



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



March 6, 1985

Transportation and Community
Development Committee of the
Sacramento City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Enterprise Zone Consultant Report - Phase II:
Selection of Areas for Application and Recommenda-
tions on Incentives to be Offered

SUMMARY

The attached report is submitted to you for review
and recommendation prior to consideration by the
Sacramento City Council and Redevelopment Agency of
the City of Sacramento.

RECOMMENDATION

The staff recommends approval of the recommendations
outlined in the attached report.

Respectfully submitted,

Andrew J. Plescia
ANDREW J. PLESCIA
Acting Executive Director

TRANSMITTAL TO COMMITTEE:

Solon Wisham Jr.

SOLON WISHAM, JR.
Assistant City Manager



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



March 18, 1985

Sacramento City Council
Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Enterprise Zone Consultant Report - Phase II:
Selection of Areas for Application and Recommendations on Incentives to be Offered

SUMMARY

Preliminary applications for designation of identified geographical areas within cities and counties as State Enterprise Zones are due on April 17, 1985. The State will choose 40 finalists from among the various preliminary applications for a total of 13 designations in the first year (ten under AB 40 and three under AB 514). Our consultant, MKGK Incorporated, whom we have hired to help formulate our application(s) for Zone designation have now completed their Phase II report, which includes a review of geographical areas within the City/County which might be successful in competition for Zone designation, as well as an analysis of the costs and benefits of Zone designation given a specified mix of local fiscal and regulatory incentives to be offered. This report transmits the consultant's findings and recommends submittal of four Enterprise Zone applications centering on 1) Del Paso Heights/Northgate 880, 2) Downtown/Richards Boulevard, 3) Oak Park/Power Inn Road, and 4) Meadowview/Delta Shores. Three of the proposals (Downtown, Meadowview and Oak Park) will be for Zone designation under the Nolan legislation (AB 40) and one (Del Paso Heights) under Waters (AB 514). (See attached maps.) Analysis of the costs and benefits of obtaining a zone designation is included.

(1)

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BACKGROUND

The Enterprise Zone concept embraces the notion that tax incentives and removal of regulatory barriers can help generate private investment in economically distressed areas. While legislation initiating the program at the federal level has been held up, many states, including California, have initiated state level programs. The two state pieces of legislation [AB 40 (Nolan) and AB 514 (Waters)] both provide for a series of state tax and program incentives (see Attachment 3) and call for a series of local (City and County) regulatory relief and program measures. The Nolan bill relies more heavily on regulatory relief to stimulate new investment within the Zone for the benefit of disadvantaged persons in the overall community, while the Waters piece concentrates on job generation for persons from specific, more severely distressed areas.

Both programs require cities or counties desirous of obtaining Zone designation to compete for a limited number of available designations (ten under Nolan and nine, over three years, under Waters). Those cities or counties offering the best overall strategy and/or package of local incentive measures stand the best chance of success. State staff has indicated that they will be looking for a mix of program approaches -- some urban, some rural, some emphasizing new development or a single large hiring source, others emphasizing infill, redevelopment and preservation/expansion of existing businesses. No financial resources are made available directly to localities under either program.

We have thought long and hard about whether or not Sacramento should apply. Critics of the program question whether or not any tax and/or regulatory relief incentives can really make a difference in encouraging businesses to locate here or invest in new plant and equipment. They argue that what these businesses really need is start-up capital, working capital, and, most of all, a market. (Tax incentives are of little use unless you make a profit in the first place.)

Another negative factor about the program is that there are considerable costs involved to the locality with no direct recompense by the State. We are, in other words, expected to offer a series of development incentives and to fund them from local resources. Attachment 2 lists some of the costs and potential benefits from the program. The benefit side, as you will note, is highly contingent upon the success of the program in stimulating new business and employment, a yet to be proven eventuality.

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Negatives notwithstanding, there are also some powerful arguments for us to proceed with one or more applications. These include:

1) Not having a zone designation can put us at a competitive disadvantage with other jurisdictions that do with respect to encouraging new business development. The success of the program statewide remains to be seen, however, if it does become widely known and accepted, as it has in other states, this point will become even more cogent. There is also a distinct possibility that the program will create a positive public relations effect separate and distinct from any real benefits offered through the program.

2) Whereas the benefits of state zone designation may be relatively small, the federal proposal, if enacted, will provide benefits of a much more substantial nature. The federal program will also be highly competitive in nature. Zone designation under the State program will almost assuredly be a necessary precursor to successful competition under the federal legislation.

3) We have distressed areas where we have tried just about everything else. Our Downtown, Oak Park and Del Paso Heights renewal efforts are long standing. Some successes have been noted, however, persistent and systematically ingrained economic problems remain. The addition of the Enterprise Zone incentives to the other programs we have tried to implement in these areas, while in no way assured, may serve as a useful complement to efforts currently underway to revitalize these neighborhoods.

4) The program might work. The Sabre Foundation has produced a highly favorable (if somewhat optimistic) report on the success of programs in other states. Other analyses, by the Urban Institute, for example, while less exuberant, point out some potential for program success.

PROGRAM STRATEGY OPTIONS

Given the above-mentioned factors, the consultant's analysis which recommends favorably that we proceed, and our knowledge of local economic development goals and objectives, we are recommending that applications be submitted, despite the uncertainties of the cost-benefit analysis, and the prognosis for success.

The consultant has pointed out several different strategies which could be incorporated into applications built around the several geographical areas identified. While not following their advice

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precisely, we have utilized their basic approaches to the question of how to formulate the applications. Since Sacramento will be very fortunate to receive even one zone designation, we think it will definitely be to our advantage to submit several applications which pose different strategies.

The four strategies are:

1) Combination of a severely distressed residential/commercial area (Del Paso Heights - Marysville Boulevard) with a newly developing adjacent industrial area (Norwood - Northgate 880). This would be a joint City/County Zone.

2) Combination of a less severely distressed residential/commercial district (Downtown) with emphasis on commercial, rather than industrial usage of the program, but with application to an established industrial area (Richards Boulevard). This Zone would be City only.

3) Combination of a severely distressed residential/commercial area (Oak Park-Fruitridge and Broadway-Stockton Boulevard) with an already developed industrial zone (east of Power Inn Road). This would be a joint City/County Zone.

4) Combination of a less distressed residential/commercial area (Meadowview) with an undeveloped industrial area (Delta Shores). This Zone would be City only.

Each of these strategies emphasizes different aspects of the state legislation. Strategy 1 combines significant potential for tax advantages in a very active, expanding industrial area with the need to assist a severely distressed residential area. (The potential for including a new sports franchise in the zone is also intriguing.) Commercial benefits will, quite frankly, be minimal. Strategy 2 is the one which will, in all likelihood, maximize total financial benefits to Sacramento businesses in that it provides zone designation to a very active and sizeable commercial area. This maximization of total monetary benefits might, it could be argued, create the most jobs and most total new investment. The residential area targeted is less distressed than in the other examples, however, the maximized benefits should flow, to some degree, to the community as a whole. This strategy could also provide a needed boost to such areas as J Street and Old Town and could prove to be a very positive influence, for example, in the 'Docks Area'. Strategy 3 targets commercial benefits to an area which has been quite high on our priority list for renewal but which has proven very difficult to,

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in fact, improve. The industrial benefits will be quite high as well but, as in Strategy 1, will need to be overtly tied to the targeted residential area. Strategy 4 provides the possibility for coordination of the program with a single significant industrial project.

