

TO: Executive Committee

DATE: 02/06/06

FROM: WIB Staff

For Action

For Information

For Discussion

SUBJECT: Advocacy for Extension of Enterprise Zone Program

PROPOSED MOTION(S): That the Workforce Investment Board (WIB) commit to an advocacy program in support of extending or renewing the State of California Enterprise Zone Program.

DISCUSSION: Merced County taxpayers operating in enterprise zones have enjoyed a variety of tax benefits since 1991. However, in recent months, the Governor, legislators, and regulators have opened debate on enterprise zones, both in terms of how they may be used to help the State contend with budgetary shortfalls and how they are administered. The program is potentially in jeopardy, but has seemingly found a champion in State Assemblymember Juan Arambula, Fresno, Chair of the Jobs, Economic Development and the Economy Committee. Regardless of what occurs at the legislative level, it is expected that administrative efforts designed to standardize procedures for claiming enterprise zone related credits should be finalized later this year. Both the potential legislative and administrative changes could negatively impact the availability of benefits to taxpayers conducting business in an enterprise zone.

California's enterprise zones were designed to stimulate job creation and economic development in certain economically depressed areas. Most of the current enterprise zones were established in the late 1980's and early 1990's. Currently, there are 43 enterprise zones with 18 of them due to "sunset" by December 2006. The Merced County Enterprise Zone will end December 31, 2006.

Businesses located in enterprise zones are eligible for substantial tax credits and benefits including:

- **Hiring credits of \$30,000 or more for each qualified employee hired over a five-year period;**
- **Sales tax credits on purchases of up to \$20 million of qualified machinery and parts per year;**
- **Up to 100% net operating loss deduction and 15 year carry-forward;**
- **Up-front expensing of certain depreciable property;**
- **Net interest deduction for lenders to enterprise zones.**

Fifty-five (55) Merced County businesses applied for and were awarded tax credits and benefits during 2005.

Although there are no formal proposals to limit or eliminate enterprise zones at this time, enterprise zone benefits are considered to be in jeopardy in California this year. Traditionally, legislators have been reluctant to touch enterprise zone programs, since they are designed to benefit economically distressed areas. However, in a year where deficits are running higher than expected, very little is “off the table”. Additionally, even though enterprise zone programs have historically been unpopular targets from a political standpoint, that position may be changing. Critics claim that enterprise zone programs fail to achieve objectives because the benefits are typically changes after the fact, rather than motivating new hiring activity and capital investment in depressed areas.

State Assemblymember Juan Arambula of Fresno has been holding open meetings concerning the future of enterprise zones. It appears that he intends to submit emergency legislation to request that present enterprise zones terming out in October through December 2006 be granted an extension for 2 to 3 years. This action will probably be taken before the end of March 2006.

The situation is extremely fluid. It is recommended that WIB members contact Assemblymember Arambula with their approval and encouragement to extend/renew the enterprise zone program. Additionally, it is even more strongly recommended that WIB members contact businesses located within the Merced County Enterprise Zone to request those businesses contact Assemblymember Arambula with testimony that they were at least partially successful and capable of growth because they are located within the Merced County Enterprise Zone.

Assemblymember Juan Arambula may be reached at the following:

E-mail address: Assemblymember.Arambula@assembly.ca.gov

**Capitol Office: State Capitol
P.O. Box 942849
Sacramento, CA 94249-0031
916-319-2031
916-319-2131 (fax)**

**District Office: Hugh Burns State Building
2550 Mariposa Mall, Suite 5031
Fresno, CA 93721
559-445-5532
559-445-6006 (fax)**

**ATTACHMENT(S):
Enterprise Zone Business Participants, 2005**

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Atwater

- H.R.P., Inc.
- Pacific Concrete Specialties, Inc
- MB Sports
- West-Mark

Livingston

- Foster Farms
- Sensient Dehydrated Flavors

Merced County

- Central Valley Concrete
- Pick N Pull
- Ranchwood Meat Company
- N&S Tractor Company
- Save Mart Supermarkets

City of Merced

- Anthony Abbate / McDonald's
- Capital Corp of the West
- County Bank
- Finline Industries, Inc.
- Guardco Security Services
- Home Depot
- JSA Restaurant Inc / McDonald's
- Label Technology
- McAuley Motors, Inc.
- McLane Sun East, Inc.
- Modern Air Mechanical
- Pacheco Restaurants, Inc.
- Pep Boys
- Safeway #8245
- San Joaquin Glass
- Scholle Corporation
- Tim Razzari Dodge
- Tim Razzari Nissan
- TransCounty Service Co.
- Bear Creek Title Company
- Costco Wholesale
- Courtesy Auto Center
- Fluetsch & Busby Insurance
- Hollywood Video #402442
- Huwaidi's Family Dental
- La Nita's Inc.
- Malibu Boats West, Inc.
- McLane Pacific
- Merced VW, KIA, Daewoo
- Okeeffe's, Inc.
- Parkers Hardware
- Quebecor World, Inc.
- Salmeri Insurance Agency
- Save Mart Supermarkets
- Sierra Beverage Company
- Tim Razzari Ford
- Tomopco, Inc. #606
- Trans County Title