

Agency Rpt



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



37

APPROVED
BY THE CITY COUNCIL

SEP 23 1986

September 23, 1986

Redevelopment Agency of the
City of Sacramento
Sacramento, CA 95814

City Council of the
City of Sacramento
Sacramento, CA 95814

OFFICE OF THE
CITY CLERK

CITY MANAGER'S OFFICE

APPROVED
SEP 23 1986
SACRAMENTO REDEVELOPMENT AGENCY
CITY OF SACRAMENTO

RECEIVED
SEP 17 1986

Honorable Members in Session:

SUBJECT: Preliminary Application for Enterprise Zone Designation
for: 1) Oak Park/Florin-Perkins Area; and
2) Downtown/Richards Boulevard Area

SUMMARY

Preliminary applications for designation of identified geographical areas within cities and counties as state Enterprise Zones are due September 25, 1986. This is the second round of designations authorized by the State, which will select six finalists from among the various preliminary applications for a total of three additional designations under AB 514 (Waters).

This report recommends the submittal of two preliminary applications for 1) the Oak Park/Florin Perkins area (Map 1), and 2) the Downtown/Richards Boulevard area (Map 2). These are the only two remaining eligible areas in Sacramento.

BACKGROUND

In the first round of Enterprise Zone designations, the State approved ten zones under AB 40 (Nolan) and three zones under AB 514 (Waters). Sacramento was successful in receiving conditional final designation for the Del Paso Heights/Northgate area under AB 514.¹

¹ Although the Agency responded to the conditions requested several months ago, the State has not submitted the final regulations allowing the Department of Commerce to award any final designations.

9/23/86
Districts 1,
5, 6

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This year, no additional zones will be designated under AB 40, but there will be three additional zones under AB 514.

The Enterprise Zone concept embraces the notion that tax incentives and removal of regulatory barriers can help generate private investment in economically distressed areas. While legislation initiating the program at the federal level has been held up, many states, including California, have initiated state level programs, which both provide for a series of state tax and program incentives (See Attachment 3) and call for a series of local (City and County) regulatory relief and program measures. AB 514 concentrates on job generation for persons from specific severely distressed areas.

Both programs require cities or counties desirous of obtaining Zone designation to compete for a limited number of available designations. Those cities or counties offering the best overall strategy and/or package of local incentive measures stand the best chance of success. State staff has indicated that they will be looking for a mix of program approaches -- some urban, some rural; some emphasizing new development or a single large hiring source, others emphasizing infill, redevelopment and preservation/expansion of existing businesses. No financial resources are made available directly to localities under either program.

However, there are some strong arguments for us to proceed with additional applications. These include:

1) Not having a zone designation can put us at a competitive disadvantage with other jurisdictions that do, with respect to encouraging new business development. The success of the program statewide remains to be seen. However, if it does become widely known and accepted, as it has in other states, this point will become even more important. There is also a distinct possibility that the program will create a positive public relations effect separate and distinct from any real benefits offered through the program.

2) Whereas the benefits of state zone designation may be relatively small, the federal proposal, if enacted, will provide benefits of a much more substantial nature. The federal program will also be highly competitive in nature. Zone designation under the State program will almost assuredly be a necessary precursor to successful competition under the federal legislation.

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3) We have distressed areas where we have tried just about everything else. Our Downtown, Oak Park and Del Paso Heights renewal efforts are long standing. Some successes have been noted, but persistent and systematically ingrained economic problems remain. The addition of the Enterprise Zone incentives to the other programs we have tried to implement in these areas, while in no way assured, may serve as a useful complement to efforts currently underway to revitalize these neighborhoods.

The Oak Park/Florin-Perkins preliminary application focuses on a severely distressed residential/commercial area (Oak Park-Broadway/Stockton Boulevard) with an industrial area (Florin-Perkins) that has been partially developed but, still has significant opportunity for growth. The benefits of this Enterprise Zone designation would be to create and strengthen a link between the large numbers of unemployed in the Oak Park neighborhood with jobs in Florin-Perkins businesses. This link is particularly important, because, under the AB 514 legislation, businesses must have a full 30% of their labor force from High Density Unemployment Areas (HDUAs) (Del Paso Heights, Downtown and Oak Park, see map) before they qualify for any of the State Enterprise Zone tax credits (see the application summary in Attachment 1).

The preliminary application for Downtown incorporates an economic strategy that combines a distressed residential/commercial district (Downtown) with an established industrial area, but with an emphasis on commercial rather than industrial use of the Enterprise Zone program. This strategy is the one which will, in all likelihood, maximize total financial benefits to Sacramento businesses in that it provides Zone designation to a very active and sizeable commercial area. The monetary benefits might, it could be argued, create more jobs and more total new investment than in other areas. This strategy could also provide a needed boost to such areas as J Street and Old Town and could prove to be a very positive influence, for example, in the "Docks Area" (see the application summary in Attachment 2).

Summaries of the two applications are attached, including descriptions of the areas, development activity, existing job training programs and business programs, and proposals for new programs and incentives if Enterprise Zone designation is received.

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Local incentives

The list of recommended incentives are very similar to those offered for the Del Paso Heights/Northgate Enterprise Zone. This will make program administration more efficient and less confusing to businesses. The incentives are:

1. A special set-aside of Job Training Partnership Act (JTPA) on-the-job training funds will be reserved for Enterprise Zone firms. Additionally, Zone firms will be given a priority for usage of a special allocation of \$250,000 in customized classroom training funds.

