California's controversial economic development program the Enterprise Zone (EZ) officially has become relegated to the history books. Assembly Bill 93 , passed on June 25th, 2013 by the Senate and June 27th, 2013 by the State Assembly substantially reforms the program.

Manufacturer's Sales Tax Credit begins in 2014

In addition to making major improvements in how the EZ hiring credits are targeted and awarded, AB 93 creates a manufacturing equipment sales tax exemption. This sales and use tax exemption eliminates the California portion of sales tax for basic manufacturing and biotech equipment purchases, and will be offered *statewide* — rather than within certain geographic areas. Currently, California was among only a very few states that did not offer this type of exemption. AB 93 also would establish the California Competes Tax Credit Committee, administered by the Governor's Office, with the purpose of negotiating business tax credits in exchange for investments and employment expansion in California. AB 93's strong provisions in two key areas of the program — transparency and performance evaluation should enable program administrators, policymakers, and the public to track these credits' impact and their return on investment.

Much Needed Reforms to the EZ Credit

The California budget project released their report detailing the escalating costs and serious shortcomings of the EZ Program. AB 93 moves California in a new direction on enterprise zones and economic development by improving the tax credit in ways that eliminates the most severe program inefficiencies.

Specifically, AB 93 restructures the hiring tax credit in five crucial ways:

- Discontinuing retroactive hiring credits, whereby credits are awarded for hires made in past years.
- Requiring businesses to create new *jobs* — not just make new *hires* — as a condition of claiming hiring credits.
- Eliminating residency in a Targeted Employment Area as a qualifying criterion for the

tax credit and specifically targeting the tax credit for three categories of individuals: those that have been previously unemployed for six months, recipients of the Earned Income Tax Credit, and veterans.

- Changing the credit formula to remain the same over a five-year period, instead of decreasing over time — thereby removing the incentive and reward for employers that "churn" their workforces.
- Ensuring that companies that take the credit pay employees a living wage by increasing the amount of qualified wages from *up to* $12 per hour to *between* $12 and $28 per hour for employees.

AB 93 also addresses the EZ Program's current inability to target areas of the state that are most in need of job growth, new businesses, and assistance with economic development. While the current EZ designations remain intact, the new hiring tax credit also includes a census tracts throughout the state that rank in the bottom 25 percent in both unemployment *and* poverty rate. Further, census tracts with low unemployment are removed from the eligible areas, ensuring that the hiring tax credit truly targets to businesses located in the state's most economically distressed areas.

The reforms contained in AB 93 represent major improvements to California's EZ Program and are designed to address the worst abuses and inefficiencies within the program. These reforms are a significant step forward for the state in fostering positive economic development and long-term fiscal health. The program will begin to be phased out by the end of 2013 and fully revamped by 2014.