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(September 1, 2009) The California Department of Housing and Community Development (HCD) recently announced conditionally designating five enterprise zones (EZ) statewide in an effort to help grow jobs and improve California's business climate.

The application process is always a competitive one and HCD receives many more applications than EZs that are available.

The zones are Hesperia, Tulare, Pittsburg, Sacramento and Taft. The new designations will take the place of zones that have expired or will expire in 2009. Each zone designation is in effect for 15 years. The EZ program is one of California's largest and most successful economic development tools.

There were 15 applications for four available zones. HCD was able to award five EZs, instead of four, because the city of Sacramento has a current conditionally designated EZ that will be combined into its successful new application.

The EZ program targets economically distressed areas using special state and local incentives to promote business investment and job creation. By encouraging entrepreneurship and employer growth, the program strives to create and sustain economic expansion in California communities.



Credits/Benefits

Businesses within EZs are eligible for substantial tax credits and benefits.

For example:

- Firms can earn state tax credits for each qualified employee hired.
- Corporations can earn sales tax credits on purchases of \$20 million per year of qualified machinery and machinery parts.
- Up-front expensing of certain depreciable property.
- Lenders to EZ businesses may receive a net interest deduction.
- Unused tax credits can be applied to future tax years, stretching out the benefit of the initial investment.
- EZ companies can earn preference points on state contracts.

Effective Program

Several studies have established the EZ program's effectiveness. Most recently, a March 2009 revision of a national study by University of Southern California researchers concluded that state and federal EZ programs "have positive, statistically significant, impacts on local labor markets in terms of the unemployment rate, the poverty rate, the fraction with wage and salary income and employment."

The California Chamber of Commerce and a growing coalition of business groups believe it is important to promote the strength and effectiveness of the state's enterprise zone program as a tool for economic development and investment, particularly now when economic recovery is a top priority. The business community has consistently stated that the solution to California's revenue problems will come only from robust economic growth and job creation.

More information on the EZ program and the CalChamber-led coalition working to strengthen the program and oppose attempts to weaken it is available at www.calchamber.com/EZ.

Next Steps

The next step in the designation process will be the HCD issuance of a conditional designation letter to each of the new zones. The letters will outline conditions for final designation.

Examples of conditions include a signed memorandum of understanding with HCD, which includes performance measures and benchmarks.

CalChamber-supported legislation passed in 2006 (AB 1550; Arambula; D-Fresno) authorized

improvements to the EZ program by emphasizing economic development, outreach, marketing and accountability.

Provisions of the law also included biennial additional reporting by both the local EZ and HCD and an expansion of HCD's audit authority to cover all economic development areas.

The next designation round will be in 2010 and HCD will be exploring changes to the application process that will ensure the greatest economic benefit for eligible California communities and businesses.

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