2. A "Job Bank" will be established in the Enterprise Zone neighborhoods to serve as a one-stop clearinghouse for Zone residents and businesses. There would be extensive recruitment and screening of residents, and referrals to training programs or directly to jobs. Employers would also be able to work directly with the Job Bank rather than having to deal with several agencies such as Employment Development Department, Private Industry Council, Employer's Training Panel, and the 26 JTPA job training providers. The Enterprise Zone Coordinators will apply for other funds to support a staff position in the Job Bank.

3. An Enterprise Zone program coordinator will be available to promote and administer the program. This program, like the first EZ project, will be administered out of the Economic Development unit at SHRA. The costs will be funded solely from City or jointly from City/County Community Block Grant (CDBG) Economic Development funds, depending on the selected zone.

4. The Enterprise Zone will be designated as an eligible area for our CDBG and tax increment funded commercial loan programs. These programs are currently funded at \$1.0+ million annually, and include:

- a) Storefront improvement rebates of up to \$7,500 per storefront in Oak Park, and \$10,000 for Downtown.
- b) Commercial rehabilitation loans of up to \$200,000 per property at six percent interest rate in Oak Park and nine percent for Downtown.
- c) Commercial/industrial development loans of up to \$200,000 for Oak Park.

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5. The City/County have contracted with the Sacramento Metropolitan Chamber of Commerce to operate a Small Business Administration (SBA) Certified Development Corporation capable of generating and processing SBA 504 and 7a loans as well as providing access to commercial loan markets. The CDC will be directed to assist Enterprise Zone businesses in generating needed capital. Contract costs will be \$100,000+ per year, funded from joint City/County CDBG Economic Development funds.

6. A Minority Business Enterprise/Women's Business Enterprise (MBE/WBE) coordinator position will be available within the Sacramento Housing and Redevelopment Agency to provide increased opportunities for minority- and women-owned firms to participate in local government contracting opportunities. The coordinator will be instructed to concentrate outreach efforts in the Zone area. Estimated annual program costs will be \$100,000+ to be funded from City and County CDBG funds.

7. The Environmental Coordinator at the Sacramento Housing and Redevelopment Agency will assist Zone firms in meeting the requirements of the environmental review process. Under the "master" Environmental Impact Report (EIR) process authorized for the Zones, this assistance should virtually eliminate delays due to the environmental review process for Zone firms.

8. A special business crime prevention program will be available on a priority basis for businesses in the Zone.

9. In Oak Park, technical assistance for small businesses will be provided by the Commercial Revitalization Coordinators (Oak Park and Stockton Boulevard). Estimated annual program costs are \$50,000, funded from City and County CDBG funds and Oak Park tax increment funds.

10. For Downtown businesses, and industrial firms located in the Richards Boulevard area or the Florin-Perkins area, the Enterprise Zone Coordinator will act as a one-stop referral source for business assistance.

Centralized information and referral will allow a business to obtain technical and managerial assistance, find out about product information, reduce energy costs, avoid lay-offs and closures, and obtain employee referrals.

11. The City and County have agreed to waive, for participating Zone firms, all fees and charges normally charged by the City, County or Redevelopment Agency for assistance to businesses applying for Industrial Development Bonds (IDBs) and who qualify for Enterprise Zone Assistance. This could amount to \$20,000- \$30,000 per applicant. The City/County/Agency will also give first priority to Zone applicants for IDB authority.

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12. The City/County will pay permit related expenditures involved in constructing, rehabilitating or expanding businesses in the Zone area, as follows:

Building Permits and Plan Check Fees

Encroachment Permit Charges

Zoning and Land Use Related Fees charged by the City or County such as those for use permits, variances, etc.

Business License Fees

Again, these fees will be reimbursed only for qualified Enterprise Zone firms. The funds will be allocated from CDBG funds.²

13. A primary function of the Zone Coordinator will be assisting qualified Zone firms with application for land use and building permits. The Coordinator will thus serve as a permit expeditor and "trouble shooter" and will minimize problems and potential delays for Zone firms.

14. An important function of the Zone Coordinator will be to keep accurate records on Zone progress (e.g. permits issued, square footage constructed, persons hired, demographic data, etc.) and to report to the State as well as the City and County on Zone success or failure. An annual evaluation and report will be published for public information which will compare business and construction as well as hiring activity in the Zone to other areas in the City/County.

15. There will be some "area specific" incentives (e.g. the Waterfront Restoration) which will be included on an application by application basis. These will be presented in the individual application packages.

² Zone businesses will be eligible for fee reimbursement if they have met the Zone eligibility requirements, which means that they must have hired 30% of their labor force from HDUAs, and these employees have not been terminated before 270 days of employment. The 270-day requirement is consistent with the State wage tax credit requirement available to Enterprise Zone firms. The businesses must also sign a participation agreement with JTPA job training providers for hiring and recruiting employees.

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ENVIRONMENTAL DATA

State law requires that an Initial Review and Notice of Determination be filed with the preliminary applications. However, the State has agreed to accept the Initial Environmental Studies submitted with the Enterprise Zone preliminary applications last year.

FINANCIAL DATA

The primary financial impact on the City and County for these programs is the targeting or extension of existing programs (i.e. MBE/WBE coordinator, neighborhood clean-up and nuisance abatement program, Chamber Community Development Corporation, tax increment and Community Development Block Grant funded commercial financing programs, commercial revitalization coordinators, etc.). The Enterprise Zone program coordinator's duties will be extended to the new Zones if approved. For the fee reimbursements, no additional allocation of CDBG funds is needed at this time, as the commitment refers to the \$100,000 previously approved for the existing EZ.