INCENTIVE OPTIONS

The consultant has reviewed a complete list of potential incentives which we might offer in our Zone proposals. All city and county fees and taxes were reviewed as well as ongoing operational programs which could be targeted into the Zone(s).

In our list of recommended incentives, we have tried to provide a balance between reasonableness and a sense of not 'giving away the shop', with the aggressiveness of programs we think will be required to successfully compete in the state process. Based on this generalized approach, the following list of local incentives is proposed for inclusion in our four applications. (The assumption that one, or at the absolute most, two of the Zone proposals will be approved is incorporated in the thinking behind this listing.)

1) An Enterprise Zone program coordinator should be hired to promote and administer the program. This person should be placed at a level where he or she can coordinate and implement the program incentives identified below. Estimated costs will be \$100,000 + per year, to be funded solely from City or jointly from City/County Community Development Block Grant (CDBG) Economic Development funds depending on the selected zone.

2) The Enterprise Zone will be designated as an eligible area for our CDBG and, where coincident, tax increment funded commercial loan programs. These programs are currently funded at \$1.0 + million annually and include:

- a) Facade improvement rebates of up to \$5,000 per storefront.
- b) Commercial rehabilitation loans of up to \$200,000 per property at six percent interest.
- c) Commercial/industrial development loans of up to \$200,000 at nine percent.

3) The City/County will contract with the Sacramento Metropolitan Chamber of Commerce to operate a Small Business Adminis-

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tration (SBA) Certified Development Corporation capable of generating and processing SBA 502, 503 and 7a loans as well as to provide access to commercial loan markets. The CDC will be directed to assist Enterprise Zone businesses in generating needed capital. Contract costs will be \$134,000 ± per year funded from joint City/County CDBG Economic Development funds.

4) A special set-aside of \$50,000 in Job Training Partnership Act (JTPA) on-the-job-training funds will be reserved for Enterprise Zone firms. Additionally, Zone firms will be given priority for usage of a special allocation of \$250,000 in customized classroom training funds. The Private Industry Council (PIC) will establish a special program which, in conjunction with the Zone Coordinator will explain and market the JTPA program to Zone firms. This will include a complete explanation and implementation of an on-the-job-training and/or customized classroom training program as well as assistance in processing of all paperwork related to the Targeted Jobs Tax Credit program. (On-the-job-training under JTPA included reimbursement of one-half of the salary of all trainees for up to six months.)

The PIC will recruit, screen and refer trainees who meet the eligibility requirements outlined in the Enterprise Zone legislation (AB 40 or AB 514). The Enterprise Zone Coordinator will work with the PIC to establish and conduct an outreach program to notify Zone residents about the availability of this program.

5) A primary function of the Zone Coordinator will be assisting Zone firms, particularly those willing to sign a participation agreement under 4) above, with application for land use and building permits. The Coordinator will thus serve as a permit expeditor and 'trouble shooter' and will minimize problems and potential delays for Zone firms.

6) For those firms willing to sign a participation agreement under 4) above, or which serve to further our commercial revitalization strategies on one of our designated commercial strips, the City/County will pay permit related expenditures involved in constructing, rehabilitating or expanding businesses in the Zone area, as follows:

Building Permits and Plan Check Fees

Encroachment Permit Charges

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Zoning and Land Use Related Fees charged by the City or County such as as those for Use permits, Variances, etc.

Business License Fees

7) A Minority Business Enterprise/Women's Business Enterprise (MBE/WBE) coordinator position will be established within the Sacramento Housing and Redevelopment Agency to provide increased opportunities for minority- and women-owned firms to participate in local government contracting opportunities. The coordinator will be instructed to concentrate outreach efforts in the Zone area. Estimated annual program costs will be \$100,000 + to be funded from City and County CDBG funds.

8) The Environmental Coordinator at the Sacramento Housing and Redevelopment Agency will assist Zone firms in meeting the requirements of the environmental review process. Under the 'master' Environmental Impact Report (EIR) process authorized for the Zones, this assistance should virtually eliminate delays due to the environmental review process for Zone firms.

9) The City and County will extend its special CDBG funded neighborhood clean-up efforts to the Zone areas. Zone residents or firms will thus be able to access special assistance in getting trash removal and nuisance abatement in their area.

10) The City and County have agreed to waive for participating Zone firms, all fees and charges normally charged by the City, County or Redevelopment Agency for assistance to businesses applying for Industrial Development Bonds (IDBs). This could amount to \$20,000 - \$30,000 per applicant. The City-County-Agency will also give first priority to Zone applicants for IDB authority.

11) An important function of the Zone Coordinator will be to keep accurate records on Zone progress (e.g., permits issued, square footage constructed, persons hired, demographic data, etc.) and to report to the State as well as the City and County on Zone success or failure. An annual evaluation and report will be published for public information which will compare business and construction as well as hiring activity in the Zone to other areas in the City/County.

12) There may be some 'area specific' incentives (e.g., the Waterfront restoration) which we can include on an application by application basis. These will be presented in the individual application packages.

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FINANCIAL DATA

As mentioned above, the costs of Zone program development and administration are fairly easy to calculate. The potential benefits, however, are more difficult, being highly dependent on relative Zone success and the ability to generate new investment and jobs. Attachment 2 outlines the costs and projected benefits of projects in what might be considered a prototypical Zone program. Please be advised, however, that these estimates are highly speculative in nature.

One immediate financial impact, however, will be the need to augment our current consultant contract by \$9,000 in order to cover the expense of preparing four applications as opposed to the two envisioned in the original contract. This should be authorized equally from existing City/County economic development funds previously set aside from 1984 CDBG.

Should one or more of the preliminary applications be approved, the additional expenses of preparing the final application(s) and EIR(s), if any, will be reported back on.

ENVIRONMENTAL DATA

State law requires that an Initial Review and Notice of Determination be filed with the preliminary applications by April 17th. These will be prepared and presented with the preliminary applications as required. State law further requires that, if one of our preliminary applications is chosen for final application status, that either an EIR be prepared or a determination be made that a previously prepared EIR covering the same geographical area sufficiently addresses the concerns of the Zone proposal. This determination will be made during the initial review process.

VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of March 18, 1985, the Sacramento Housing and Redevelopment Commission adopted a motion recommending adoption of the attached resolution. The votes were as follows:

AYES:

NOES:

ABSENT:

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RECOMMENDATIONS

- 1) Direct staff to prepare four 'Enterprise Zone' proposals for submittal to the State by April 17th:
 - a) One proposal under AB 514 (Waters) covering the Del Paso Heights/Northgate 880 area; and
 - b) Three proposals under AB 40 (Nolan) for the Downtown/Richards Boulevard, Oak Park-Fruitridge/Power Inn Road, and Meadowview/Delta Shores areas.
- 2) Endorse the concepts of and authorize staff to include the following general incentives in each of the application packages:
 - a) An Enterprise Zone Program Coordinator
 - b) Extension of CDBG and, where applicable, tax increment funded commercial loan programs to the Zones.
 - c) Extension of the services of our proposed Chamber of Commerce sponsored Community Development Corporation to the Zones.
 - d) A special set aside of \$50,000 in JTPA funds and other technical assistance for use by firms willing to sign participatory agreements.
 - e) Special permit assistance and expediting procedures for Zone firms, particularly those signing a participatory agreement.
 - f) A special set-aside of \$100,000 in City/County CDBG (economic development funds) for payment of permit fees for participatory agreement firms.
 - g) Direction for our MBE/WBE coordinator to place special emphasis on outreach to Zone firms.
 - h) Extension of the Agency's Environmental Coordinator's services to Zone firms signing participatory agreements.
 - i) Extension of the CDBG funded neighborhood clean-up and nuisance abatement program to the Zones.
 - j) Waiver of the Industrial Development Bond fees for participating Zone firms signing participatory agreements.

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- k) Preparation of an annual Zone report and evaluation.
- l) Other geographically specific incentives, as appropriate.
- 3) Adopt the attached resolutions which allocate \$9,000 (\$4,500 City and \$4,500 County) in 1984 CDBG funds, previously allocated for Economic Development, for augmentation of our contract with MKGK Incorporated for assistance in preparation of our Enterprise Zone applications.
- 4) Acting as the Redevelopment Agency of the City of Sacramento, authorize and direct the Executive Director to execute the attached contract amendment with MKGK Incorporated and to amend the Agency budget as required.

Respectfully submitted,

For John E. Plescia
ANDREW J. PLESCIA
Acting Executive Director

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE
City Manager

Contact Person: John Molloy
440-1360

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

AUTHORIZING USE OF COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS FOR APPLICATIONS FOR STATE ENTERPRISE ZONE DESIGNATION

WHEREAS, the City Council wishes to promote the economic vitality of the Sacramento area by applying for designation under the State of California's "Enterprise Zone" programs;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

SECTION 1. That an additional \$4,500 in 1984 Community Development Block Grant funds previously allocated for economic development programs (Fund 221; Cost Center 4318) be authorized for use in preparation of applications for State Enterprise Zone designation.

MAYOR

ATTEST:

CITY CLERK

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO
ON DATE OF

AMENDMENT TO CONTRACT WITH
MKGK INCORPORATED

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY
OF SACRAMENTO:

SECTION 1. The contract between the Redevelopment Agency of the City of Sacramento and MKGK Incorporated, dated November 5, 1984, is hereby authorized to be amended as set forth on Exhibit A to this Resolution.

SECTION 2. The Executive Director is authorized and directed to execute the amended contract.

CHAIR

ATTEST:

SECRETARY

AMENDMENT TO CONTRACT FOR
PROFESSIONAL SERVICES

THIS AGREEMENT, entered into as of this _____ day of _____, 1985, by and between the REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO (herein called "Agency"), and MKGK INCORPORATED (herein called "Contractor").

WITNESSETH:

WHEREAS, Agency and Contractor entered into an Agreement to provide professional services, dated November 5, 1984 in connection with preparation of applications for State Enterprise Zone designation; and

WHEREAS, the parties desire to amend said Agreement to increase compensation and services.

NOW, THEREFORE, it is agreed that the Contract for Professional Services, dated November 5, 1984, shall be amended as follows:

1. Section 4, Method of Payment and Maximum Compensation, subparagraph (b) shall be amended by deleting TWENTY-FIVE THOUSAND (\$25,000) DOLLARS and inserting in lieu thereof THIRTY-FOUR THOUSAND (\$34,000) DOLLARS.

2. Exhibit A, page 2, paragraph 8 shall be amended by deleting "Identify two, or at most three, geographical areas" and inserting in lieu thereof "Identify at most four geographical areas". Said paragraph 8 is further amended by deleting "Phase II Report Due: January 31, 1985" and inserting in lieu thereof "Phase II Report Due: March 1, 1985".

3. Exhibit A, page 2, paragraph 10 shall be deleted in its entirety.

4. Exhibit A, page 3, paragraph 11 shall be amended by deleting "Phase III Report Due: March 31, 1985" and inserting in lieu thereof "Phase III Report Due: May 31, 1985".

5. Exhibit A, page 3, paragraph 12 shall be amended by deleting "Preliminary Application(s) Due: May 3, 1985" and inserting in lieu thereof "Preliminary Application(s) Due: April 17, 1985". Said paragraph 12 shall be further amended by deleting "Final Application(s) Due: September 16, 1985" and inserting

in lieu thereof "Final Application(s) Due: August 30, 1985". Said paragraph 12 shall be further amended by deleting "Payment: \$3,000.00 per preliminary application submitted (maximum of two) - \$1,500.00 per designation" and inserting in lieu thereof "Payment: \$3,000 per preliminary application submitted (maximum of four) - \$1,500 per preliminary designation and final application submitted".

6. Except as modified herein, all other terms and conditions of the Contract for Professional Services, dated November 5, 1984, shall remain unchanged and in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first above written.

REDEVELOPMENT AGENCY OF THE CITY
OF SACRAMENTO

APPROVED AS TO FORM:

By _____
Executive Director

Agency Counsel

MKGK INCORPORATED

APPROVED:

By _____
E. Kent Meek, Vice President

Finance Department

Address:

