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DIVISION OF FINANCIAL ASSISTANCE**

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**SEEDS****State Enterprise and Economic Development Section****MANAGEMENT MEMORANDUM****Memorandum 8-06**

Date: August 19, 2008

TO: All Enterprise Zones

From: Frank Luera, Section Chief

SUBJECT: Guidelines for Targeted Employment Areas

This memorandum provides an overview of the rules that govern the application for and implementation of a Targeted Employment Area (TEA) for new enterprise zones. As such, it elaborates on the procedures established by the Department of Housing and Community Development (Department) in Management Memoranda 7-02 and 7-04R and addresses questions regarding the use of a TEA during the conditional stage of a new enterprise zone. The guidelines describe the following policies or practices:

- New enterprise zones must apply for a Targeted Employment Area.
- A TEA may include a census tract that overlaps with the boundaries of a jurisdiction that is not participating in the enterprise zone.
- Enterprise zones that previously attempted to include a census tract that overlapped the boundaries of a non-participating jurisdiction may re-apply to include this census tract.
- New enterprise zones may use their former TEAs during their conditional stage.
- The use of a former TEA is not impacted by the absence of former enterprise zone partners unless the TEA expired prior to 2006.
- Once approved, a new TEA will become effective on the enterprise zone's designation date.
- Because of the Department's policy of allowing former zones to use their former TEAs during their conditional stages, these zones will have their former and new TEAs coincide for the conditional period.

The following sections describe the details of these policies and practices.

New Zones Must Apply for TEA

All jurisdictions that plan to establish a TEA for their new enterprise zones must formally apply to the Department. Memorandum 7-04R describes the procedures the jurisdictions should follow to request a TEA. (See the Attachment I for a copy of this memorandum.) At this time, the Department's practice is to make all TEAs effective as of the new enterprise zone's date of designation.

New TEA Should Conform to Jurisdictional Boundaries But May Split Census Tracts

By definition, a TEA consists of one or more census tracts in which at least 51 percent of the residents earned low to moderate incomes under data from the most recent United States Census. According to Section 7072(i)(1) of the Government Code, the census tracts included in the TEA must be within the boundaries of the jurisdictions participating in the enterprise zone. At the same time, Section 7072(i)(2) addresses the possibility that at least a part of each eligible census tract can be outside the territorial boundaries of the jurisdictions participating in the enterprise zone provided the other local jurisdictions become a party to the application or agree to complete all actions required.

In the past, the California Technology, Trade & Commerce Agency permitted enterprise zones to split census tracts to accommodate tracts that overlapped the boundaries of participating and non-participating jurisdictions. Because the Department understands that Assembly Bill 1550 intended to maintain the status quo during the interim or conditional period of former enterprise zones that received new enterprise zones, the Department will continue this practice. That is, enterprise zones may include in their TEAs census tracts that overlap the boundaries of other jurisdictions. However, only the portion of the census tracts that pertain to participating jurisdictions may be included in the TEA.

Enterprise Zones May Modify New TEAs

Recently, several enterprise zones requested permission to include in their TEAs census tracts that overlapped the boundaries of non-participating jurisdictions. At the time, the Department requested that the enterprise zones place their requests on hold until it could determine the intentions of Sections 7072(i)(1) and 7072(i)(2). With the Department's tentative conclusion that TEAs may include census tracts that partly extend beyond the boundaries of the participating jurisdictions, enterprise zones that previously requested permission to include these census tracts may request a modification to their TEA. If the Department determines that the census tracts otherwise meet the eligibility criteria, it will permit the enterprise zone to expand their approved TEA to include these census tracts. However, only those addresses within the boundaries of the participating jurisdictions are eligible for the TEA. Please contact the Department for more information on the process to request this modification.

Conditional Zones May Use Former TEA

Because of Assembly Bill 1550 from 2006, new enterprise zones that previously expired may issue vouchers during their conditional stage. Accordingly, the jurisdictions whose enterprise zones expired in 2006, 2007, or 2008 but which subsequently received new zones may offer businesses the opportunity to apply for vouchers even though they have not obtained their final designation. However, as noted above, if approved, a new enterprise zone's Targeted Employment Area does not become effective until its designation date. As a result of this discrepancy, the businesses in these enterprise zones may be precluded from using the TEA residency as an eligibility category during the conditional stage. To offset this seeming inconsistency, the Department in March 2007 issued Memorandum 7-02, which allowed jurisdictions to continue using the TEA from their former enterprise zone during the conditional stage of their new enterprise zone. (See Attachment II for a copy of the memorandum.) This policy remains in effect for the eight enterprise zones the Department awarded in 2008. As indicated in the memorandum, the TEA expires when the Department grants the new enterprise zone its final designation.

Former TEA Not Impacted by Status of Former Partners

By permitting the use of the TEA from a former enterprise zone, the Department allows businesses in the new enterprise zone to use the TEA category to qualify their employees for the hiring tax credit during the interim period between the conditional and final designations. However, this practice is complicated when the new enterprise zone does not include the same jurisdictions that represented the former enterprise zone.

For example, at least one of the jurisdictions in the new South Gate/Lynwood Enterprise Zone was formerly in the Mid-Alameda Corridor Enterprise Zone. As a result, the Department considers the South Gate/Lynwood Enterprise Zone as eligible to issue vouchers during its conditional status. Accordingly, businesses in the new enterprise zone may use during the conditional stage the TEA from the Mid-Alameda Corridor Enterprise Zone. Although two jurisdictions from this expired enterprise zone, Los Angeles County and the City of Huntington Park, chose not to participate in the new enterprise zone, the Department will allow businesses in the new enterprise zone to use the entire TEA from the Mid-Alameda Corridor Enterprise Zone. That is, the businesses do not need to exclude the TEA portions of the jurisdictions that chose not to participate in the new enterprise zone. The businesses may use the former TEA in its entirety until the new enterprise zone obtains its final designation.

(Please note that the policy of allowing businesses to use the entire TEA from a former enterprise zone is limited to those enterprise zones awarded since A.B. 1550. It does not apply to the TEAs from enterprise zones that expired prior to 2006. For these enterprise zones, businesses must exclude the TEAs from dedesignated or excluded jurisdictions when requesting eligibility under the TEA category.)

Former and New TEAs Will Coincide

When the Department approves a Targeted Employment Area, it sets the designation date as its effective date. Because A.B. 1550 established the expiration date for former enterprise zones as the designation date for their new zones, the Department will make the effective date for their TEAs also retroactive to their expiration date. This policy will result in the co-existence of two TEAs, the former and new TEAs, during the period in which the enterprise zone was conditionally designated. As a result, businesses can use either TEA if they hire individuals during this period and elect to use the category of TEA residency. The TEAs will co-exist until the Department grants final designation to the new enterprise zone. At that time, the former TEA will expire and will no longer be available for individuals hired after this date.

State Will Pursue TEA Regulations

As evidenced throughout this memorandum, there are several issues that the Department needs to clarify about the Targeted Employment Area category. To do this, the Department will seek comments from stakeholders so that it can develop its policy positions on these issues. The Department's goal will be to establish regulations that ensure consistency in the implementation and use of a Targeted Employment Area.

If you have any questions about TEAs, please call the Department's State Enterprise and Economic Development Section at (916) 322-1112.