Numerous tax benefits will flow directly to qualifying area firms and their employees. Other programs, such as the Job Training Partnership Act and Sacramento Area Commerce and Trade Organizations' outreach efforts will also be employed.

POLICY IMPLICATION

The actions proposed in this staff report are consistent with previously approved policy and there are no policy changes being recommended. The various benefits and costs associated with applying for Enterprise Zone designation were considered at length when the four preliminary applications were authorized to be submitted to the State in March 1985. At that time, the City and County agreed to submit the applications and to provide certain incentives to development as stipulated in each application. We believe that the program can be successful in complementing our existing economic development and redevelopment efforts in the areas selected.

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VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of September 15, 1986, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES: Glud, Lopez, Moose, Pettit, Sanchez, Sheldon, Wooley, Amundson

NOES: None

ABSENT: None

RECOMMENDATION

The staff recommends that you:

- 1) Authorize the Executive Director to submit preliminary applications for designation of the program areas of Oak Park/Florin-Perkins and Downtown/Richards Boulevard areas under the Employment and Economic Incentive Act and as described in the applications;
- 2) Certify that the High Density Unemployment Areas (HDUAs) do not include non-distressed areas;
- 3) Certify that no portion of the program area is an agricultural area;
- 4) Certify that the HDUA is within reasonable commuting distance of the proposed program area and that it is reasonable to expect that program area businesses will hire HDUA residents;
- 5) Endorse the concepts of, and authorize staff to include, the general incentives described in the staff report in each of the application packages;

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6) Authorize the Executive Director to act as the Local Agent for the City and County to administer the Enterprize Zone Program.

Respectfully submitted:

William H. Edgar

WILLIAM H. EDGAR
Executive Director

WHE/CS:cmc

TRANSMITTAL TO COUNCIL:

Walter J. Slife

WALTER J. SLIFE
City Manager

Contact Person: Thomas V. Lee
440-1355

0492J

RESOLUTION NO. 86-060

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF

September 23, 1986

AUTHORIZING SUBMITTAL OF APPLICATIONS
FOR STATE ENTERPRISE ZONE DESIGNATION



WHEREAS, the Redevelopment Agency of the City of Sacramento wishes to promote the economic vitality of the Sacramento area by applying for designation under the State of California Enterprise Zone program for the Oak Park/Florin-Perkins area and Downtown/Richards Boulevard area;

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1. The Executive Director is hereby authorized to submit preliminary applications for designation of the program areas of Oak Park/Florin-Perkins and Downtown/Richards Boulevard under the Employment and Economic Incentive Act as described in the applications:

Section 2. It is hereby certified that:

(a) The High Density Unemployment Areas (HDUAs) do not include non-distressed areas;

(b) No portion of the program areas is an agricultural area;

(c) The HDUAs are within reasonable commuting distance of the proposed program areas and that it is reasonable to expect that businesses in program area will hire residents from HDUAs;

Section 3. The concepts of the general incentives described in the staff report for this resolution shall be used by staff in each of the application packages;

Section 4. The Executive Director is hereby authorized to act as the Local Agent for the City and County to administer the Enterprise Zone Program.

CHAIR

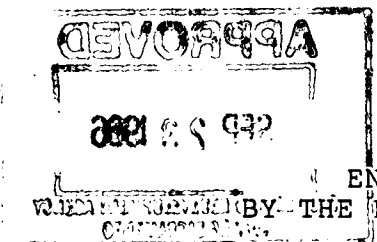
ATTEST:

SECRETARY

RESOLUTION NO. 86-727

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

September 23, 1986



ENDORING THE SUBMITTAL OF AN APPLICATIONS
 REDÉVELOPMENT AGENCY OF THE CITY OF SACRAMENTO
 FOR STATE ENTERPRISE ZONE DESIGNATION
 FOR THE OAK PARK/FLORIN-PERKINS AREA

WHEREAS, the City of Sacramento wishes to promote the economic vitality of the Sacramento area by endorsing the Enterprise Zone application for the Oak Park/Florin-Perkins area.

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO:

Section 1. It is hereby certified that the City of Sacramento does not wish to participate as an applicant, but endorses the application of the Redevelopment Agency of the City of Sacramento for designation of an enterprise zone for the Oak Park/Florin-Perkins Area under the Employment and Incentive Act. City agrees to complete any new actions, programs, or incentives, called for in the City's jurisdiction by the application in the event the area is designated;

Section 2. The High Density Unemployment Area is hereby within reasonable commuting distance of the proposed program area and that it is reasonable to expect that program area businesses will hire HDUA residents;

Section 3. The concepts of the general incentives described in the staff report for this resolution shall be used by staff in the application package;

Section 4. The Executive Director is hereby authorized to act as the Local Agent for the City and County to administer the Enterprise Zone Program.

MAYOR

ATTEST:

CITY CLERK

SUMMARY OF OAK PARK/FLORIN-PERKINS ENTERPRISE ZONE APPLICATION

The Oak Park neighborhood has been one of Sacramento's most troubled residential/commercial areas for many years. The major problems in the area are persistently high unemployment rates, low incomes, high crime rates and an overall negative image. There has been severe deterioration of commercial structures characterized by property abandonment, high rates of conversion to lower uses, and a high level of business foreclosures. The aging housing stock continues to deteriorate. Rental properties are not well managed, and are poorly maintained. As a result, the vacancy rate is a high 16.3%. Over 60% of Oak Park households are families, with over one-third (36.6%) of these headed by one parent.

