

Date of Hearing: April 17, 2012

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE  
ECONOMY

V. Manuel Pérez, Chair

AB 2673 (Jobs, Economic Development, and the Economy Committee) – As Introduced:  
March 5, 2012

SUBJECT: Geographically Targeted Economic Development Areas (G-TEDA)

SUMMARY: Increases reporting requirements for Geographically-Targeted Economic Development Areas (G-TEDA) to better capture the community impact of tax credits awarded through the program. Specifically, this bill:

- 1) Requires the governing board of each G-TEDA to include in their biannual report to the Department of General Services (DGS) the state and federal resources assessed to serve the residents, workers and businesses in the G-TEDA, including the financial value of local incentives provided.
- 2) Requires the G-TEDA to report information based on the certification applications approved in the zones relating to the hiring credit including:
  - a) The number of jobs for which certifications have been issued.
  - b) The number of new employees for whom certifications have been issued.
  - c) The number of employees replacing previous employees for whom certifications were issued.
  - d) The number of employees by qualified employee category pursuant to Sections 17053.74 and 23622.7 of the Revenue and Taxation Code.
  - e) The total range of, and the average, median, and mean, employee wage rates that were certified.
  - f) The number of businesses obtaining certification for qualified employees.
  - g) The industry classification, based on the North American Industry Classification System, of businesses obtaining certification of qualified employees.
  - h) The distribution of employee certifications among industry sectors based on the North American Industry Classification System.
  - i) The distribution of employee certifications by the annual receipts and asset value of the business obtaining qualified employee certifications.
  - j) The number of state-certified small businesses that submitted qualified employee certification applications.
  - k) The number of state-certified, disabled veteran-owned business enterprises that submitted applications.

EXISTING LAW: Establishes that the governing board of each G-TEDA shall biennially report to DGS the activities of the G-TEDA in the previous two fiscal years and its plans for the current and following fiscal year, in addition to other specified items.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's purpose: According to the author, "AB 2673 makes a number of key administrative changes to the G-TEDA code including allowing the Housing and Community Development Department (HCD) to use census block group data in lieu of census tract data.

Absent this change, HCD will be unable to use census block group data when the US Census Bureau discontinues using census tract data later this year. The bill also expands the reporting requirements of G-TEDAs to better capture the community impact of tax credits awarded under the program.

These are non-controversial changes to current law that improve the operation of the G-TEDA program."

- 2) Overview of enterprise zones and other geographically-targeted economic development areas: The California Enterprise Zone Program and the other geographically-targeted economic development areas (G-TEDAs) represent the state's primary economic development programs in California. Eligibility for G-TEDA designation is limited to areas within communities that can demonstrate blighted conditions such as high poverty or high unemployment rates.

The Department of Housing and Community Development (HCD) administers four G-TEDA programs including: Enterprise Zones (EZs), Manufacturing Enhancement Areas (MEAs), Local Agency Military Base Realignment Areas (LAMBRAs), and the Targeted Tax Area (TTA).

G-TEDA programs are based on the principle that targeting significant economic incentives to low-income communities allows these communities to more effectively compete for new businesses and retain existing businesses, resulting in increased tax revenues, less reliance on social services, and lower public safety costs. Residents and businesses directly benefit from these more sustainable economic conditions through improved neighborhoods, business expansion, and job creation.

The 42 EZs, eight LAMBRAs, two MEAs and one TTA are located in portions of 54 Assembly Districts and 34 Senate Districts. Each zone designation is for a period of 15 years, although the initial zones were given an additional five years due to the slow start-up of the program. No other extensions have been authorized.

G-TEDAs range in size from one square mile to over 70 square miles and in geographic locations ranging from Eureka and Shasta Valley near the Oregon border to San Diego and Calexico along the Mexican border. With the approval of the 2006 reforms (discussed in the next section), each designated area is governed by a comprehensive economic strategy that details local government commitments, benchmarks, and baselines.

- 3) The pursuit of comprehensive reforms: While the G-TEDA programs have been around for decades, it was not until the winter of 2005 that the first comprehensive legislative oversight hearings were held. The impetus for these hearings, jointly held by Assembly Committee on Jobs, Economic Development and the Economy (JEDE) and the Assembly Committee on Revenue and Taxation (R&T), was the introduction of several comprehensive and controversial reform efforts in 2004. During the course of these first oversight hearings, the committees struggled to develop a framework for evaluating the state's return on investment.

Due to the lack of clear data and the state's poor administration of the program when it was overseen by the now defunct Technology, Trade and Commerce Agency, JEDE's focus shifted to improving the transparency and accountability of the G-TEDA programs as a first step toward broader reform efforts. Following the three hearings, publication of a final report, and extended work group meetings led by JEDE, legislation was negotiated and approved by the Senate and Assembly Floors on 40-0 and 77-0 votes [AB 1550 (Arambula and Karnette), Chapter 718, Statutes of 2006].

The requirements of the 2006 reforms were just coming into effect when there were new calls for further G-TEDA reforms in 2009. In preparing to vote on another set of comprehensive reforms, JEDE initiated a second round of hearings, which included an examination of how the prior reforms were progressing and what additional areas were in need of improvement. During the course of its 2009 review, JEDE held three public hearings, met with a variety of stakeholder groups, and produced an updated report that detailed the structure and activities of the G-TEDA programs. Speakers included economic development practitioners, researchers, nonprofit organizations, local governments, labor, and business leaders.

