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Enterprise Zones: Development for Distressed Communities

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Enterprise zones are designed to encourage investment and economic growth in distressed communities.

Most states have zone-based initiative programs, commonly referred to as enterprise zones. Designed to encourage investment and economic growth in distressed communities, enterprise zone incentives and requirements are largely common to the programs of different states. Despite the popularity of enterprise zones as an economic development tool, significant disagreement still exists on whether they deliver the expected benefits to states, communities and families.

Purpose, Requirements and Incentives. Enterprise zone programs, in both their conception and current operation, are designed to improve the economic conditions of underdeveloped areas by creating more favorable and attractive conditions under which businesses can operate. States may offer a number of financial incentives to firms that relocate or expand in designated enterprise zones to reduce costs associated with governmental regulation of their business activities.

The most common incentives are income tax credits, job creation tax credits, and sales and use tax exclusions.

The most common incentives, offered in more than half the enterprise zone states, include income tax credits, job creation tax credits, and sales and use tax exclusions. Other incentives—such as direct state loans, property tax relief, investment tax credits, tax increment financing and improvements on public infrastructure and services—are offered by more than a third of the enterprise zone states. Incentives—including venture capital funds, employee income tax credits and other general reductions of regulatory burdens—also are offered in some state programs.

To ensure that enterprise zone programs are being used to help less developed communities, most states require a certain level of economic distress in the area, demonstrated by specific economic or demographic indicators, for an area to be designated as an enterprise zone. These indicators usually include high unemployment, low overall investment and poverty. Some states also include low real estate occupancy, physical blight and population loss as qualifying conditions.

Participating firms in some states must meet other requirements beyond physical location in the zone. Firms may be required to demonstrate performance measures on net job creation, capital investment in facilities located within the zone, and employment of enterprise zone residents or other workers who belong to a group defined by the program as disadvantaged.

State Actions

Forty-three states operate 3,000 enterprise zones.

Connecticut became the first state to create enterprise zones in 1981, and by 1995, more than half the states had followed suit. Currently, 43 states operate approximately 3,000 enterprise zones under a variety of different names. The prevalence of these programs varies among the

states. New Mexico's program consists of one enterprise zone located in the city of Deming, while more than 1,700 separate enterprise zones are spread throughout Louisiana. A third of Ohio is reported to be covered by the state's enterprise zones, and three states—Arkansas, Kansas and South Carolina—have designated their entire state as an enterprise zone. Generally, most states have fewer than 50 zones that average less than 20 square miles in area. Enterprise zones are found in both urban and rural communities.

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Effects on Communities and Families. Central to the goals and functions of enterprise zones is the ultimate increase of the well-being of the communities and families inside the zone. A part of program evaluation, therefore, is consideration of how enterprise zones affect communities and families within their borders. Chief among these possible effects are those related to employment and small business development. Zone incentives often are used to attract new companies to an area, thus increasing the level of investment in a community and adding local employment opportunities. In addition, many programs design incentives to induce firms to hire more workers, and often more specifically, to hire more local residents or disadvantaged workers.

Louisiana's enterprise zone program requires firms to hire 35 percent of their workers from specified groups of disadvantaged individuals if they wish to be eligible for selected incentives. Enterprise zone firms in Illinois are eligible for a \$500 income tax credit for each "dislocated worker" or "economically disadvantaged individual" hired, provided they have added at least five employees from one of these groups.

Evaluating Enterprise Zones. Despite the popularity of enterprise zone programs in the states, significant disagreement still exists regarding their effectiveness. The existence of an enterprise zone and its accompanying incentives usually is not credited as the sole factor in the relocation, hiring or investment decisions of firms, nor are they often credited as the only reason for increases in economic activity in the host communities. Private business and state government officials, however, often describe enterprise zone incentives as an important factor in these dynamics and as an important component of a complete and effective community and economic development strategy. Recent state reports considering enterprise zones and their effectiveness in their own and other states include publications by Florida's Office of Program Policy Analysis and Government Accountability and New York's Office of the State Comptroller.

Despite the popularity of enterprise zones, significant disagreement still exists regarding their effectiveness.

Academic reviews of enterprise zones, often prepared using econometric models, have found little evidence that programs actually result in net job creation and increased community investment. The Fannie Mae Foundation conducted a study of the effects of state enterprise zones and local housing markets in 1999, and similar to the findings of other investigations, conclusions reached in the study were dependent on other factors and somewhat inconclusive. Positive growth in housing rates could be associated with enterprise zones, but only under certain market conditions.

Selected References

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