Despite the attempts of various government programs to improve the standard of living for Oak Park residents, there is a high concentration of low-income families in the neighborhood. Thirty-seven percent¹ of the households are considered below the poverty level. Prevalent unemployment largely explains the low household income. In 1980, the unemployment rate was 25.1%, compared to the citywide rate of 10.3%. Among minority residents, nearly one-fourth were unemployed. The unemployment problems have been chronic and persistent. Educational achievement is low -- only 57.0% of the population over the age of 25 has graduated from high school, compared to a citywide rate of 71.6%. There is a lack of specialized skills or vocational training. In addition, most of those employed are in occupations that tend to have low wages or are seasonal (22.0% in clerical occupations, 24% in service jobs and 20% operator, assembly, craft or repair occupations).

Adjacent to the Oak Park neighborhood is the Florin-Perkins area, a major industrial development, with over 600 firms employing 6,400 employees, primarily in heavy manufacturing and warehousing activities. The area has significant potential for growth and the creation of new jobs. Nearly 40% of the 4,000 acres contained in the Zone is available for development. Because of its location, facilities and general character, the area has generally been considered a prime development area for industrial uses. Land costs at \$1.90/acre are the lowest of all the industrial areas in the Sacramento Region.

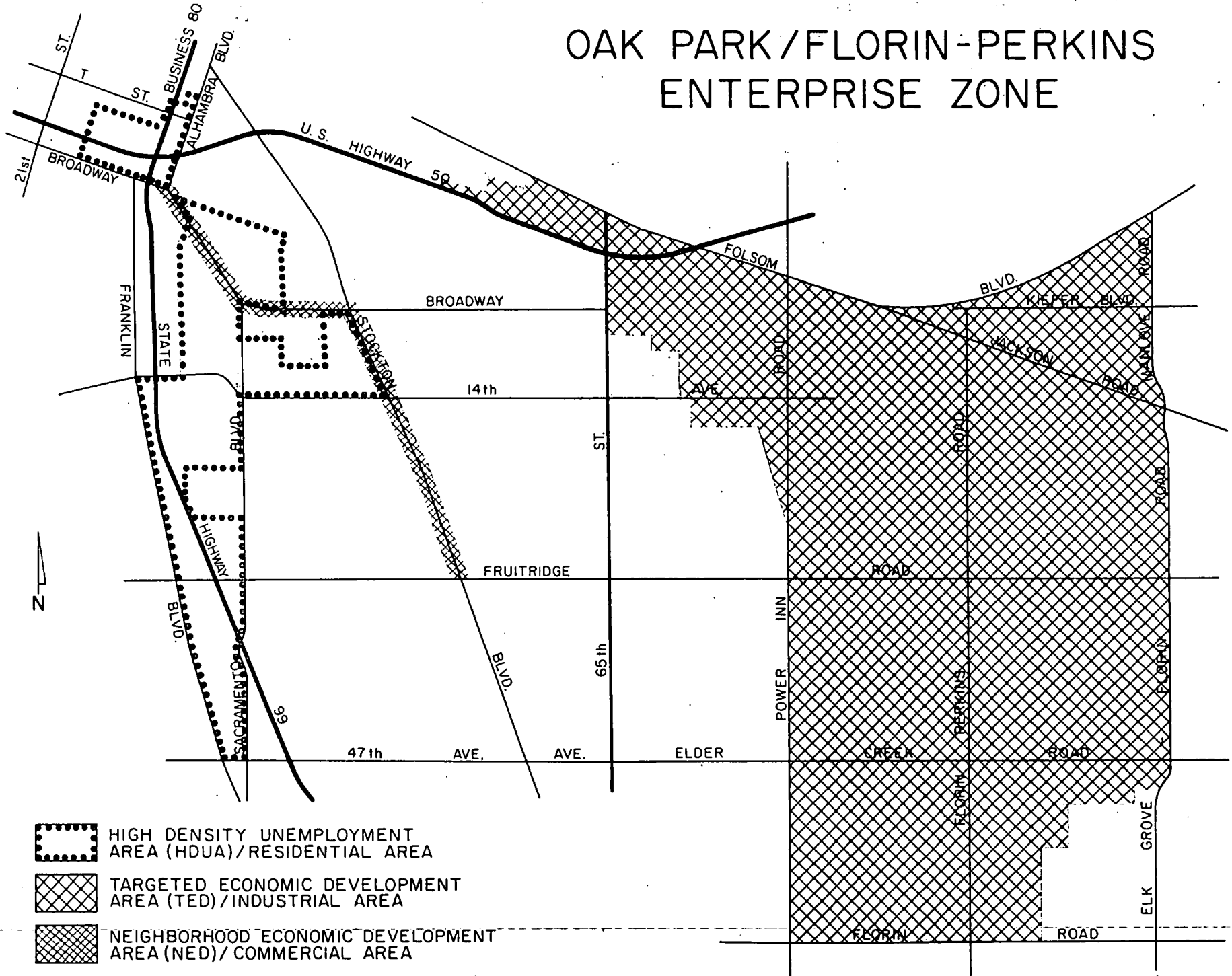
In the recent past, development of industrial land in the Power Inn Road area was constrained by poor internal circulation, limited freeway access and increasing levels of traffic congestion in and around industrial areas. However, these constraints will be reduced when the improvements to Florin-Perkins Road and the access to Highway 50 and Folsom Boulevard are completed as scheduled by Spring 1987.




