprise Zone

In 2006, local lawmakers in the City of San Diego, National City and Chula Vista successfully developed a strategic partnership and applied for the approval of a larger, reorganized “Regional Enterprise Zone” (REZ) that stretches across 36,000 acres in more of the communities that need additional investments and job opportunities. The REZ has since been conditionally approved by the state, and businesses within the REZ began qualifying for benefits in late 2007. Today, approximately 6,400 acres of Chula Vista is covered under the REZ, which is more than a fourteen-fold increase from the covered city land under the South Bay EZ. With hundreds of more local businesses now able to tap into the lucrative program benefits, the Regional Enterprise Zone has been a stunning success for economic development efforts on Chula Vista’s west side.

Outcomes

According to public records, Chula Vista’s first full year participating in the Regional EZ has been a positive economic experience.

Approved hiring credit vouchers more than quadrupled (446%) from 2007’s tally, rising from 96 to an estimated 428. More than 650 hiring credit vouchers have been issued throughout Chula Vista’s participation in the California enterprise zone program, a sum worth more than \$3.2 million in state tax credits. EZ benefits in 2008 were concentrated to those most at need – small businesses and local residents. 62% of companies receiving hiring credit vouchers employ 50 or fewer workers, and citywide, 90% of vouchers were receiving by “targeted employment area” residents – those living within the designated west side EZ. The jobs that have been created or retained with the use of hiring vouchers are good paying positions, and field from a diverse number of industries, including retail, heavy industry, and construction. Wages range from the state minimum to as high as \$36 dollars an hour, and the average rate fell at \$9.80 an hour, 122% above the hourly minimum wage.

Analyzing the industries which receive vouchers, employment numbers, and average earnings, the San Diego Institute for Policy Research estimates that in 2008, Chula Vista’s participation in the San Diego Regional Enterprise Zone produced a total economic impact of \$11.57 million.

⁶ City Council Agenda Statement. City of Chula Vista. 8 August 2006 meeting, Item No. 4, pg. 4-3.

What's At Risk in the City of Chula Vista's Ongoing Budget Discussions

The San Diego REZ is still only conditionally approved by the state of California, and is at risk of elimination if the cities of San Diego, National City, and Chula Vista do not meet their contractual obligations. The original tri-city partnership calls for National City and Chula Vista to commit to marketing the EZ program to businesses in their respective municipalities. Chula Vista has a designated "Principal Economic Development Specialist" employee at City Hall to manage marketing and promotion responsibilities under the agreement. Under the REZ Memorandum of Understanding, Chula Vista is required to provide 1,000 hours of staff time towards program assistance. Historically, Chula Vista has provided \$97,000 a year towards operational, marketing, and training costs of the EZ.⁷ National City and SD are in a difficult position to take over these duties if the Chula Vista City Council chose to cut the employee during future budget-balancing sessions, given the budget problems cities throughout the San Diego region face.

Moreover, Chula Vista is posed, SDI believes, to receive even greater economic benefits through the Enterprise Zone if it can maintain its funding and staffing commitment. Since the Regional Enterprise Zone has not received a final designation from the state, it can still extend its borders through an official "expansion" to extend the geographic area that it covers, and may even consider "boundary modifications" after an expansion. There is ample opportunity to use vital U.S. Census data and community input to identify more economically-challenged areas within Chula Vista that should be covered under the REZ, and have these new areas added to the program in the coming years.

The EZ program encourages businesses to hire and retain more low skilled employees, which is important in today's economic downturn. These jobs may often be the first opportunities for employment these individuals have after reentering society, such as the case may be with an ex-offender or military veteran, and thus it provides a critical first opportunity to learn new skills that will enable them to reach for higher-paying skilled positions.

Conclusion

Chula Vista's participation in the EZ program is a critical investment in protecting its local economic future and its unique community character. With a broader regional EZ approach, Chula Vista has gained tremendously, creating jobs and protecting small businesses. But these gains are fragile, and can be quickly lost with the elimination of the city's economic development specialist position and the loss of the EZ marketing budget. With a long term multi-million dollar gap projected in the city government's budget, the City Council would be wise to find sustainable solutions to meet its fundamental enterprise zone commitments.

⁷ City Council Agenda Statement. City of Chula Vista. 8 August 2006 meeting, Item No. 4, pg. 4-5.

About the National University System Institute for Policy Research

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