A final summary report of the proceedings was released by JEDE in January 2010. It included a comparative review of how California's program compared to other state's enterprise zone programs, summaries of each hearing and a list of 100 reform recommendations. The JEDE report made five key findings, including the need for more structure and accountability mechanisms within the tax incentives and the need to better link workforce development into the overall G-TEDA framework.

In March 2010 Speaker John A. Pérez asked JEDE Chairman V. Manuel Pérez to convene a working group to review the final report recommendations and develop a comprehensive set of reforms to the G-TEDA programs. The working group, comprised of representatives from local government, labor and the business community, met extensively through the spring and summer of 2010 on the premise that they would put forward a consensus-based set of reforms. Key program revisions under discussion included:

- a) Increasing accountability of the program;
- b) Tighter targeting of tax incentives to low and moderate income households;
- c) Reforms to the structure of the hiring credit; and
- d) Increased integration of the enterprise zone program with other state and local community development programs, including public programs that support workforce development and job placement.

Ultimately, one of the primary stakeholder groups withdrew from the negotiations based on its position that the overall reform package must result in a substantially smaller program and perhaps be only limited to the state's rural areas.

- 4) Census tracks: Discussions at the federal level indicate that the U.S. Census Bureau will no longer be reporting median family income through the decennial census by census tracts. Policy makers are currently considering instead using a one-to-five year snapshot of household income as determined by the American Community Survey and reported by census block groups. These discussions are ongoing but in anticipation of a possible change, this bill authorizes the Housing and Community Development Department (HCD) to use both census track and census block group data.
- 5) Overview of national and California economic and employment trends: Post-recession analysis traditionally divides the economic cycle into two stages: recovery and expansion. Recovery describes the period of GDP growth occurring after the economy hits bottom, or the "trough, and gives way to expansion when GDP growth surpasses its previous peak. Given this definition, the national economy entered the expansion phase of the economic cycle during the third quarter of 2011, when annualized GDP reached \$13.38 trillion, surpassing the previous GDP peak of \$13.36 trillion in the fourth quarter of 2007. At a more practical level, the US economy added an average 152,000 net new jobs a month in 2011. In December 2011 and January 2012, however, the economy added 203,000 and 243,000 net new jobs respectively, pushing national unemployment down to 8.3%.

At the state level, the California economy has also been improving at a steady pace. Between 2010 and 2011, unemployment fell from a high of 12.4% to 11.8% in 2011. In January 2012 the unemployment rate fell even further to 10.9%, its lowest rate in three years. In terms of nonfarm jobs gains from 2010 to 2011, the state outperformed the national labor market with 1.4% growth compared to 1.2% nationally. In fact, the state registered job growth across most industries with the largest percentage gains coming from Information, Education, and Administrative Support Services. Only Real Estate and Leasing, Government, Management of Enterprises and Other Services, saw continued job losses in 2011 but on a small scale than previous years.

In terms of international trade, the state continued to see sustained growth with the value of two-way trade increasing 11.9% from 2010 (based on year-to date data from January through November 2011). The rate was slower than the increase registered in 2010 when the value of two-way trade surged 21.6% over 2009. In 2011, however, the value of imports grew by 11% while the value of exports through the state's custom districts rose by 13.8%. It should be noted that while exports only account for a third of the value of two-way trade, they suffered a smaller decline through the recession and have come back more strongly than imports as demand from Asian trading partners continues to be strong.

According to the March 2012 UCLA Anderson Forecast, state unemployment should improve to an average of 9.8% in 2013. Overall, the Forecast calls for a steady decrease in the California unemployment rate over the next two years, following a slow trajectory towards single-digit unemployment by the end of 2013 and reaching 7.7% by the end of 2014. In addition, according to Chapman University's A. Gary Anderson Center for Economic Research, the California Composite Index, a measure of overall manufacturing

activity, increased to 60.3 in the second quarter of 2012, up from 56.6 during the first quarter. Historically, readings above 50 indicate expansion in the manufacturing sector. This is significant because, according to an analysis by the Milken Institute, for every job created in manufacturing, 2.5 jobs are created in other sectors. At the upper bound, electronic computer manufacturing has a multiplier effect of 16 jobs.

- 6) Related legislation: Below is a list of bills related to this measure from the current and prior sessions.
- a) AB 2630 (Hueso) Small Business Outreach: This bill will require the Department of General Services, in preparing its report on state contracting activity, to include a list of activities and outcomes each state agency used to inform small businesses of each of the existing preferences available under state law, and an aggregate number of the number of preferences used in bidding packages for the year. Status: The bill will be heard on April 17<sup>th</sup> in the Assembly Committee on Jobs, Economic Development, and the Economy.
  - b) AB 2672 (JEDE) Procurement Omnibus: Requires each awarding state agency to prepare and share a yearly report to the Department of General Services on the level of participation by enterprise zones in contracts with the Housing and Community Development Department. Status: The bill will be heard on April 17<sup>th</sup> in the Assembly Committee on Jobs, Economic Development, and the Economy.
  - c) AB 1411 (V. Manuel Perez) Comprehensive Enterprise Zone Reform: This bill reforms elements of the state's Enterprise Zone Program to make it more transparent, cost-effective, aligned to community development objectives, and accountable to the public and the communities it serves. Status: The bill is pending in the Senate Committee on Appropriations.

REGISTERED SUPPORT / OPPOSITION:

Support

Assembly Committee on Jobs, Economic Development and the Economy (Sponsor)  
California Association of Enterprise Zones

Opposition

None Received

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