1 Source: 1980 Census statistics by Block Group.

Designation of an Enterprise Zone, with its attendant state income tax credits and incentives is well-designed to fit the City's economic development strategy for this area. First of all, infrastructure improvements laying the foundation for growth in the Florin-Perkins area, the Enterprise Zone will be an effective marketing tool and financial incentives to attract new development. Secondly, designation as an Enterprise Zone may well be the action that will reduce unemployment in Oak Park when so many other attempts have had little impact. The Enterprise Zone supported by intensified local job training and recruitment efforts will encourage businesses to look to Oak Park for their employees and a link will be formed between jobs and the unemployed. Through the Enterprise Zone Program, Oak Park residents have a much better chance of being employed in those new jobs.

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OAK PARK / FLORIN-PERKINS ENTERPRISE ZONE



-  HIGH DENSITY UNEMPLOYMENT AREA (HDUA)/RESIDENTIAL AREA
-  TARGETED ECONOMIC DEVELOPMENT AREA (TED)/INDUSTRIAL AREA
-  NEIGHBORHOOD ECONOMIC DEVELOPMENT AREA (NED)/COMMERCIAL AREA

SUMMARY OF DOWNTOWN/RICHARDS BOULEVARD
ENTERPRISE ZONE APPLICATION

Downtown Sacramento is the highest priority area for business development in the City of Sacramento. The need to encourage commercial, industrial and employment growth in re-use and infill activities rather than other types of development such as fringe expansion has been consistently identified. The City has prepared a comprehensive plan and strategy for development of the area which will be greatly facilitated by Enterprise Zone designation.

Although some progress has been made to date in revitalizing the core area, significant problems remain. Housing conditions are not good (most of the housing in the area is either publicly owned or otherwise subsidized), income levels are very low (the area qualifies as a Pocket of Poverty under Federal Urban Development Action Grant Criteria) and businesses are struggling. The unemployment rate is 19.8% (1980 census), despite the fact that there are approximately 46,000 jobs on the doorstep of the residential area. Part of the reason is attributable to the low educational levels. Only 52.1% of the residents are high school graduates, compared to a citywide rate of 71.6%. Homelessness is an ever present and highly visible problem. The J and K Street corridors, identified as a Neighborhood Economic Development/Commercial Area under this proposal, with a total net loss of 400,000 square feet of retail space since 1975, have experienced major department store closures and continued incidence of poor building conditions with a weak, unstable market. Conversions of retail use into office space is a manifestation of the problem. Competition from suburban shopping districts is a major cause of the poor market in Downtown. Even Old Sacramento has recently experienced major commercial difficulties. High vacancies, frequent turnover and competition from outlying restaurants were all cited as contributory problems here.

The Richards Boulevard corridor, which is designated as the Zone's industrial area, is an important industrial/warehousing area in the City, but suffers in image because of several transient shelters which were located there. There have also been significant plant closings in the food processing industry there.

The City's strategy for revitalization of Downtown, as outlined in this application, includes extension of our "Light Rail" system directly down K Street, to help with the market access problem; direct assistance to commercial rehabilitation and housing development; waterfront development along the Sacramento River in both the Old Sacramento and "Docks" area (south of the Tower Bridge); a comprehensive plan for dealing with the homeless; and numerous "public" projects such as the following:

SHRA Budget Allocations

. Convention Hotel Parking Facility	\$ 4,000,000
. Old Sacramento Waterfront Improvements	1,650,000
. "The Docks" Improvements	3,500,000
. Food Court/Galleria	100,000
. Parking Facilities	5,000,000
. Convention Center Expansion	12,500,000
. SRO Hotel Rehabilitation	300,000
(also \$1.0 million State funds)	
. Housing for Homeless	600,000/yr
. Market Rate Housing	5,300,000
. St. Rose of Lima Park Improvements	150,000
. NE Office/Mixed Use Development	2,720,000
. Parking Garage, D-1	400,000
. Library Expansion	11,500,000
. City Plaza Improvements	268,367
. Infrastructure Improvements	500,000

