

California Enterprise Zone Program (CAEZ)

Legislative Update – Where Do We Go From Here?



An ADP Webcast
Thursday, May 19th
1 pm Eastern Time



Housekeeping Items

- This is one of a number of **complimentary webinars** that ADP offers to tax and finance professionals each year.
- Today's webinar will last **60 minutes**, ending at 2 pm Eastern time.
- The last 10 minutes of today's program have been reserved for **Q&A**.
- You can download a **PDF copy of today's slides right now**, in case you'd like to take notes.
- We will launch a **brief survey** at the conclusion of today's webinar.

CPE Credit

- Are you planning to apply for CPE credit for attending today's webinar?
- A. Yes
- B. No
- C. Not Applicable

You must complete the survey at the end of the webinar too!

NASBA (National Association of State Boards of Accountancy) requirements for receiving CPE Credit:

- Log in from same e-mail address that you used to register
- Stay for the full hour
- Answer **ALL** polling questions
- Answer the required survey questions



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Experts in automating corporate business processes



The view from New York's Times Square in December, 2008, when ADP debuted on the NASDAQ.

- Listed on NASDAQ: ADP
- Fortune 300 company
- Experts in automating business processes such as payroll, HR benefits administration, and helping nearly 6000 companies maximize their capture of **tax credits and business incentives**
- 60 years of experience
- Revenues of \$9 Billion
- Solid Financials: AAA credit rating from both Moody's and Standard & Poor's

Today's Agenda

- Introductions
- California Enterprise Zone Program
 - Program Overview
 - Background: Budget & Legislation
 - Capitol Climate
 - Timeline of Events
 - Coalition Activity
 - What Happens Next
- Questions & Answers



Introductions: Today's Panel

Chris Micheli

Aprea & Micheli
Partner, Legislative Advocacy



Chris has been working in Sacramento on the California Enterprise Zone Program for the past fifteen years. He has handled a dozen successful EZ Designation applications and has worked on all of the legislation and regulations affecting the EZ Program during that time.

Chris became a lobbyist after serving as General Counsel to the California Manufacturers Association, an 800-member trade group, where he was also a registered lobbyist in the areas of taxation and civil liability. As a legislative advocate, he regularly testifies before policy and fiscal committees of the California Legislature, as well as a number of administrative agencies, departments, and boards. In November 2009, Capitol Weekly's survey of the 120 elected legislators and their staff resulted in Chris being named the "biggest policy wonk" among over 1,200 registered lobbyists.

Chris has been an attorney of record in several key cases, having argued before the Supreme Court of California, as well as the Court of Appeal. He has filed more than fifteen amicus curiae briefs and has appeared as an expert witness before the State Board of Equalization in several tax cases.

LaRae Pieroni

ADP Tax Credit Services
Director, Business Incentives
West Region Practice Leader



LaRae is the West Region Practice Leader and manages a multimillion dollar practice, focusing on the delivery of credit and incentive packages, utilization maximization studies, audit support and legislative and government affairs for clients, with in-depth focus on the California Enterprise Zones. She has previously served as a Board Advisor to California Association of Enterprise Zones ("CAEZ") and currently holds a Board of Directors seat for California Employers Opportunity Network ("CEON").

Polling Question 1

How long has your company participated in the California Enterprise Zone program?

- A.** Never
- B.** 1 – 2 years
- C.** 3 – 5 years
- D.** 6 – 10 years
- E.** Over 10 years
- F.** Don't know/not applicable



Program Overview: Credit Basics

Hiring Credit – Encourage hiring disadvantaged individuals

- Business must operate in an enterprise zone (42 designations)
- Business must hire a “qualified employee” within zone effective dates
- Hiring credit equals a percent of “qualified wages” paid over 5 years
 - “Qualified Wages” are wages paid, capped at 150% of minimum wage
- Total credit can be worth over \$37,000 per qualified employee

Sales or Use Tax Credit – Encourage investing in distressed areas

- “Qualified Property” purchased within zone effective dates
- Placed in service in tax year and used exclusively in zone
- Sales or use tax credit may only be claimed on \$20M of qualified property (\$1M for partnerships) in a tax year

Excess Credit may be carried forward until exhausted

Polling Question 2

What is your primary source of information on California Enterprise Zone activity?

