GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

FINAL STATEMENT OF REASONS

Subject Matter of Proposed Regulations: California Competes Tax Credit (CCTC) Program

As required by Section 11346.9 of the Government Code, the Governor's Office of Business and Economic Development (GO-Biz) sets forth below the reasons for the amendments to Sections 8000 and 8030 of Title 10, Chapter 13, Article 1.

UPDATE OF INITIAL STATEMENT OF REASONS

The Initial Statement of Reasons (ISOR) including an informative digest is included in this file.

The following changes were made to the text:

a. [Pg. 4] Sec. 8000, Subd. (y): Subd. (y) was revised to include a specific web link, in alignment with section 8030, subdivision (g)(2)(A). The newly included web link is the official source of unemployment rate data in the state of California, the exclusion of this reference was an oversite.

b. [Pg. 11] Sec. 8030, Subd. (g)(2)(G): additional language in Subd. (g)(2)(G) was removed. GO-Biz decided not to move forward with the proposed language in subdivision (g)(2)(G).

The original proposed text was made available by GO-Biz for public comment for at least 45 days from August 5, 2016, through September 19, 2016. One written public comment was received.

SUMMARY AND RESPONSE TO COMMENTS RECEIVED DURING THE INITIAL NOTICE PERIOD OF August 5, 2016 – September 19, 2016

During the 45-day comment period GO-Biz received one written public comment. GO-Biz did not receive a request to hold a public hearing. GO-Biz has summarized and responded to the written comment as follows:

<u>Comment #1-City of Moreno Valley</u>

Summary of Comment:

§ 8000 (x) "high poverty area" and (y) "high unemployment area"

The commenter stated that the definitions of "high poverty area" and "high unemployment area," in the proposed amendment, "bypasses many of the economically frustrated areas [the CCTC] was designed to aid."

Suggestion Language:

The commenter requested that GO-Biz modify its proposed definitions of "high unemployment area" and "high poverty area." The proposed regulations define a "high unemployment area" as "a city and/or county with an unemployment rate of at least 150% of the California statewide unemployment rate based on the most recently updated data available from the California Employee Development Department thirty days prior to the first day of the applicable application period." The commenter requests that 125% replace 150% in the forgoing definition.
Likewise, the proposed regulations define a "high poverty area" as "a city and/or county with a poverty rate of at least 150% of the California statewide poverty rate per the most recently updated data available from the U.S. Census Bureau's American Community Survey 1-year estimates thirty days prior to the first day of the applicable application period." The commenter requests that 125% replace 150% in the forgoing definition.

Response to Comment:

This comment and suggested amendments were rejected.
GO-Biz recognizes that the newly proposed exception to the Phase I process potentially excludes less competitive applicants from areas with unemployment and/or poverty rates in excess of the average statewide rates but lower than 150% of the statewide rates. However, the likelihood that applications from areas not meeting the new definition of high unemployment area or high poverty area will move to past Phase I is still significant. The current regulations require GO-Biz to review *at least* the top 200% of applications to ensure credit awards are geographically representative of the state. The extent of unemployment and poverty in an applicant's location will still be a factor used to evaluate its application in Phase II. The fact that an applicant is located in an area with unemployment and poverty in excess of the state wide average will continue to be an evaluation factor when determining credit awards. It should be noted, that to date 267 of the 500 awarded tax credits went to businesses in areas where the unemployment or poverty rates were in excess of the average statewide rates.

The proposed amendments define "high unemployment area" and "high poverty area" and propose a process for giving priority in Phase I to applicants located or proposed to be located in those areas. Under the proposed regulations, priority is granted to applicants by moving their application into Phase II automatically, regardless of their "ratio," if at least seventy-five percent of their net increase of full-time employees will work at least seventy-five percent of the time in an area of high unemployment or high poverty as defined in the proposed regulations.

As of September 2016, 94 of California's 482 cities and 8 of California's 58 counties would qualify as high unemployment and/or poverty areas using the 150% threshold. If the threshold were lowered to 125%, an additional 66 cities and 12 counties would qualify. With a finite amount of tax credits available, GO-Biz must give a priority to communities that face chronic high poverty and/or unemployment. If the threshold is too low, then it no longer gives any measurable competitive priority to the highest need areas of the state. The proposed amendments do not bypass economically frustrated areas. Rather,

they ensure that the most economically challenged areas of the state will receive a priority in Phase I of the application process, while continuing to allow operating in an area of unemployment or poverty in excess of the statewide rate to weigh in favor of awarding a credit in Phase II of the application process.

AMENDMENTS MADE TO THE PROPOSED REGULATIONS AFTER THE 45-DAY COMMENT PERIOD ENDED ON September 19, 2016

No amendments were made after the 45-day comment period.

ALTERNATIVES DETERMINATION

GO-Biz has determined that no alternative to these proposed regulations would be more effective in carrying out the purpose for which the regulations are proposed or would be as effective and less burdensome to affected private persons than the proposed regulations or would be more cost effective to affected private persons and equally effective in implementing the statutory policy or other provisions of law. Alternatives considered are discussed in the ISOR.

LOCAL / SCHOOL DISTRICT MANDATE DETERMINATION

The proposed regulations do not impose any mandate on local agencies or school districts.

SMALL BUSINESS IMPACT

This action will not have a significant adverse economic impact on small businesses. Please see the description of the positive impacts for all businesses, including small businesses, as discussed in the ISOR.