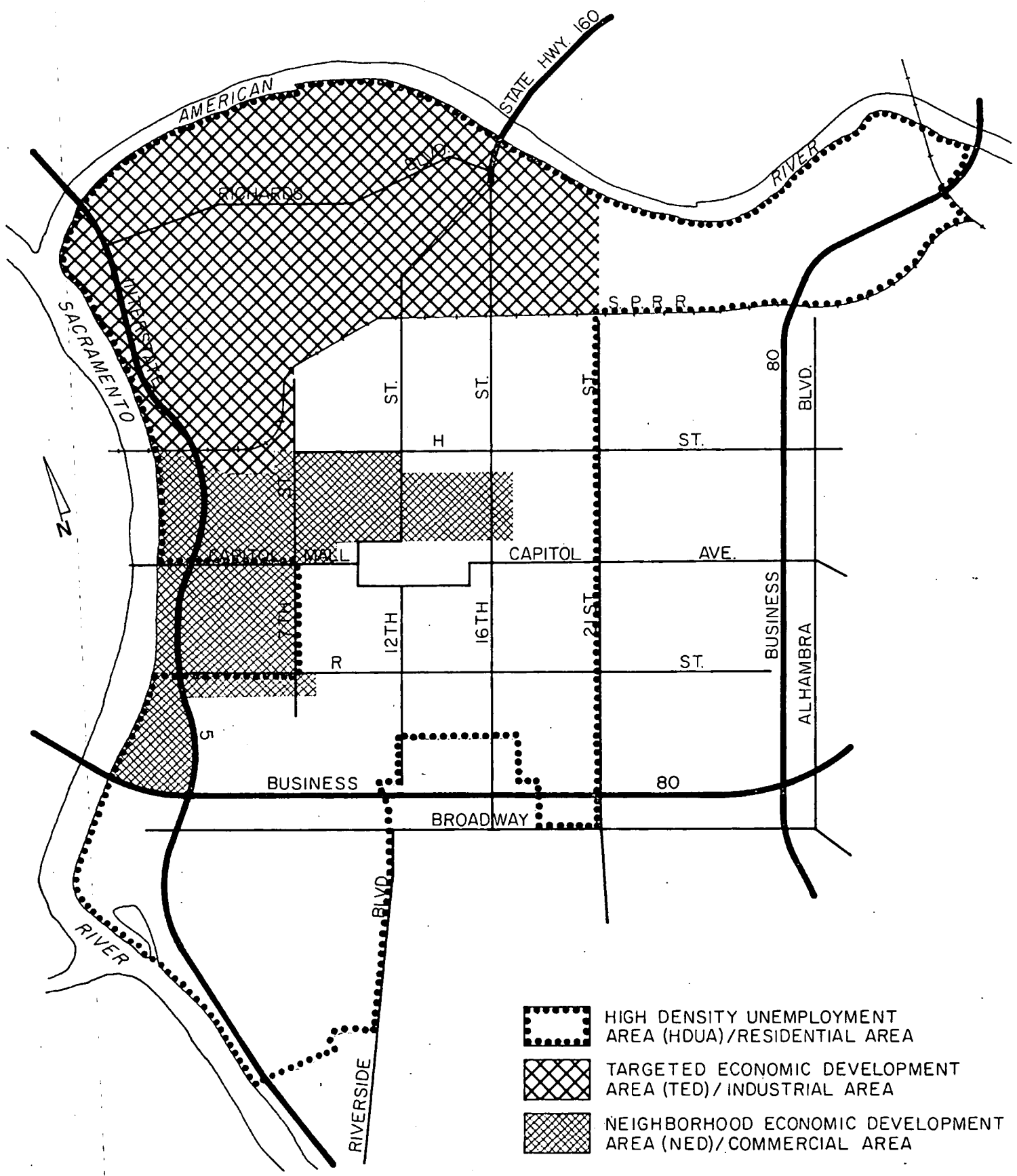
These projects are expected to spur private investment in Downtown.

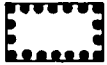


Enterprise Zone designation would induce further development and employment activity that would not otherwise occur.

The Downtown/Richards Boulevard area is in many respects ideally suited for Enterprise Zone designation. The City anticipates that the programs will provide a comprehensive set of effective incentives. The combination of tax incentives, regulatory relief and the public/private partnership outlined above will provide a good chance for success of the Zone and the creation of significant numbers of new jobs and capital investment.

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DOWNTOWN / RICHARDS BOULEVARD ENTERPRISE ZONE



-  HIGH DENSITY UNEMPLOYMENT AREA (HDUA)/RESIDENTIAL AREA
-  TARGETED ECONOMIC DEVELOPMENT AREA (TED)/INDUSTRIAL AREA
-  NEIGHBORHOOD ECONOMIC DEVELOPMENT AREA (NED)/COMMERCIAL AREA

THE EMPLOYMENT AND ECONOMIC INCENTIVE ACT

(AB 514, Waters)

SUMMARY OF STATE TAX INCENTIVES

NOTE ON THE DEFINITION OF A QUALIFIED BUSINESS

The credits and deductions allowed for a business in a designated program area are generally available only to qualified business. To become a qualified business, a certification form must first be submitted to and approved by the California Department of Commerce. These forms will be available from the Department beginning in October of 1986.

A business will be certified by the Department of Commerce if:

1. 50% or more of the business' workforce resides in a specified area known as a "High Density Unemployment Area" (HDUA), or;
2. 30% or more of the business' workforce resides in a HDUA and the business pays a community service fee, or;
3. the business is at least 30% owned and operated by residents of an HDUA.

In addition, a firm may qualify for only the hiring credit (see next page) allowed under this program, if the business:

1. 50% or more of the workers hired by the business over the last year reside in an HDUA.
2. 30% or more of the workers hired by the business over the last year reside in an HDUA, and the business pays a community service fee.

STATE TAX CREDITS AND DEDUCTIONS OFFERED IN DESIGNATED PROGRAM AREAS, AS AMENDED BY AB 1842, JUNE 1986.

SUMMARY OF CREDIT OR DEDUCTION

1. Employer Credit Against Net Tax For Hiring Unemployed HDUA Residents.

Amount of Credit:

- o If unemployed for a period of more than six months:
 - 12% of qualified wages for the first six months of employment;
 - 12% of qualified wages for the second six months of employment;
 - 7% of qualified wages for the second year of employment.
- o If unemployed for a period of more than three months but less than six months:
 - 5% of qualified wages for the first year of employment.
 - 7% of qualified wages for the second year of employment.

Other Provisions:

- o This credit is available only to qualified businesses.
- o Qualified wages are wages not in excess of 150% of the minimum wage.
- o This credit may be taken only for the hiring of an individual who is a resident of an HDUA prior to being employed.
- o The credit may be applied only to tax owed on income earned within the enterprise zone as defined by an apportionment formula.
- o Indefinite carryover.
- o Recapture if the employee leaves employment within 270 days of being hired.