1095 Market Street, Suite 300
San Francisco, CA 94103

Object Code: 4532

Cost Center: 8331/4318

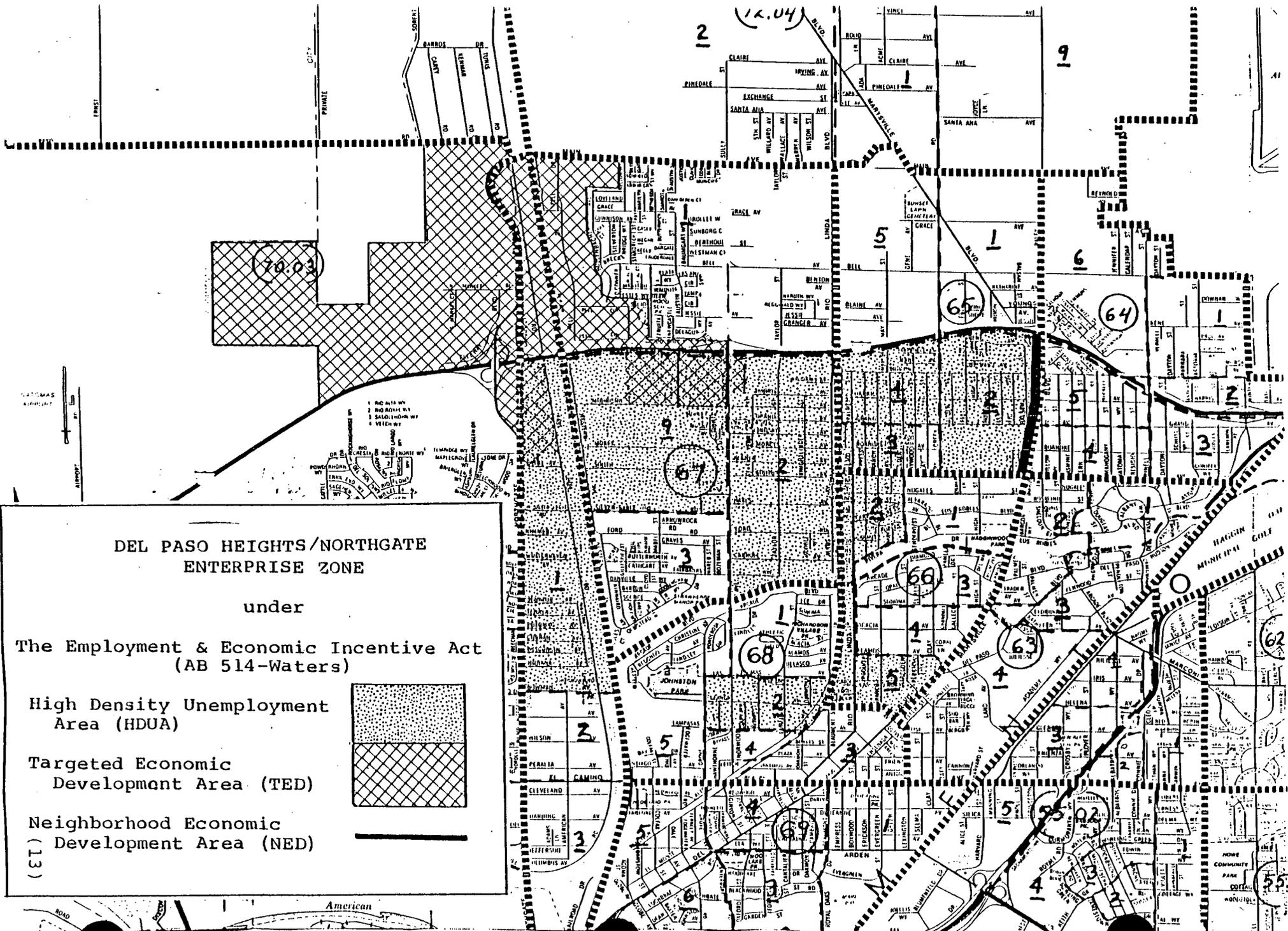
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Fund: 236/221

Fed. I.D. No. 94-2493766

APPROVED:

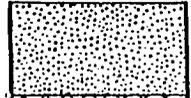
Organization



**DEL PASO HEIGHTS/NORTHGATE
ENTERPRISE ZONE**

under

The Employment & Economic Incentive Act
(AB 514-Waters)

High Density Unemployment
Area (HDA) 

Targeted Economic
Development Area (TED) 

Neighborhood Economic
Development Area (NED) 

(13)

American

MEADOWVIEW/DELTA SHORES
ENTERPRISE ZONE

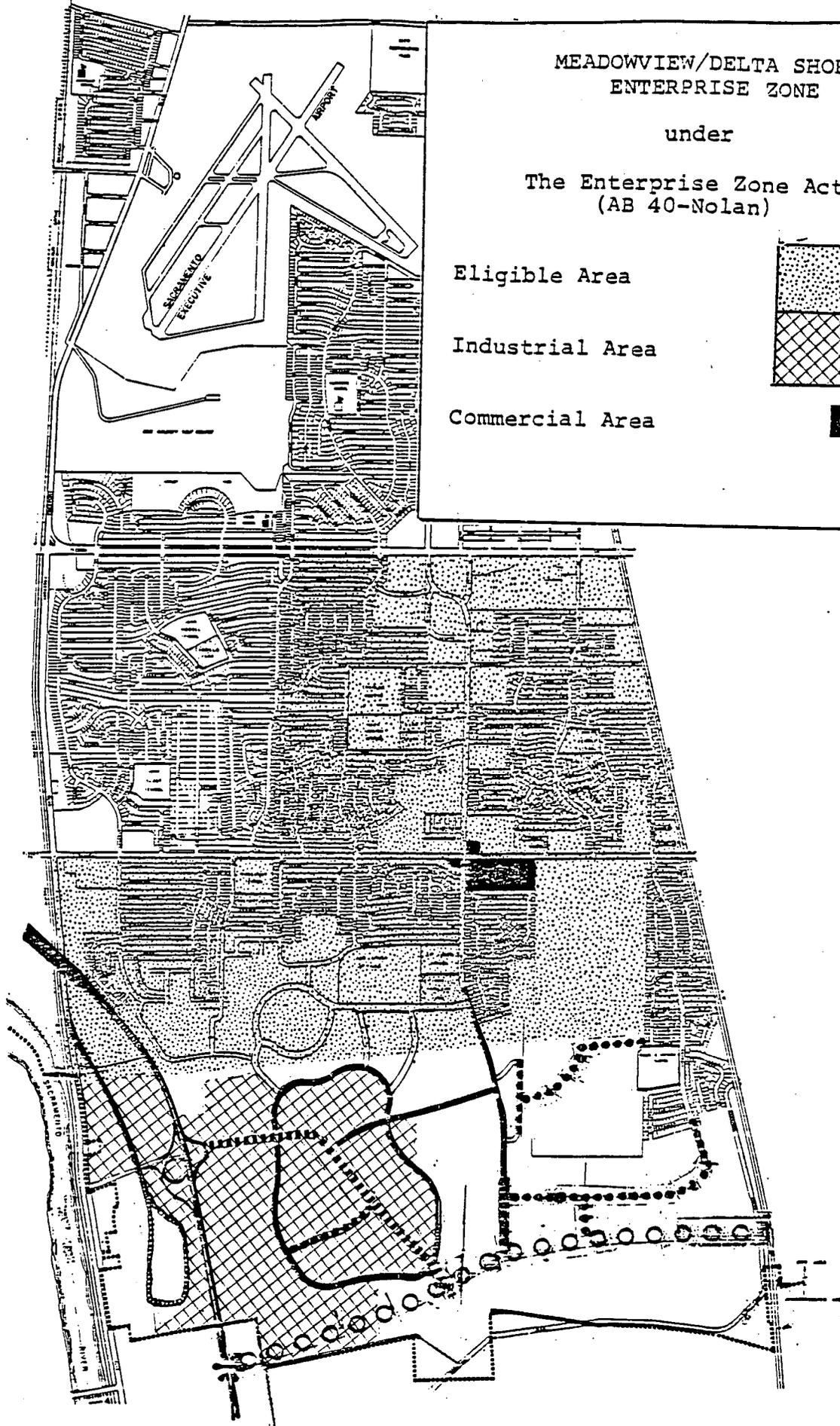
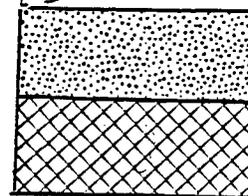
under

The Enterprise Zone Act
(AB 40-Nolan)

Eligible Area

Industrial Area

Commercial Area



ATTACHMENT 1

SACRAMENTO ENTERPRISE ZONE
ANALYSIS, ZONE IDENTIFICATION
AND APPLICATION PREPARATION:
PHASE II REPORT

Prepared for:

Sacramento Housing and Redevelopment Agency
630 "I" Street
Sacramento, CA 95814

Prepared by:

MKGK Incorporated
1095 Market Street, Suite 300
San Francisco, California 94103

March 1, 1985

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The purpose of this report is to assess Sacramento's geographic areas in terms of their potential for successful Enterprise Zone designation under both AB 40 and AB 514, to identify selected areas that have the best prospects for zone designation, and to outline Enterprise Zone incentives for each of the areas with the most potential for zone designation. These tasks have been executed in conformance with the requirements of Phase II of the technical services contract between MKGK Incorporated of San Francisco and the Sacramento Housing and Redevelopment Agency.

