

**TOWN OF
APPLE VALLEY, CALIFORNIA**

AGENDA MATTER

Subject Item:

OPPOSITION LETTER TO OPPOSE SB 974 – ENTERPRISE ZONE TAX CREDITS BILL

Background:

The Town of Apple Valley, in conjunction with the jurisdictions of Adelanto, Hesperia, Victorville and the County of San Bernardino, are in the process of developing an Enterprise Zone Application for submittal by September 15, 2010.

SB 974 makes changes to the Enterprise Zone Program by eliminating two tax credit provisions that are the key incentives for businesses to participate in the program. Loss of these incentives will cause many businesses to lose interest in the program, harming local economic development efforts and increasing unemployment in areas where jobs are critically needed.

The California State Senate last week narrowly approved SB 974. Through last minute lobbying by the Senate Pro Tem himself, the measure was passed on a vote 21-16. SB 974 has moved to the Assembly where it is waiting for policy committee referral. The League of California Cities requests that cities with enterprise zones (or pending applications) send letters opposing this bill.

Summary Statement:

Created in 1984, the Enterprise Zone Program is designed to “stimulate business and industrial growth in the depressed areas of the state by relaxing regulatory controls that impede private investment”. There are currently 42 zones across California, two (2) of which are expiring and made available through a competitive process. Apple Valley hopes to obtain a designation through the current application process.

SB 974 proposes to transfer the value of the lost tax credits to a new program that would allocate tax credits to businesses that partner with a local education agency to provide career technical education to high school and middle school pupils.

Recommended Action

That the Town Council send a Letter to Assemblyman V. Manuel Perez in opposition to SB 974; and authorize the Mayor to sign the letter on behalf of the Town Council.

Proposed by Economic Development & Housing Div.

Item Number _____

T. M. Approval: _____ **Budgeted Item** Yes No N/A

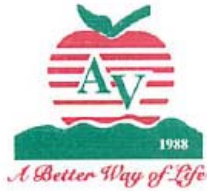
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While there is nothing wrong with the concept of assisting career technical education, this should not be done at the expense of the Enterprise Zone Program. More specifically, the bill:

- 1) Eliminates the ability for a business to receive a tax credit for hiring of individuals within a Targeted Employment area (TEA). Under current law, a business can claim a credit against their net tax obligation if the employee, immediately prior to their hiring, was a resident in an area in which 51 percent of the residents are of low or moderate income levels. If SB 974 is adopted, businesses may only receive credits for hiring individuals who meet much more limited criteria.
- 2) Eliminates the practice of “retroactive vouchering.” Under current law, a business tax payer must obtain a certification which states that an employee meets the various requirements in order for the business to receive the tax credit. Since there is currently no time limit on certification, many businesses file for these credits to match their tax filing needs.
- 3) States that a business must submit a certification application to the appropriate agency within 28 days of the hire, for employees hired after January 1, 2011. The business must receive the certification within 42 days of the date of hire. If the business does not receive the certification, it would not be able to claim the credit. This provision not only creates additional processes for businesses, but allows a bureaucratic delay to cause the loss of a tax credit.

Clearly, passage of this bill would substantially dilute benefits derived from successfully competing for an Enterprise Zone designation. Accordingly, staff recommends sending a letter of opposition to the Chairman of the Assembly Committee on Jobs, Economic Development and the Economy.

A copy of the proposed Letter of Opposition is attached for your information and review.



Town of Apple Valley

14955 Dale Evans Parkway • Apple Valley, California 92307

July 13, 2010

The Honorable V. Manuel Perez
80th Assembly District
Committee on Jobs, Economic Development and the Economy
California State Capitol, Building #4162
Sacramento, CA 94249-0003

Via e-mail: Assemblymember.Manuel.Perez@assembly.ca.gov

Re: OPPOSITION TO SB 974

Dear Assembly Member Perez:

On behalf of the Town of Apple Valley, I am writing to express our opposition to Senate Bill 974. Apple Valley has invested significant time and resources to create a friendly business environment – *always promoting California*. It is our opinion that one of the few substantive business incentives still made available by the state is the current level of incentives associated with Enterprise Zone designation.

While it is a laudable goal to support and provide high school students with a potential future through career technical education pathways, this bill will effectively eliminate the Enterprise Zone program to accomplish this goal and cause irreparable harm to the 42 existing Enterprise Zones.

Of great concern is that SB 974 will eliminate the Targeted Employment Area (TEA) from the list of eligible criteria for the Enterprise Zone hiring credit. Elimination of the TEA specifically targets the residents of low - income neighborhoods, with some of the highest levels of unemployment, poverty rates and crime in California and eliminates an important incentive for employers to remain in these communities and hire employees who face significant barriers to employment.

Additionally, SB 974 will also eliminate retroactive vouchering, which will have a crushing impact on small businesses in the enterprise zones. The arbitrary and impractical 28 - day deadline to complete hiring credit vouchers, will put businesses, particularly small businesses, at a distinct disadvantage and create an impediment that makes participating in the program almost impossible. As a result, businesses with the greatest growth potential will be left out of the program. Adding the annual cap on the amount of credits Enterprise Zone businesses can take will result in the collapse of the Enterprise Zone program and create a ripple effect of layoffs and business closures from one end of the state to the other.

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With all the challenges cities face during the current economic downturn, eviscerating the most successful business assistance program in the state will not improve California's business climate nor lead to economic recovery. I urge you to drop SB 974 and continue to support all the existing enterprise zone incentives that effectively support business growth and job creation.

Sincerely,

Peter Allan
Mayor
Town of Apple Valley

Cc: Assemblyman Dan Logue – Committee Vice Chair
Assemblyman Jim Beall, Jr. – Committee Member
Assemblyman Bill Berryhill – Committee Member
Assemblyman Marty Block – Committee Member
Assemblywoman Mary Salas – Committee Member
Assemblyman Anthony Adams – 59th District
Senator George Runner – 17th District
Yolanda Benson – California Association of Enterprise Zones
Nancy Cisneros – League of California Cities
Emily Pappas – Lehman, Levy, Pappas and Sadler