EXAMPLE

In the first year of designation, a qualified business located in a program area hires 75 new employees. Of these 75 employees, 32 meet the definition of qualified employee. The credit would be calculated as follows:

Assuming that 16 employees worked the entire first year, 16 worked for the last 32 weeks of the year, that all had been unemployed for longer than six months prior to being hired, that all were paid 150% of minimum wage, and that all worked full time, the credit would be \$30,240. Any amount in excess of tax liability attributable to the operation of the qualified business within the program area may be carried over.

Federal and state targeted jobs credit could also be claimed if employees qualify (\$3,000 per worker, federal/\$300 per worker, state) (if sunset date extended).

Business expense deduction allowed for entire salary paid each employee.

Total tax savings, assuming federal and state targeted jobs credit salaries as stated above:

Program area credit	\$ 30,240
State targeted jobs credit	9,600
Federal targeted jobs credit	<u>96,000</u>

Credits \$135,840

Salary deduction of	
$\$252,500 \times 9.6 =$	
tax saving of	\$ 24,240

SUMMARY OF CREDIT OR DEDUCTIONEXAMPLE

2. There is no employee credit allowed in a program area.

3. A deduction is allowed for net interest received by the taxpayer on indebtedness of a qualified business.

The indebtedness must be incurred solely in connection with activity within the program area.

The taxpayer may not have any equity or other ownership interest in the debtor.

A small business borrows \$50,000 at 15% from a bank for marketing and equipment. The bank may deduct the interest income.

A small business borrows \$100,000 at 15% to renovate a building in a program area from family of the owners. The lenders may deduct the interest income.

SUMMARY OF CREDIT OR DEDUCTION

- 4. Allowance of a net operating loss carryover for up to 15 years following the taxable year of loss by a qualified business within a program area.

Amount of Deduction:

-No limit.

Definitions:

-Net operating loss is the loss attributable to the taxpayer's business activities within the program area as defined in the year of loss.

Other Provisions:

-Loss must be applied to the first possible year in which taxable income is earned.

-Loss can be applied only to income earned in the program area by a qualified business as determined by an apportionment formula.

EXAMPLE

A company opens a new headquarters in a program area. In the tenth year of designation, the company incurs a major loss leading to a large net operating loss. The portion of the loss attributable to the program area business, based on formula apportionment, may be carried over to succeeding taxable years where a net operating income is earned, for up to 15 years after the year of loss, until the deduction taken is fully offset by net operating income. The income against which the loss carryover may be applied is determined by an apportionment formula based on the percentage of sales, payroll, and property of the company located within the program area.

SUMMARY OF CREDIT OR DEDUCTION

- 5. Allowance of election to expense 40% of the cost of certain property as a deduction in the first year the property is placed in service.

Amount of Deduction:

- Aggregate cost of the property which may be taken into account for this section is limited to \$100,000 in Years 1 and 2 of designation, \$75,000 in Years 3 and 4, and \$50,000 thereafter.

Definitions:

- Property is defined for purposes of this section as including machinery and machinery parts fused for fabricating, processing, assembling; and machinery and machinery parts used for the production of renewable energy resources or air or water pollution control mechanisms; or property used as an integral part of a qualified business.

Other Provisions:

- If property is expensed, no additional first-year depreciation may be claimed.
- Election to expense must be made in the year the property is placed in service.
- Recapture if property ceases to be qualified property in the year after it is placed in service.

EXAMPLE

A qualified business purchases machinery for use in a program area at a cost of \$50,000. 40% of that cost, or \$20,000, may be deducted in the year the machinery is placed in service and the balance, \$30,000, depreciated over the useful life of the machinery.

SUMMARY OF CREDIT OR DEDUCTION

6. Credit against net tax for sales or use tax paid or incurred by the taxpayer in connection with the purchase of qualified property.

Amount of Credit:

-Value of purchases for which this credit may be taken is limited to \$1 million per year under the Personal Income Tax Law and \$20 million under the Bank and Corporation Tax Law.

Definitions:

- Taxpayer must be a qualified business.
- Qualified property is machinery and machinery parts fused for fabricating, processing, assembling, and manufacturing and machinery and parts used for renewable energy production and for air or water pollution control devices which is used exclusively in a program area.

Other Provisions:

- If this credit is taken, no other deduction for sales tax paid for qualified property may be taken in computing state tax.
- If a credit is claimed for use tax imposed upon purchased property, the credit may be allowed only if qualified property of a comparable quality and price was not timely available for purchase in this state.
- Credit may only be taken against income earned in a program area as determined by an apportionment formula; excess may be carried over.

EXAMPLE

A qualified business purchases \$10 million in new machinery to set up a new production line for its operation. The business has a tax liability of \$150,000. The credit earned is approximately 6% of \$10 million (the exact amount depending on whether there is a local sales tax) or \$600,000. Since the tax liability is only \$150,000, the credit is \$150,000 for that tax year. The \$450,000 in unused credits may be carried over indefinitely until it is used up.

NOTE: If this business were a sole proprietorship or a partnership, the amount of purchase upon which the credit may be claimed would be limited to \$1 million and the credit to \$60,000.

EMPLOYMENT INCENTIVE PROGRAM COST SAVINGS

CASE #1: SMALL RETAIL FIRM.

FIRM CHARACTERISTICS:

Form of Organization: Sole Proprietorship
 Age of Firm: New Business
 Employees: Two full-time workers just hired at \$4.00/hr.
 Net Income Before Taxes: (\$10,000) year 1, \$0 year 2, \$25,000 year 3.
 Equipment Purchases: \$10,000 Dell Counter

CREDITS AND DEDUCTIONS EARNED:

	Year 1 *	Year 2	Year 3
Hiring Credit:	\$ 1,997	\$ 1,164	\$ 0
Deduction for Net Operating Loss:	10,000	0	0
Deduction for Expensing of Property:	4,000	0	0
Total Credits Earned:	1,997	1,164	0
Total Deductions Earned	20,000	0	0

* A sales tax credit was omitted here(\$600). This can be carried forward to future years when there is taxable income.

