Enterprise Zones NS

NCSL · LEGISBRIEF

June/July 1998 Vol. 6, No. 28

ENTERPRISE ZONES

By Kim Shilling and Laura Loyacono

The purpose of enterprise zones is to encourage economic growth.

States often find economic incentives helpful in luring new jobs, businesses and capital into economically depressed regions. One particularly popular type is the enterprise zone, which is generally a small geographic area that shows signs of economic weakness. Businesses that relocate to the designated area qualify for special economic benefits. About three-fourths of the states have adopted enterprise zone legislation, and many others are considering it. The general purpose of an enterprise zone is to encourage economic growth within a particular "disadvantaged" area.

The most common incentive is a tax exemption.

States have created a variety of methods for rewarding cooperative firms. The most common incentive is a tax exemption that involves either a partial or complete reduction of state income or sales tax. Often, incentives are tied to the performance of the company, such as hiring a certain percentage of employees who are residents of the enterprise zone or those who have been unemployed for more than three months. Another common incentive is state technical assistance, such as training workers for new employees. Additional incentives include deregulation, fee waivers or reductions, venture capital and infrastructure improvements.

Eligibility of a business to receive enterprise zone benefits also varies from state to state. Universally accepted, however, is that the business must be located within the borders of the enterprise zone. Alabama requires that the companies do not decrease employment anywhere else in the state in order to take advantage of incentives. In some states an enterprise zone is mandated by the state; in others, an area must request to be designated as a zone.

Kentucky's enterprise zone program requires that 25 percent of employees must be residents of the zone or the state and must have been unemployed for more than three months. Louisiana requires that at least 35 percent of the employees of a company located in an enterprise zone be people who are deemed unemployable. Some states, such as Illinois and Indiana, have no eligibility requirements.

Economists argue over the benefits, or the lack thereof, of enterprise zones.

In some cases, enterprise zone legislation has given rise to increased economic activity, but in others the benefits are largely in question. Economists continue to argue over the benefits, or the lack thereof, of enterprise zones within a community.

Do enterprise zones make money for the state? Many programs have been successful in attracting new jobs and capital to specific economically depressed areas. A few economists have demonstrated profit for the state by using "multiplier effect" calculations to show how the money created by enterprise zones trickles down into the economy. Two such states are Ohio and New Jersey. Many economists, however, question this method of evaluating economic programs.

One example of a profit-making enterprise zone program is in Illinois. The net benefits gained by the state are 10 times higher than the amount spent on abatements, according to a report by economist Kala Sridhar of Ohio University. She writes, "On average, the net benefit per job is

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Executive Director, William T. Pound

Denver Office: 1560 Broadway, Suite 700, Denver, Colorado 80202, 303.830.2200

Washington Office: 444 N. Capitol St., N.W., Suite 515, Washington D.C. 20001, 202.624.5400

above $12,000 a year. And, in more than half the zones (32 of 51), the net benefit per job is higher than this; on average, it is about $15,910 per job." The Illinois program has spent only $1,350 per job, which leaves it with a large profit. Sridhar states that even when one considers migration of jobs from one section of the state to another the program has still been extremely successful. Observers disagree as to why the Illinois program is so successful.

Arkansas and South Carolina have each designated the entire state as an enterprise zone. Louisiana has 1,669 separate enterprise zones. This method, however, loses the intended effect of targeting a particular area for economic development or redevelopment. Louisiana's enterprise zones are not competitively assigned, selection is based on the percentage of unemployed, the percentage of transfer payments and the percentage of those living below the poverty line. The poorest 40 percent of all groups, as decided by the determining factors listed above, are specified as enterprise zones.

Enterprise zones are most competitive when combined with job training, child care and transportation.

NCSL research has concluded that enterprise zones are most competitive when combined with job training, child care and transportation. A report by Dan Dabney of the Economic Development Administration concludes that many of the traditionally attractive factors for a firm in locating to a given area are not present in enterprise zones. He states that tax incentives are not enough to outweigh the high cost of insurance, transportation and access to raw materials. His report concludes that small businesses are those most likely to be attracted to enterprise zones since the benefits are comparatively higher for them.

Needless to say, there is much that remains to be discovered about the true nature of enterprise zone programs. Last year, when Florida lawmakers completed a sunset review detailing the costs and benefits of the program, they chose to keep their enterprise zones. But some states have abandoned theirs. As Ohio Senator Charles Horn says, "At this point, we do not have a complete understanding of the true costs, benefits and impacts of enterprise zones; we need to be proactive in looking at our programs."

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Contacts for More Information

Laura Loyacono
NCSL—Denver
(303) 830-2200 ext. 274
laura.loyacono@ncsl.org

Rusty Orben, Legislative Aide
Office of Ohio Senator Charles Horn
(614) 466-4538
rorben@mailr.sen.state.oh.us

National Association of State Development Agencies
Washington, D.C.
(202) 898-1302