- A.** Internal Government Relations Team
- B.** Tax Consultant Updates
- C.** Tax Research Company Publications and Updates
- D.** Public Media Sources
- E.** I have no source of information on Enterprise Zone activity
- F.** Don't know/not applicable



Background: California Budget

- Entering 2011, California faced a state debt approaching \$300B, exacerbated by a \$28B budget gap
- Newly elected Governor Jerry Brown promised a balanced budget
- On January 10, 2011, Governor Brown announced his budget proposal, which included eliminating the Enterprise Zone program
- Focus on Enterprise Zones:
 - Pre-regulation vouchering climate
 - Spike in credits (program cost)
 - Audit scrutiny from FTB
 - LAO and Policy Institute criticism
 - Labor Union and tax reform group opposition
 - Urban Legends



Polling Question 3

Given the business climate in the state, what are your company's plans for growth in California?

- A.** We have plans to expand our California operations or relocate to the state.
- B.** We have plans to reduce our California operations or relocate out of the state.
- C.** We do not have plans to either expand or contract our operations in California.
- D.** Don't know/not applicable



Background: Years of EZ Scrutiny

■ Recent Years

- EZ program under repeated threats
- Adverse legislation carried by influential legislators
- Strongly opposed by labor unions
- Critical studies by LAO (Legislative Analyst's Office) and PPIC (Public Policy Institute of California)

■ Last Few Years

- Statewide legislative oversight hearings
- 110 recommendations for reform
- Five months of negotiations
- Labor Unions dropped out

Capitol Climate in Sacramento

■ What is happening in Sacramento?

- Political Climate
- Feeling among legislators and interest groups
- Enterprise Zones: A history of hearings and negotiations

■ Key players and their positions in the debate

- Enterprise Zone Opponents
 - Retro Vouchering
 - TEA's
- Enterprise Zone Supporters
 - Policy
 - Legal
 - Effectiveness



Timeline of Legislative Events - 2011

■ January

- Governor Brown Proposes Elimination
- Budget Deficit
- Momentum of adoption of repeal
- Coalition formed

■ March

- Initial budget deal passed
- Governor's revenue raising proposals not adopted
- EZ lobby days held

■ May

- Governors May Revise Issued Monday
- Lobby Day over 80 offices visited

■ June

- Budget needs to be adopted by June 15th

May Revise: Enterprise Zone Reform

- **May 16, 2011**

- Governor Brown announces his revised budget proposal

- **Impact on Existing Credit**

- Pre-2011 Hires only
- Voucher Application Deadline
- 5-year limit on carry-forward

- **New Enterprise Zone Credit**

- Tax years beginning on or after Jan. 1, 2011
- Based on net increase in full-time zone employees
- \$5,000 per new hire attributable to net increase
- No qualification categories, no vouchering



Coalition Activity

■ Who is involved?

- Over 500 Members
- Communities to Save Enterprise Zones (CSEZ)
- California Employment Opportunity Network (CEON)
- California Association of Enterprise Zones (CAEZ)
- Businesses, Trade Associations, Local Governments

■ Coalition Efforts

- **Grassroots Campaigns**
 - Over 2,500 letters/emails sent
 - Thousands of calls to legislative offices
- **Public Relations/Media**
 - Press conferences across the state
 - Op-Ed press releases
 - Most editorials for Governors Proposal
- **Polling**
- **Lobbying**
 - 120 Legislators
 - Budget subcommittee meetings
 - Policy committee hearings
- **Legal**
 - Opinion Issued

Polling Question 4

Is your company actively involved in the ongoing efforts to protect the California Enterprise Zone program?

- A.** Yes, we are involved.
- B.** No, but we want to become more involved in these efforts.
- C.** No, and we do not plan to become more involved at this time.
- D.** Don't know/not applicable



What Happens Next?

- Possible Budget Scenarios
- Is EZ reform an option or even desirable?
 - **AB 231 – Enterprise Zone Reform Bill**
 - 3-year credit instead of 5-year credit
 - Eligible wages capped at 180% of min wage rather than 150% of minimum wage
 - Wage limit for TEA qualification
 - 50% limitation on credit utilization for 2011 and 2012
 - 36-month deadline to obtain voucher
 - Change TEA designation criteria to 51% low-income households instead of low- or moderate-income

What Happens Next?

■ Other bills of interest

- **SB342**

- Contingency Fee Prohibition on Tax related matters

- **SB364**

- Penalty for companies who take tax credits and then have a net decrease in CA employment of 10% or greater

- Currently for new incentives enacted after 1-1-2012

■ What next?

- Continuing multi-billion dollar deficits
- Continuing need for new revenues
- Public employee union priorities

Questions?

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- How are we doing?
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