The number and geographic distribution of eligible areas in Sacramento, make it possible for virtually any of the City's major commercial and/or industrial areas to be considered for Enterprise Zone designation. However, only three County areas (generally corresponding to the Franklin Boulevard Industrial Area, the Roseville Road Industrial Area, and a portion of the Arden-Arcade Area) are eligible -- although, of course, other industrial areas located in the County and within commuting distance of an HDUA could be designated as TEDs.

Given the number and distribution of eligible areas, the objective of area review and evaluation was to identify those areas where Enterprise Zone designation will have the most positive net economic development impacts and which will have the highest probability of being approved by the State. Therefore, area

potential for zone designation has been assessed in terms of the following criteria:

- the extent to which the area is similar to areas in which Enterprise Zones have been successful in States where Enterprise Zone programs have been operating for several years.
- the extent to which creation of an Enterprise Zone in the area will meet the overall economic development needs and is consistent with the overall economic development objectives of the City and County, and will thereby gain local support;
- the extent to which cost effective local incentives to stimulate economic development activity can be provided in the area; and
- the extent to which the area meets the formal selection criteria and informal selection guidelines of both AB 40 and AB 514.

Each of the eligible areas were rated in terms of each of these criteria and the ratings were summed to determine each area's overall designation potential. Application of this approach has resulted in the identification of four areas, two under AB 40 and two under AB 514, with strong potential for zone designation.

Based on the overall ratings of designation potential and the guidelines specified above, the following AB 40 Enterprise Zone areas have been structured:

Zone No. 1: Richards Boulevard and Downtown

Eligible Area: CT's 4, 5, 6, 7, 10, 11, 12, 13, 14, and 53

Program Area: CT 53-BG 1 and 9
(16th Street and C Street Industrial Area)

Eligible Area
Population: 20,400

Zone No. 1: Richards Boulevard and Downtown (Cont'd)

Program Area

Acreage: 600

Special Zone

Features: Vacant 400,000 sq. ft. State office building
Vacant 40 acre industrial parcel owned by State

Zone No. 2: North Norwood, Hagginwood and Del Paso

Eligible Area: CT's 65, 66, 67, and 68

Program Area: CT 67-BG 1 and 9
(North Norwood Industrial Area)

Eligible Area

Population: 21,000

Program Area

Acreage: 800-850

Special Zone

Features: High Tech Area

These two zones are recommended application areas for AB 40. The Downtown and Richards Boulevard area is, in many respects, ideally suited for Enterprise Zone designation. A program area structured around the 16th Street and C Street industrial areas will also include several surplus State properties that may present exciting development opportunities in the Enterprise Zone context. The North Norwood Hagginwood and Del Paso area does not have as many "classic" Enterprise Zone features, but does present unique opportunities as a High Tech Zone.

The juxtaposition of a dramatic high tech growth area and a neighboring distressed community may be compelling for State

reviewers, particularly if the incentives provided for such a zone are focused on employment development.

The following AB 514 Enterprise Zone areas have been developed based on the overall ratings of designation potential and the structuring guidelines described above:

Zone No. 1: Oak Park and Franklin Boulevard Industrial Area

HDUA Area: CT18-BG4 and BG5, CT27-BG2 and BG3; CT28-BG1, BG2 and BG3; CT27-BG2 and BG3; CT37-BG1, BG3 and BG4; and CT45-BG1

NED Area: CT18-BG4 and BG5 and CT27-BG2 (Oak Park Commercial District)

TED Area: CT45-BG1, BG2, BG3 and BG4 (Franklin Boulevard Industrial Area)

HDUA Population: 9,400

TED Acreage: 400-450

Special Zone Features: Joint Application with County

Zone No. 2: Del Paso and Woodlake-Arden Industrial Area

HDUA Area: CT65-BG2 and BG4; CT66-BG2 and BG5; CT67-BG2; and CT68, BG2 and BG3

NED Area: CT66-BG5 and CT68-BG2 and BG3 (North Sacramento Commercial Area)

TED Area: CT69 and CT62.02-BG5

HDUA Population: 7513

TED Acreage: 450

Special Zone Features: Coordination with Light Rail System

The designation potential of Oak Park and Franklin Boulevard Area is the most highly rated of the AB 514 areas. The Franklin Boulevard Industrial Area was structured as the TED because it is in close proximity to the NED and because portions of the area are located in the County. The Del Paso and Woodlake-Arden Area is recommended for AB 514 application over the Downtown and Richards Boulevard because the HDUA is more narrowly targeted on one of the most economically distressed areas in the City and county.

The centerpiece of the Enterprize Zone concept is the package of incentives exclusively applicable to the designated zones. Both AB 40 and AB 514 provide a package of State incentives for "qualified" businesses, persons, and/or activities operating in the zones. Both bills also call for the development of a companion package of local incentives; the composition and appropriateness of which will be weighted heavily in the competitive rating of applications by the State.

In order to meet application requirements, the report: identifies and discusses the possible range of incentives for Enterprise Zones and assesses their relevance with respect to size of business; reviews the State incentives provided in each of the legislative Acts; and identifies possible local incentives to be included in the Sacramento Enterprise Zone application and assesses probable impacts with respect to business size.

The report identifies seven categories of problems facing businesses in distressed areas and distinguishes between the problems of small and medium-to-large businesses. The problem categories include:

- inadequate physical facilities: land, buildings, infrastructure;
- insufficient development and/or working capital: limited access, limited amounts, high cost;
- inadequate labor skills, high labor training costs, low retention levels;
- inadequate services: police, fire, sanitation;
- insufficient management skills and services; difficulty of attracting experienced management; inadequate support services such as accounting, computerized data processing, personnel services, etc.
- substantial governmental regulation producing time delays and increased costs; and
- poor aesthetic environmental quality.

The study concludes that the major problems associated with small businesses relate to deteriorated buildings, the cost and availability of capital, employee retention, management skills and services, and the time and costs of regulatory compliance. Major problems facing medium-to-large businesses, on the other hand, relate to inadequate sites, buildings and utilities, labor force training costs, inadequate police and fire protection, and the time required to comply with environmental regulations.

Nine categories of incentives for businesses in zones were identified as follows:

- tax relief;

- regulatory relief;
- assistance in land acquisition, assembly, and/or cost write-down;
- assistance in the provision of infrastructure;
- provision of development and working capital;
- provision of job training and recruitment services;
- increase in police, fire, sanitation and other services;
- business management assistance; and
- preferential treatment for zone businesses in public contracting.

