

# ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Ashburn Analyst: Darrine Distefano Bill Number: SB 1029

Related Bills: See Legislative History Telephone: 845-6458 Introduced Date: 02-21-2003

Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Enterprise Zones/Authorizes Agency To Designate Two Additional Enterprise Zones For a Total of 44 Zones

## SUMMARY

This bill would allow the Technology, Trade, and Commerce Agency (TTCA) to designate two additional enterprise zones (EZ) and provide specific additional criteria to be used by TTCA in making designations.

## PURPOSE OF THE BILL

According to the author's staff, this bill is to assist the city of Needles that is currently economically disadvantaged.

## EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative on or after January 1, 2004.

## POSITION

Pending.

## ANALYSIS

### STATE LAW

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an EZ. Using specified criteria, the TTCA designates EZs from the applications received from the governing bodies. EZs are designated for 15 years (except EZs designated before 1990 and that meet certain criteria may be extended to 20 years), and TTCA has designated 39 of the 42 EZs authorized under existing law. When an EZ expires or is dedesignated as a result of a failing audit by TTCA, TTCA is authorized to designate another in its place to maintain a total of 42 EZs.

Under the Revenue and Taxation Code (R&TC), existing state law provides special tax incentives for taxpayers conducting business activities within an EZ. These incentives include a sales or use tax credit, hiring credit, business expense deduction, special net operating loss treatment, and net interest deduction. In addition, a wage credit may be claimed by specified employees of businesses operating in an EZ.

Board Position:

\_\_\_\_\_ S                      \_\_\_\_\_ NA                      \_\_\_\_\_ NP  
\_\_\_\_\_ SA                      \_\_\_\_\_ O                      \_\_\_\_\_ NAR  
\_\_\_\_\_ N                      \_\_\_\_\_ OUA                      \_\_\_\_\_ X PENDING

Department Director  
Gerald H. Goldberg

Date  
03/25/03

### THIS BILL

This bill would authorize the TTCA to designate two additional EZs. This would bring the total number of zones designated at any one time from 42 to 44.

This bill would also require TTCA to consider geographic location and community size when considering designation of a new EZ in order to distribute EZs evenly throughout the state and among communities with varying sizes.

### IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

### TECHNCIAL CONSIDERATIONS

On page 5, line 21, the word "to" needs to be deleted.

### **LEGISLATIVE HISTORY**

AB 11 (Garcia and Vargas, 2003/2004) would require TTCA to designate the City of Brawley as an EZ, subject to approval by the city council and would apply the EZ special tax incentives provisions of the R&TC for taxpayers that conduct business activities within the EZ. This bill is currently in the Committee on Jobs, Economic Development, and the Economy.

SB 172 (Ducheny, 2003/2004) would require TTCA to designate an EZ within the boundaries of a Manufacturing Enhancement Area (MEA). This bill is currently referred to both the Housing & Community Development Committee and the Senate Revenue & Taxation Committee.

AB 523 (Vargas, 2001/2002) would have required TTCA to designate an EZ within Imperial County (that included the cities of Brawley and Calexico) that was previously designated as an MEA, upon the request of the county's board of supervisors. This bill was amended September 1, 2002, to add urgency language to the existing Welfare and Institutions Code. The Governor vetoed this bill.

AB 46 (Washington, Stat. 2001, Ch. 587) expanded the maximum number of EZs from 39 to 42.

### **OTHER STATES' INFORMATION**

Currently, 29 other states have economic development areas that provide similar tax related incentives to those provided in California's economic development areas. The number of economic development areas varies from state to state. For example, California currently has 49 economic development areas (that include EZs (39), Manufacturing Enhancement Areas (2), Local Agency Military Base Recovery Areas (7), and Targeted Tax Area (1)), New York has 58, Florida 32, Illinois 93, and Michigan 23.

### **FISCAL IMPACT**

This bill would not significantly impact the department's costs.

## **ECONOMIC IMPACT**

### Revenue Estimate

Revenue Impact (\$ Millions)			
Fiscal Year	2003-04	2004-05	2005-06
Revenue Loss	Negligible loss	Minor loss	-1
Negligible – Less than \$250,000		Minor – Less than \$500,000	

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

### Revenue Discussion

Revenue losses for EZs under the Personal Income and the Corporation tax laws would largely depend on the amount of qualifying property purchased subject to the sales tax, the amount of wages paid to qualifying employees, and the apportioned state tax liabilities of businesses claiming these tax benefits.

Total revenue losses for the existing 39 designated EZs were approximately \$115 million (average of \$3 million per EZ) for tax year 2000. It takes about three years before the full impact of a new EZ is achieved. It was assumed that the three EZs authorized by AB 46 must be designated initially. Therefore, the impact of the two EZs proposed by this bill would be delayed.

## **LEGISLATIVE STAFF CONTACT**

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