

History of Enterprise Zone Program

California's Enterprise Zone program was established in 1984 to stimulate business investment in depressed areas of the state and create job opportunities for Californians. According to the California Association of Enterprise Zones, in 2010, Enterprise Zones created or retained more than 118,000 jobs while California experienced unprecedented unemployment.

When Governor Brown released his 2011-2012 budget proposal, he proposed the elimination of all enterprise zone tax incentives, including Targeted Tax Areas, Manufacturing Enhancement Areas, and Local Agency Military Base Recovery Areas. Tax benefits to be repealed included: hiring credit, credit for sales tax paid, credit for employees who earn wages within the areas, and a deduction for interest received from businesses in the area. The proposal was estimated to save the state over \$300 million in 2010-2011 and almost \$600 million in 2011-2012.

What would replace enterprise zones? The Governor proposed that "local agencies that want to keep any local incentives could continue to do so." Furthermore, the Governor's budget stated that the primary benefit of enterprise zones is to shift economic activity from one geographic region within California to another geographic region within California and is therefore, not a policy of statewide interest.

One of the challenges of eliminating enterprise zones in 2011 and 2012 was that it required a 2/3 vote of the Legislature. With several moderate Democrats and most Republicans supporting enterprise zones, elimination proved difficult. By the time that the Governor's May Revision was released, enterprise zones were retained, but the Governor proposed reforming enterprise zones to help ensure that the zones are creating incentives for new jobs, rather than reward businesses for decisions they have already made. As a result of the Governor's proposal, the Department of Housing and Community Development (HCD) embarked on the task to make changes to the enterprise zone program through the regulatory process, which would also avoid the need for a 2/3 vote. HCD has looked at limiting retroactive vouchering, reducing Target Employment Areas and restricting expansions of zones. In addition to these changes, HCD is using "its authorized discretion to not open up applications for new zones until the program is sufficiently reformed to strengthen its effectiveness to incentivize job creation." As a result, two enterprise zones that reached the end of their 15-year designation in 2012 (the City of Watsonville and the Antelope Valley Zone) were allowed to expire.

In response, Assemblyman Alejo introduced, and the League supported AB 484 (2012) which would have allowed a temporary redesignation of the expired 2012 enterprise zones. Unfortunately, this bill failed in the Senate Governance and Finance Committee by a vote of 3-5.

The reforms from HCD were anticipated to be released in the later part of 2012; however, the election on November 6, 2012 may have brought with the results a shifting of the winds. Now that the Democrats in both Senate and the Assembly have a 2/3 supermajority, the release date of the enterprise zone reforms haven't materialized. News articles, like the one in the Sacramento Bee on December 27, 2012, state that "one program at the top of the Labor Federation's list of targets is the state's enterprise zones." The Desert Sun on December 17, 2012, published an article stating that "California lawmakers, looking to balance the budget, have signaled, they'll once again consider cuts to the state's largest economic development effort: enterprise zones." In a post swearing-in conference on December 6, state Senate President Pro Tem Darrell Steinberg, indicated that the enterprise zone program needs to be looked at as part of the legislators' upcoming budget talks. In a California Budget Project meeting in early December, the Assembly Speaker's office indicated that the Speaker's middle-class scholarship program for the program could be paid for by closing corporate loopholes, an oil severance tax, and eliminating enterprise zone program.