The report reviews the State incentives provided under each legislative Act and concludes that local incentives to be included in the Sacramento Enterprise Zone applications should be tailored to the specific zones selected and the specific problems of the types of businesses to be located there. The selection of the incentives should be based on the following criteria:

- the extent to which they meet the local incentives criteria of each Act;
- the extent to which they will operate in concert with the State incentives provided under each Act;
- the extent to which they will address the specific problems of the particular types of businesses that will locate in each zone; and
- the extent to which the incentive will have a positive benefit/cost ratio for the City/County.

The report then identifies and assesses possible incentives to be developed for Sacramento Enterprise Zones under each of the

nine incentive categories identified previously, including the following:

- reductions in zones of local property tax, sales tax, and utility surcharge.
- assistance in the zone for land acquisition, assembly, and cost write-down;
- assistance in the zone in the provision of infrastructure;
- provision of development and working capital in zones through existing programs such as CDBG, SBA, and UDAG; development of private capital pool for zone businesses among several financial institutions;
- targeting of job training and recruitment services to zone businesses through the PIC and other businesses;
- improve the level of police, fire, and other services in zones;
- provide business management assistance for small zone businesses directly or through contract;
- provide preferential treatment for certain zone businesses in City and County contracting; and
- provide local regulatory relief such as fee reductions for small businesses; reductions in processing time through one-step processing centers and/or a regulatory ombudsman for zone businesses; special consideration for existing buildings in zones with respect to building code compliance.

THE BALANCE OF THE CONSULTANT'S REPORT IS
AVAILABLE FOR REVIEW AT THE CLERK'S OFFICE.

ATTACHMENT 2

**ENTERPRISE ZONE
COSTS AND BENEFITS CASE STUDIES**

Attached are three prototypical commercial and industrial developments which might occur in the selected Enterprise Zones. These cases are designed to illustrate the types of incentive costs which might be incurred by the City or County and the types of returns which might accrue. Please note that it is very difficult to predict the number of developments per zone and hence the total costs/benefits, however a hypothetical example is included, which does indicate a favorable (.8) cost/benefit ratio.

These cases are not meant to be projections of developments which will occur as a result of Enterprise Zone designation. They are, however, possibilities. The case studies are, in effect, "what if" scenarios. If these types and sizes of industrial or commercial projects were to occur, and were designed to take maximum advantage of possible state and local incentives, what then would be the possible costs and what might be the possible returns to the City and County?

Although the cases selected are hypothetical, their basic configurations are based on real proposals or existing developments where the essential facts of size, use and costs are known or can be estimated with reasonable accuracy. Judgements were then applied to generate the additional necessary data.

One basic assumption is that each business locating within the project designed its employment program to insure that it met the minimum state requirements to qualify for the wage tax credit and other incentives. It is assumed, therefore, that maximum efforts were made to hire unemployed or otherwise disadvantaged persons. Additional key assumptions were:

1. 30% of all new employees were unemployed or otherwise disadvantaged prior to employment. This is the average found nationally by the Sabre Foundation study of Enterprise Zone firms.
2. The majority of disadvantaged persons to be hired will be AFDC or General Assistance recipients. According to the County Welfare Dept., the County's Share of the average AFDC and GA payments are \$25 and \$200 a month respectively.
3. The assessed value of each project is equal to its total development cost.

These cases studies do not purport to be full-blown cost-benefit analyses of the selected projects. Such analyses would have taken into account the costs and the incomes from a wide range of municipal services provided to the resultant businesses. In addition, a full-blown study would have considered many indirect costs and benefits including, for example, the multiplier affect from the addition of a given number of jobs, their incomes and the resultant affects on the economy (e.g.: new home construction, retail sales, etc.).

Finally, no judgment is made as to whether these or similar types of development would occur in these locations in the absence of Enterprise Zone designation and the incentives provided. The number of businesses indicated are merely an estimate of the number which might be marginally attributable to zone designation given a successful program.

CASE STUDY #1

Construction of Manufacturing Plant in Delta Shores in Connection with Meadowview Enterprise Zone Under AB-40 (Nolan)

I. Potential Benefits to Industrial Firm

A. State Incentives including:

1. Tax credit for wages paid to specified disadvantaged individuals who are hired (e.g., very low income, AFDC or General Assistance recipients, handicapped, etc.).
2. Expanded eligibility for Industrial Development Bond (IDB) authority.
3. Preference in awarding state contracts for goods in excess of \$100,000.

B. Project specific local incentives could include:

1. Industrial development loan of up to \$200,000 at 9%.
2. Job Training Partnership Act (JTPA) funding.
3. Defrayment of permit related expenditures involved in construction.
4. Assistance in expediting permits.
5. Assistance in meeting environmental review requirements.

II. Project Description

A. Physical Plant

- . 25,000 square feet industrial plant on 1.5 acres.
- . Total Project Costs - \$ 1,650,000 (Direct Industrial Development Loan - \$200,000 at 9%. Balance IDB funded).

B. Employment

- . 50 total employees (assume 30% were disadvantaged at the time they were hired including 5 AFDC, 5 handicapped and 5 vocational rehabilitation referrals)

III. Direct Local Project Costs and Returns

A. Costs

1. Building permits and fees	\$12,000
2. Waiver of IDB Fee	\$20,000
Total Costs	\$32,000

B. Returns Per Year

1. Property Tax	\$21,500
2. AFDC/GA Saving	\$ 1,500
Total Direct Return	\$23,000

CASE STUDY #2

Construction of Shopping Center on Marysville Boulevard in Del Paso Heights Enterprise Zone Under AB 514 (Waters)

I. Potential Benefits to Developers and/or Lessees

A. State tax incentives to businesses in which at least 30% of the ownership and management is held by residents of the High Density Unemployment Area (HDUA); or at least 50% of its employees are residents of the HDUA; or at least 30% of the employees are residents of the HDUA and the business provides a community service. Incentives for retail or service businesses could include:

- 1) Employers tax credit for hiring persons who have been unemployed for certain periods of time.
- 2) Investment income exclusion.
- 3) Net operating loss carryover for three years following the year of loss.

B. Additional State program incentives could include:

- 1) High priority to businesses applying for State loans and loan guarantees administered by the State Office of Small Business.
- 2) Expanded eligibility for Industrial Development Bond authority.

C. Project specific local incentives could include:

- 1) Commercial development loans of up to \$200,000 at 9%.
- 2) Assistance from the Chamber of Commerce Small Business Administration Certified Development Corporation in processing SBA loans and in generating needed capital.
- 3) Job Training Partnership Act (JTPA) funds from the special set-aside.

4. Defrayment of any permit related expenditures involved in construction, rehabilitation or expansion of business.
5. Assistance with land use and building permits.

II. Project Description

A. Physical Plant

- . 18,000 square feet of leasable space on 1.25 acres.
- . Total Project Cost: \$1,500,000 (Commercial Development Loan - \$200,000 at 9%. Balance IDB funded)

B. Business

- . 7-10 retail/service businesses (assume meet minimum qualifications for State Tax Incentives).
- . \$1,800,000 of aggregate sales.

C. Employment

- . 100 total employees (assume 50% reside in the HDUA).

