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September 5, 2006

To: Mayor Michael D. Antonovich
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Supervisor Don Knabe

From: David E. Janssen
Chief Administrative Officer

MOTION TO SUPPORT AB 1550 (ARAMBULA AND KARNETTE) RELATING TO ECONOMIC DEVELOPMENT AREAS AND ENTERPRISE ZONES (ITEM NO. 63-G, AGENDA OF SEPTEMBER 5, 2006)

Item No. 63-G on the September 5, 2006 agenda is a motion by Supervisor Knabe recommending that the Board send a five-signature letter to Governor Schwarzenegger urging him to sign AB 1550 (Arambula and Karnette) into law.

Existing Law

Under existing law, State authorized economic development areas (EDAs) promote job retention and expansion in economically struggling communities by providing state tax benefits and other local incentives to employers. The California Department of Housing and Community Development (HCD) administers four EDA programs: enterprise zones (EZs), manufacturing enhancement areas (MEAs), targeted tax areas (TTAs), and local agency military base recovery areas (LAMBRAs). Currently, there are 42 EZs, eight LAMBRAs, two MEAs, and one TTA. EZs are determined via a competitive process managed by the HCD, and if awarded, selected areas are authorized for 15 years and may apply for one five-year extension.

If an applicant receives a conditional designation from HCD, it must submit a final application that includes a copy of the environmental impact review of the proposed zone and a memorandum of understanding (MOU) detailing the responsibilities of both the zone and HCD. Once designated, an enterprise zone is binding for 15 years. Zones designated before 1990, however, were able to seek one-five year extension for a total of 20 years.

HCD is required to audit an EZ at least once every five years. The audit examines the progress made by the zone towards meeting the goals, objectives, and commitments set forth in the initial application and MOU, including the zone's staffing levels, budget, program management, plan for issuing hiring tax credit vouchers, and use of the marketing plan, local incentives, financing programs and job development. Each zone is given an audit grade of superior, pass, or fail. Zones with a fail grade must enter into a six-month agreement with HCD to remedy cited issues. Zones that do not enter into such an agreement or that fail to fulfill commitments made in the agreement are subject to de-designation.

AB 1550 Provisions

AB 1550, as passed by the Legislature on August 31, 2006, makes a number of changes to zone selection, administration, and oversight procedures for the State's four economic development area programs. Specifically, AB 1550 would: 1) require existing EDA's that expire after January 1, 2010 to update their MOU with the Department of Housing and Community Development (HCD) by April 15, 2008 to ensure that the MOU contains benchmarks, goals, objectives, and funding levels that are measurable, conducive to implementation of the economic development strategy and able to be evaluated on an annual basis; 2) allow businesses that receive EDA tax benefits to continue obtaining tax benefits through the original life of the EDA in the event the zone is de-designated for failure to update the MOU by the statutory deadline; 3) require EDAs to report annually to HCD on the activities of the area, progress in meeting goals, benchmarks, and objectives, and previous and pending year funding levels; and 4) require HCD to audit all economic development areas at least once every five years.

In addition, AB 1550 would: 1) add to the audit a requirement that the sponsoring jurisdiction have provided at least 75 percent of the financial support committed to in the MOU in at least three of the previous five years; 2) require HCD to annually report to the Legislature on the progress EDAs are making towards their goals, objectives, and commitments; 3) allow HCD to backdate the effective date of redesignated zones in order to cover the gap period between designations; and 4) allow EZs and TTAs to include noncontiguous areas within their allowable expansion areas if the HCD director determines that the inclusion is necessary to implement the applicant's economic development strategy and does not exclude areas in between that would benefit from the zone designation.

With respect to enterprise zone designation rounds begun after January 1, 2007, AB 1550 also: 1) allows EZ applicants to include non-contiguous areas within the application if the HCD director determines that the inclusion is necessary to implement the applicant's economic development strategy and does not exclude areas in between that would benefit from the zone designation; 2) requires that HCD establish standards for the

applications and accompanying economic development strategies; and 3) requires HCD to select new EZs that propose the most appropriate economic development strategy and implementation plan, as opposed to the most effective, innovative, and comprehensive regulatory, tax, program, and other incentives for attracting private sector investment.

Furthermore, AB 1550 deletes the requirement that HCD include as a selection criterion the fact that a jurisdiction has been declared a Federal disaster area within the previous seven years and provides that bonus points for extremely needy communities shall only go to jurisdictions whose applications meet minimum threshold requirements set by HCD.

Impact per Local Agencies

The Community Development Commission (CDC) indicates that AB 1550 will have no immediate impact on the two CDC-administered Enterprise Zones, the Mid-Alameda Corridor Enterprise Zone which is set to expire in October 2006, and the Altadena/Pasadena Enterprise Zone which is set to expire in April 2007. However, AB 1550 may impact future Los Angeles County Enterprise Zone applications. The CDC indicates that the authorization to apply for an Enterprise Zone designation that includes non-contiguous boundaries would provide significant flexibility for the future creation of an Enterprise Zone in unincorporated Los Angeles County, given the non-contiguous nature of unincorporated boundaries in the County. Therefore, the CDC recommends support of AB 1550. Also, the Los Angeles Economic Development Corporation has indicated its support for the bill.

Support for AB 1550 is consistent with existing policy to support measures that promote economic incentives as a means of attracting or retaining business in the County, and jobs in high poverty and unemployment areas.

AB 1550 passed the Senate Floor on August 30, 2006 by a vote of 40 to 0 and is currently on the Governor's Desk awaiting action. This measure is supported by: California Aerospace Technology Association; California Business Properties Association; California Chamber of Commerce; California Restaurant Association; California Retailers Association; California Taxpayers Association; and the Long Beach Area Chamber of Commerce. There is no registered opposition.

DEJ:GK
MAL:JF:EW:hg

c: Executive Officer, Board of Supervisors
County Counsel
Community Development Commission
Los Angeles Economic Development Corporation