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# East Bay businesses, officials worry about proposed demise of enterprise zones

## Governor has targeted tax incentives for job creation in budget-cutting drive.

By Rick Radin  
Contra Costa Times  
Posted: 01/18/2011 12:00:00 AM PST  
Updated: 01/18/2011 09:00:07 AM PST

Local officials and businesses are concerned that Gov. Jerry Brown's proposal to eliminate an enterprise zone program will drive firms out of low-income areas such as Richmond that have benefited economically.

Cutting the program would save \$343 million in 2010-11 and \$581 million in 2011-12, aiding Brown's efforts to balance the state budget, according to the state Department of Finance, which argues that the program does not provide a statewide benefit and should be eliminated.

Proponents of the program argue that the tax credits for hiring workers and investing in capital equipment in economically depressed neighborhoods have been key to creating business activity and jobs there.

More than 100 Richmond businesses have taken advantage of the tax credits over the 20 years they have been available, said Thomas Mills, the city's enterprise zone manager.

Ending the program might cause businesses to leave in search of a larger pool of qualified workers in cities with more attractive housing options and less crime, Mills said.

"This is one of the few incentives available for a business to come to a city like Richmond, and it gets them to give us a closer look," he said. "Without it, impressions of what the city is would dominate."

Two Richmond businesses backed Mills' view, saying the enterprise zone was key to their decisions to move there.

Hero Arts, a maker of rubber stamps used in craft projects, moved a portion of its operations to Richmond from Emeryville in 2008.

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Tax credits for hiring workers and investing in new equipment in Richmond and at its shop in Oakland canceled the company's state tax liability the past two years, said CEO Aaron Leventhal.

The 37-year-old family business has 65 employees in Richmond and 10 in Oakland.

The tax credits remain in place the first three years of the employee's tenure, are reduced in the fourth and fifth years, and disappear after that, Leventhal said.

"The hiring credit is important in retaining employees when business falls off and (when) hiring that next employee," he said.

Leventhal said the tax breaks have helped reduce Richmond's unemployment rate.

"(The breaks) are also an incentive to train workers in high unemployment areas," he said. "It's one of the best programs for getting people to work."

Pax Water Technologies moved to Richmond from San Rafael last year, in part to take advantage of the enterprise zone, said CEO Peter Fiske.

"It influenced the places we were considering," Fiske said.

Pax Water, with 13 employees, manufactures pumps and tanks used by municipal water companies.

Fiske said he understands the state is in financial crisis but thinks the program is important to cities that want to develop more manufacturing jobs.

"I'm generally torn by it, since I have children in public schools," he said. "It's unfortunate that the communities in the enterprise zones are the ones that need the most help."

Chevron has participated in the enterprise zone program at its Richmond refinery, although it is against company policy to release details, according to media relations manager Lloyd Avram.

The benefits from existing businesses doing extra hiring equal those of jobs created from relocations, said Jim Wunderman, CEO of the San Francisco-based Bay Area Council, a privately funded regional economic, public policy and business group.



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About 850 Oakland businesses have received tax breaks for hiring a total of 4,000 employees since the city's enterprise zone was created in 1993, said Walter Cohen, director of the city's community and economic development agency.

Oakland was able to extend its enterprise zone to help Berkeley retain a plant operated by the pharmaceutical giant Bayer, Cohen said.

"(The enterprise zone) is a very important tool we have in our toolbox to stimulate jobs and retain businesses," he said.

Pittsburg and Bay Point applied for an enterprise zone designation in 2009 and have received tentative approval, said Maureen Toms, Contra Costa County's principal planner in charge of unincorporated Bay Point.

The enterprise zone is a critical tool to spark economic development in Pittsburg and Bay Point, Toms said.

Pittsburg had an enterprise zone for 20 years that expired in 2008.

The tax incentives enabled Pittsburg food manufacturer Ramar International to hire more seasonal workers in advance of opening a new plant and then bring the workers on full time when the plant opened, said brand manager PJ Quesada.

Ramar manufactures Asian foods, specializing in Filipino cuisine, and employs 140 workers.

"The incentives enabled us to expand our work force before we originally planned," Quesada said.

Despite the local enthusiasm, a Department of Finance summary on enterprise zones released as part of Brown's budget proposal was scathing in its criticism.

The chief benefit is to shift economic activity from one area of California to another, according to the summary. For that reason, enterprise zones "are not of statewide interest," it said.

The department cited a 2005 Legislative Analyst's Office report that concluded that enterprise zones have had little, if any, effect on new business activity or hiring.

"The jobs created in many zones are filled by people who are not economically disadvantaged or do not live in the targeted area," according to the report.

The report concludes that many of the jobs would have been created anyway, and that state and local government will see a net loss of \$60,000 in tax revenues for every job created in a zone.

Wunderman believes enterprise zones should be evaluated as part of a larger economic development strategy that allows the state to compete for businesses and jobs worldwide.

The zones have had "mixed results" in California, he said.

"Businesses often find out about them after they have already made decisions about relocating and hiring," Wunderman said. "But, if it's not going to be an enterprise zone program, what incentives will you have to locate to areas that typically suffer unemployment?"

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