III. Direct Local Project Costs and Returns

A. Costs

1) Building permit and fees	- \$ 8,600
2) IDB fee waiver	- <u>20,000</u>
Total Costs	- \$28,600

B. Returns

1) Property Tax	- \$19,500/yr
2) Sales Tax	- \$22,500/yr
3) AFDC/GA Saving	- <u>30,000/yr</u>
Total Direct Return	72,000/yr

CASE STUDY #3

Rehabilitation of a Multi-Use Commercial Building in Old Sacramento in Downtown Enterprise Zone Under AB40-Nolan

I. Potential Benefits to Developer and/or Lessees

A. State Tax Incentives including:

1. Tax credit for wages paid to specified disadvantaged individuals who are hired by businesses (e.g. very low income, AFDC or General Assistance recipients, handicapped, etc.).
2. Investment income exclusion.
3. Net operating loss carryover of up to 15 taxable years.

B. Other State Incentives

1. High priority for loans and loan guarantees administered by the Office of Small Business, if the owners of the business are residents of the Enterprise zone.
2. Expanded eligibility for Industrial Development Bonds (IDB) authority.

C. Project specific local incentives could include:

1. Commercial or rehabilitation loan of up to \$200,000
2. Facade improvement rebate of up to \$5,000 per storefront.
3. Job Training Partnership Act (JTPA) funding.
4. Defrayment of permit related expenditures.
5. Assistance in expediting permits.

II. Project Description

A. Physical Facility

- . Four level building with 10,500 square feet of leasable space.
- . Total project cost - \$1,000,000 (Commercial Loan of \$100,000 at 6%. \$33,000 in public costs).

B. Businesses

- . Restaurant, offices
- . Gross taxable sales - \$800,000

C. Employment

- . 30 total employees (assume 30% meet the State "Disadvantaged" definition).

III. Direct Local Project Costs and Returns

A. Costs

1. Building permit and fees	-	\$ 8,000
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B. Returns Per Year

1. Property Tax	-	\$13,000
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2. Sales Tax	-	\$12,000
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3. AFDC/GA Saving	-	\$ 9,300
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Total Direct Return	-	\$34,300
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**Hypothetical Total Zone Costs and Benefits Assuming Two
Manufacturing Plants, One Shopping Center and Four
Commercial Rehabilitation Participants**

COSTS

Zone Coordinator	-	\$100,000
Four Facade Grants	-	No net additional costs
Four Commercial Rehab Loans	-	No net additional costs
Three Direct Loans	-	No net additional costs
Business Assistance	-	No net additional costs
JPTA Set Aside	-	No net additional costs
Permit Technical Assistance	-	No net additional costs
Permit Fees	-	\$ 64,600
MBE/WBE	-	No net additional costs
Environmental Assistance	-	No net additional costs
IDB Fee Waivers	-	\$ 40,000
Annual Evaluation & Reporting-	-	<u>No net additional costs</u>
TOTAL ANNUAL ZONE COSTS		\$204,600

BENEFITS PER YEAR

Industrial	-	\$ 46,000
Shopping Center	-	\$ 72,000
Rehabilitation	-	<u>\$137,200</u>
		\$255,200

Ratio - Costs/Benefits = .8

ATTACHMENT 3A

STATE INCENTIVES UNDER AB 514

A. STATE TAX
INCENTIVES

The following tax incentives are available only to "qualified businesses". Qualified businesses are those sole proprietorships, partnerships, or corporations which are certified to be located within a program area, and which meet one or more of the following criteria:

- An annual average of at least 50% of its employees are residents of an HDUA; or
- An annual average of at least 30% of its employees are residents of an HDUA, and the business provides a community service; or
- At least 30 percent of the business ownership and management is held by residents of an HDUA.

In general, for a business with operations both inside and outside a program area, the credits listed apply only to that portion of business activity conducted within the program area. Specific rules for apportioning activity, income, and credits are contained in the legislation. The following are only summaries of the tax incentives provided by the statute.

Employer's Credit for Hiring HDUA Residents

To qualify for this tax credit, the employees hired by the business must have been unemployed for at least six months. A lesser credit is available for HDUA residents hired who have been unemployed less than six, but more than three months.

A. HDUA residents unemployed longer than six months:

- \$600 credit for the first six months of employment; and
- \$600 credit for the second six months of employment; and
- \$700 credit for the second year of employment.

B. PROGRAM
INCENTIVES

As with the tax incentives above, the following state program incentives are available only to "qualified businesses" as defined above and are notwithstanding any existing law governing these programs.

Small Business Loan Preference

High priority is given to qualified businesses applying for state loans and loan guarantees administered by the State Office of Small Business.

Energy Loan Preference

The State Assistance Fund for Energy will give a high priority to loan applications from qualified businesses applying for funding to purchase or provide alternative energy systems.

Industrial Development Bond Allocation

The California Industrial Development Financing Advisory Commission will authorize an annual maximum amount of \$75 million in qualifying bonds for qualified businesses and enterprise zone businesses under AB 40.

The following program incentives are available to designated programs areas in general and are not restricted to qualified businesses.

Preparation of an Environmental Impact Report

Projects in program areas may be exempted from the preparation of an Environmental Impact Report (EIR) if either: 1) the effects of the project were mitigated or avoided as a result of the EIR prepared for the program area; or 2) examined at a sufficient level of detail in the EIR for the program area to enable those effects to be mitigated or avoided by specific site revisions, the imposition of conditions, or other means in connection with the designation of the program area.

B. HDUA residents unemployed three to six months:

- \$500 credit for the first year of employment; and
- \$700 credit of the second year of employment.

The credit for hiring unemployed HDUA residents may be carried forward to succeeding years.

Sales Tax Credit

Generally, a tax credit may be taken which is equivalent to the state sales tax paid for machinery and machinery parts used for fabricating, processing, assembling and manufacturing, only to a maximum credit of one million dollars. The credit may be carried forward to subsequent years. If a credit is taken, the small business deduction for sales tax paid may not be claimed.

Investment Income Exclusion

Certain income derived from an investment in qualified businesses is excluded from gross taxable income.

Net Operating Loss Carryover

A qualified business can deduct net operating losses for any year after it has become a qualified business for the three years following the year of loss.

Expensing of Depreciable Property

Qualified businesses may elect to treat up to 40% of the cost of machinery and machinery parts used for fabricating, processing, assembling and manufacturing machinery, as an expense not chargeable to a capital account.

Training Resources

The Employment Development Department and local Job Training Partnership Act providers will give high priority to unemployed individuals residing in a High Density Unemployment Area (HDUA).

Criminal Justice Programs

The Office of Criminal Justice Planning will give high priority to program areas in the allocation of its program resources.

State Contract Preference

Whenever the state prepares an invitation for bid for a contract for goods or services in excess of \$100,000 the state will award specified preference points to California based companies who certify under penalty of perjury that no less than 50 percent of the labor required to perform the contract shall be accomplished at a worksite or worksites located in a High Density Unemployment Area. The amount of preference awarded is based on the percentage of the contractor's workforce living within an HDUA. Similar preference may be awarded to other bidders (see Section 4533 of the Government Code).

Subsidized Leasing

State and local agencies are authorized to sell or lease land to the agent for the program area (see glossary for definition of "agent") at rates below fair market value.

ATTACHMENT 3B

STATE INCENTIVES UNDER AB 40

C. PROGRAM
BENEFITS

The following is a short description of the incentives provided through the Enterprise Zone Act.