COST SAVINGS DUE TO STATE TAX CREDITS AND DEDUCTIONS:

	Year 1	Year 2	Year 3
Income Before Taxes:	(\$10,000)	\$ 0	\$25,000
Less Accumulated Deductions:	0	0	14,000
Income After Deductions:	(10,000)	0	11,000
State Tax (@8.0%)	0	0	880
Less Accumulated Credits	0	0	(880)
State Tax Liability	\$ 0	0	0
VALUE OF TAX SAVINGS:	\$ 0	\$ 0	\$
Cumulative Credits After Taxes:	\$ 2,597	\$ 3,761	\$ 2,763
Cumulative Deductions After Taxes:	\$14,000	\$14,000	\$ 0

TOTAL 3 YEAR TAX SAVINGS: \$ 2,000
 INCOME SHIELDED BY REMAINING CREDITS AND DEDUCTIONS: \$ 34,538

Note: These savings are presented only as illustrations of the potential benefits of the state tax credits and deductions allowed under the Enterprise Zone Program. Actual credits and deductions allowed for a business are subject to rulings of the Franchise Tax Board. For further information, contact the Enterprise Zone Coordinator at 440-1355.

EMPLOYMENT INCENTIVE PROGRAM COST SAVINGS

CASE #2: MEDIUM SIZED MANUFACTURER

FIRM CHARACTERISTICS:

Form of Organization: Corporation, One Plant
 Age of Firm: 15 Years
 Employees: Twelve full-time workers just hired at \$6.00/hr., of whom ten qualify for the credit.
 Net Income Before Taxes: \$50,000 year 1, (\$25,000) year 2, \$75,000 year 3.
 Equipment Purchases: \$70,000 computer controlled metalworking lathe, year 3

CREDITS AND DEDUCTIONS EARNED:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Hiring Credit:	\$14,676	\$ 8,561	\$ 0
Sales Tax Credit	0	0	4,550
Deduction for Net Operating Loss:	0	25,000	0
Deduction for Expensing of Property:	0	0	28,000
Total Credits Earned:	14,676	8,561	4,550
Total Deductions Earned	0	25,000	28,000

COST SAVINGS DUE TO STATE TAX CREDITS AND DEDUCTIONS:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Income Before Taxes:	\$50,000	(\$25,000)	\$75,000
Less Accumulated Deductions:	<u>0</u>	<u>0</u>	<u>(53,000)</u>
Income After Deductions:	50,000	(25,000)	22,000
State Tax (@9.6%)	4,800	0	2,112
Less Accumulated Credits	<u>(4,800)</u>	<u>0</u>	<u>(2,112)</u>
State Tax Liability	\$ 0	0	0
VALUE OF TAX SAVINGS:	\$ 4,800	\$ 0	\$ 7,200
Cumulative Credits After Taxes:	\$ 9,876	\$18,437	\$24,037
Cumulative Deductions After Taxes:	\$ 0	\$25,000	\$ 0

TOTAL 3 YEAR TAX SAVINGS: \$ 12,000
 INCOME SHIELDED BY REMAINING CREDITS AND DEDUCTIONS: \$250,385

EMPLOYMENT INCENTIVE PROGRAM COST SAVINGS

CASE #3: LARGE MANUFACTURER

FIRM CHARACTERISTICS:

Form of Organization: Corporation, (Multiple Locations)
 Age of Firm: 25 Years
 Employees: Twenty full-time workers hired at \$6.00/hr. (14 qualify for credit); ten part-time workers hired at \$4.00/hr. (8 qualify for credit).
 Net Income Before Taxes: \$2,500,000 year 1, \$3,000,000 year 2, \$4,000,000 year 3
 Equipment Purchases: \$1,000,000 in replacement parts and an additional \$1,500,000 in new machinery purchased per year.

Note: Income listed is income from operations of the plant located within a designated enterprise zone as determined by a factor formula based upon payroll, property and sales.

CREDITS AND DEDUCTIONS EARNED:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Hiring Credit:	\$24,123	\$14,072	\$ 0
Sales Tax Credit	162,500	162,500	162,500
Deduction for Net Operating Loss:	0	0	0
Deduction for Expensing of Property:	100,000	75,000	50,000
Total Credits Earned:	186,623	176,572	162,500
Total Deductions Earned	100,000	75,000	50,000

COST SAVINGS DUE TO STATE TAX CREDITS AND DEDUCTIONS:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Income Before Taxes:	\$2,500,000	\$3,000,000	\$4,000,000
Less Accumulated Deductions:	(100,000)	(75,000)	(50,000)
Income After Deductions:	2,400,000	2,925,000	3,950,000
State Tax (@9.6%)	230,400	280,800	379,200
Less Accumulated Credits	(186,623)	(176,572)	(162,500)
State Tax Liability	\$43,777	104,228	216,700
VALUE OF TAX SAVINGS:	\$196,223	\$183,772	\$167,300
Cumulative Credits After Taxes:	\$ 0	\$ 0	\$ 0
Cumulative Deductions After Taxes:	\$ 0	\$ 0	\$ 0

TOTAL 3 YEAR TAX SAVINGS: \$547,295
 INCOME SHIELDED BY REMAINING CREDITS AND DEDUCTIONS: \$ 0