Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Perez, V. Manuel and Caballero	Analyst:	Jahna Alvarado	Bill Number:	AB 2476
Related Bills:	See Legislative History	Telephone:	845-5683	Introduced Date: / Amended Date:	February 19, 2010 / April 13, 2010
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Enterprise Zones/Targeted Employment Areas

SUMMARY

Under the Government Code, this bill would modify the definition of a Targeted Employment Area (TEA).

SUMMARY OF AMENDMENTS

The April 13, 2010, amendments added language that would require an entity that has jurisdiction over an enterprise zone (EZ) to provide written notification to the Department of Housing and Community Development (DHCD) if, upon review of new U.S. census data, the zone's TEA boundaries would be unchanged.

The April 13, 2010, amendments also added a coauthor and made several non-substantive grammar and technical changes.

This is the department's first analysis of the bill.

PURPOSE OF THE BILL

The intent of this bill appears to be to modify the definition of a TEA.

EFFECTIVE/OPERATIVE DATE

Assuming enactment before October 1, 2010, this bill would become effective on January 1, 2011, and would be specifically operative with respect to TEAs designated on or after January 1, 2011, and TEAs designated before January 1, 2011, as specified.

POSITION

Pending.

Board Position:			Department Director	Date
______ S	______ NA	______ NP		
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______ N	______ OUA	__X__ PENDING		

ANALYSIS

FEDERAL LAW

The Workforce Opportunity Tax Credit (WOTC) is allowed under existing federal law. The WOTC has two purposes: (1) to promote the hiring of individuals who qualify as a member of a target group, and (2) to provide a federal tax credit to employers who hire these individuals. Included in the categories of the target groups are certain individuals that reside in a federal empowerment zone (FEZ), renewal community (RC), or rural renewal community (RRC).

FEZs, RCs, and RRCs refer to an area or combination of areas meeting certain population, size, and poverty criteria. These areas can be characterized as having pervasive poverty, unemployment, and general distress. California has a number of FEZs, RCs, and RRCs. These include the following:

Desert Communities	Oakland	San Francisco
Fresno	Orange Cove	Santa Ana
Imperial County	Parlier	Santa Cruz
Los Angeles	San Diego	Watsonville

Because only certain census tracts within a zip code area are in an FEZ, RC, or RRC, not every individual who resides in the areas indicated above would be eligible for WOTC certification. The Department of Housing and Urban Development has an address locator function that can be used to identify whether an address is within a designated area.[1]

The Small Business and Work Opportunity Tax Act of 2007 (P.L. 110-28) extended the WOTC Program through August 31, 2011.

STATE LAW

Under the Government Code, a TEA is used to encourage businesses in an EZ to hire eligible residents of certain geographic areas within a city, county, or city and county. A TEA may be, but is not required to be, the same as all or part of an EZ. TEAs are limited to census tracts where 51 percent or more of the individuals are of low or moderate income. TEAs are drawn using census data at the time of the EZ's formation.

Under existing law, each local governmental entity that has jurisdiction over an EZ must, within 180 days of updated U.S. census data becoming available, approve by resolution or ordinance the boundaries of the TEA reflecting the new census data. With the exception of a TEA whose boundaries are unchanged, written notification of the approval must be provided to the DHCD.

Currently, census tracts are used to determine TEAs. Census tracts usually contain between 1,500 and 8,000 people, whereas census block groups, the smallest unit of analysis where the Census Bureau measures income, are statistical subdivisions of census tracts, including between 600 and 3,000 people.[2]

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[1] http://egis.hud.gov/egis/cpd/rcezec/welcome.htm.
[2] Census 2000 Census Tract Data http://www.census.gov/geo/www/psapage.html#TRACTS

THIS BILL

This bill would do all of the following:

- Modify the definition of a TEA for areas designated after December 31, 2010, by increasing the minimum percentage of low and moderate income residents within a specified area from 51 percent to 61 percent and changing the specified area from census tract to census block (new TEA definition);
- Require local governments with a TEA designated prior to December 31, 2010, to use the new TEA definition when they review and update the boundaries of their TEA in response to the release of the 2010 census data; and
- Require the local government with a TEA to provide written notification to the DHCD if the TEA boundaries are unchanged as a result of the release of new federal census data.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not impact department programs or operations.

LEGISLATIVE HISTORY

AB 1139 (Perez, 2009/2010) would have, among other things, removed from the definition of "qualified employee" residency within a TEA as a qualifying category for specified zone hiring credits. In contrast, AB 2476 would modify the definition of TEA and continue to allow residency within a TEA as a qualifying category. AB 1139 failed passage out of the Assembly Revenue and Taxation Committee.

SB 974 (Steinberg, et al. 2009/2010) would, among other things, remove from the definition of "qualified employee" residency within a TEA as a qualifying category for specified zone hiring credits. SB 974 is pending hearing before the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 1550 (Arambula, Stats. 2006, Ch. 718) made various changes and reforms to existing law, among them defining G-TEDAs and allowing the DHCD to backdate the effective date of the new zone to the date of the previous zone's expiration so the tax incentives remained in effect during the redesignation period.

SB 1097 (Senate Budget Comm., Stats. 2004, Ch. 225) made various changes and reforms to existing law, among them authorizing DHCD to develop emergency regulations that would govern the issuance of voucher certificates by local governments and expanding the authority to issue voucher certificates for the EZ hiring credit to the local government administering the EZ.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York.* These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Florida allows businesses located in an EZ a credit based on wages paid to new employees. Other wage-based credits are offered to businesses that are located in high crime areas or in rural areas.

Illinois allows a job tax credit for taxpayers conducting a trade or business in an EZ or a High Impact Business. The credit is $500 for each eligible employee hired to work in the zone during the tax year and is available for eligible employees hired on or after January 1, 1986.

Massachusetts allows a Full Employment credit to employers who participate in the Full Employment Program and continue to employ a participant for at least one full month. The taxpayer may claim a credit of $100 per month of eligible employment per participant, up to a maximum of $1,200 per participant.

Michigan does not appear to offer a credit that is based on wages.

Minnesota allows a tax credit to qualified businesses located within a Job Opportunity Building Zone that increase the number of full time employees that are paid in excess of $30,000 per year.

New York allows a wage credit to a business that hires a full time employee (either one in targeted group or not) for a newly created job in an Empire Zone.

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue gains:

Estimated Revenue Impact of AB 2476 For TEAs Designated On or After January 1, 2011, or For TEAs Designated Before January 1, 2011, as Specified Enactment Assumed by September 30, 2010 ($ in Millions)			
2010-11	2011-12	2012-13	2013-14
$0.0	$0.1	$0.9	$2.5

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

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