Subsidized Leasing

All property owned by state or local government within the area of a Neighborhood Economic Assistance Corporation (NEAC, see next appendix) and is not in current use or necessary for a purpose of the state or local agency owning the property, may be leased to the NEAC at terms to be specified. The lease shall permit the NEAC to sub-lease or assign its leasehold interest to private entities conducting or intending to conduct business operation within the zone.

Small Business Loan Preference

The Office of Small Business (OSB) shall establish regulations for loans and loan guarantees administered by the office, which give high priority to qualified businesses in an enterprise zone, but only if the owners of the businesses are residents of an enterprise zone, or the business is a joint venture between residents of an enterprise zone and an existing business in the enterprise zone.

Energy Loan Preference

A high priority shall be given in ranking loan applications by the State Assistance Fund for Energy, California Business and Development Corporation, to qualified businesses in an enterprise zone for purchasing or providing alternative energy systems.

Industrial Development Bonds

The California Industrial Development Financing Advisory Commission shall authorize an annual maximum of qualifying bonds of \$75 million. This authorization shall be used for providing funds to businesses in this bill and in AB514.

Training Preference

The Employment Development Department and the State Department of Education shall give high priority to training unemployed individuals who reside in an enterprise zone.

Criminal Justice Program Preference

The Office of Criminal Justice Planning shall give high priority to application areas in the allocation of its program resources.

Environmental Impact Report

Projects in enterprise zones may be exempted from the preparation of an Environmental Impact Report (EIR) if either: 1) the effects of the project were mitigated or avoided as a result of the EIR prepared for the program area; or 2) examined at a sufficient level of detail in the EIR for the enterprise zone to enable those effects to be mitigated or avoided by specific site revisions, the imposition of conditions, or other means in connection with the designation of the enterprise zone.

State Contract Preference

Whenever the state prepares an invitation for bid for a contract for goods in excess of \$100,000 the state shall award specified preferences to business bidders operating in an enterprise zone. The maximum preference a bidder may be awarded is no more than 15%. In addition, the state bidder preference would be extended to worksites within commuting distance of a distressed area.

D. STATE TAX INCENTIVES

Employer Wage Credit

Allows a tax credit for qualified wages paid to specified disadvantaged individuals who are hired to work in an enterprise zone. The credit is:

- 50% of wages in 1st year
- 40% of wages in 2nd year
- 30% of wages in 3rd year
- 20% of wages in 4th year
- 10% of wages in 5th year

The total credit for a worker in any year can not exceed 150% of the minimum wage. The credit is also

in lieu of the targeted jobs tax credit, and wages upon which the credit is based can not be deducted as a business expense. The credits may be carried forward to the longer of 15 years or the length of the enterprise zone's designation.

Investment Income Exclusion

Certain income from investments in an enterprise zone business is excluded when calculating gross taxable income.

Net Operating Loss Carryover

A taxpayer engaged in the conduct of business within an enterprise zone is allowed to carry forward and deduct net operating losses in any given year, for up to 15 taxable years. For a financial institution the limit is five years. If this credit is elected, the existing small business net operating loss carry forward would not be allowed.

Employee Wage Credit

Allows a five percent income tax credit to qualified employees against wages earned in an enterprise zone for one year, not to exceed \$450 per employee. The credit is reduced by \$0.09 for each dollar of income received in excess of \$9,000.

RECEIVED
CITY CLERKS OFFICE
CITY OF SACRAMENTO

Transporation and Community Development
Committee Agenda

MAR 20 2 00 PM '85

March 27, 1985

3:00 P.M.

1. Cleaning of City Streets
2. Amendment to the Zoning Ordinance and North Sacramento Community Plan Pertaining to the Temporary Placement of Mobile Homes on Industrially Zoned Property

TRANSPORTATION AND COMMUNITY DEVELOPMENT COMMITTEE
PENDING ITEMS

1985

<u>Item</u>	<u>Requestor/ Date Requested</u>	<u>Responsible Department</u>	<u>Due to PWA</u>	<u>Meeting Date</u>	<u>Meeting Time</u>
* CIP Budget Hearing-		Finance		3/26	2:30 P.M.
Cleaning of City Sts.	Committee	PW	3/13	3/27	3:00 P.M.
Mobile Home Temporary Placement in Industrial Zones		Planning	3/13	3/27	3:00 P.M.
* Co-Compost Systems		PW		4/2	2:00 P.M.
* Private Waste-to-Energy Proposals		PW		4/2	2:00 P.M.
* CIP Budget Hearing				4/2	3:00 P.M.
Viking Gasifier - Waste-to-Energy		PW	3/27	4/10	3:00 P.M.
Water Quality Issues Associated w/Landfill Expansion	Council 3/5	PW	3/27	4/10	3:00 P.M.
Water Quality Issues Associated w/Existing (old) Landfill	Council 3/5	PW	3/27	4/10	3:00 P.M.
* 90-Gallon Containers		PW		4/16	
City Space Needs Study- Phase II		Gen. Serv.	4/24	5/8	3:00 P.M.
Water Resources Study- Report Back		PW	4/24	5/8	3:00 P.M.
Status Report - City's Disposal Project - Quarterly Report		PW	5/8	5/22	3:00 P.M.

Transportation and Community
Development Committee
Pending Items - 1985

-2-

<u>Item</u>	<u>Requestor/ Date Requested</u>	<u>Responsible Department</u>	<u>Due to PWA</u>	<u>Meeting Date</u>	<u>Meeting Time</u>
Hazardous Material Mgmt. for Industrial Zones (Huntington Park AKA Delta Shores)		Fire			
Report Back - Southern Pacific Railroad Settlement		Attorney/PW			
Portable Signs (A-Frame, etc.)	Committee	Planning			

* Combined Budget and Finance and Transportation and Community
Development Committee meeting

Updated 3/13/85

File copy

JOINT MEETING BUDGET & FINANCE AND
TRANSPORTATION & COMMUNITY DEVELOPMENT

(Immediately Following Budget & Finance Committee Meeting)

1. CIP Budgets:
 - . General Government
 - . Police
 - . Fire
 - . Library
 - . Parks & Community Services
 - . Boat Harbor
 - . Golf
 - . Camp Sacramento
 - . Bikeways (Parks & Community Services)
2. Planning Commission Comments
3. South Natomas Capital Improvement Advisory Committee Report
Community Enhancements (Scheduled for 4:30 p.m.)

COMMITTEE MEMBERS: Lynn Robie, Terry Kastanis, David Shore, Grantland Johnson, Doug Pope, Tom Chinn, Joe Serna, Jr., Bill Smallman

WEDNESDAY, MARCH 27, 1985

TRANSPORTATION AND COMMUNITY DEVELOPMENT COMMITTEE

3:00 P.M.

City Council Chambers
915 I Street
Sacramento, CA

- SUBJECT:
1. Cleaning of City Streets
 2. Amendment to the Zoning Ordinance and North Sacramento Community Plan Pertaining to the Temporary Placement of Mobile Homes on Industrially Zoned Property

COMMITTEE MEMBERS: Terry Kastanis (Chair), Tom Chinn, Grantland Johnson, Bill Smallman