

Enterprise Zone Program¹

This IPRO report presents an overview of enterprise zone programs, examines costs and benefits of zones, and highlights Iowa's program.

Background

Enterprise zones are geographical areas targeted for economic development through state and local tax incentives to “revitalize these areas and make them competitive with other locations throughout the state.”² Enterprise zones (EZ) constitute one part of most state economic development programs. EZs differ from other economic development policies because rather than general business incentives, they focus on specific geographic locations, usually economically distressed areas.³ However, the size and number of zones varies greatly by state; in fact, Arkansas, Kansas, and South Carolina have declared the entire state an EZ. The zones are supported by “basic no-frills economic theory”⁴ based on assumptions that lower taxes and less regulation will spur job and income growth within an EZ because it will attract investment, businesses and new sources of labor.⁵

Federal Legislation

The Reagan administration in the 1980s made Empowerment Zones a focal point of their urban economic development program. Federal legislation was not passed until 1993 with the Empowerment Zones and Enterprise Communities Act.⁶

State Legislation

States have been the primary creators of enterprise zone programs; currently, 39 states have programs. The major components include: tax credits for hiring, investment, and profits and tax relief for property, sales and “use” taxes.⁷ Table 1 summarizes the EZ programs in all 50 states.

Cost and Benefits

Benefits

- **EZs can target areas within communities that may not otherwise see economic development.** Providing subsidies and tax breaks to businesses provides an incentive to

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² http://www.iowalifechanging.com/business/enterprise_zones.aspx

³ Blair, R. (2002, April). Policy Tools Theory and Implementation Networks: Understanding State Enterprise Zone Partnerships. *Journal of Public Administration Research and Theory*, pp. 161-190.

⁴ Hirasuna, Don, and Joel Michael. *Minnesota House of Representatives*. Issue brief. Research Department, Jan. 2005. Web. 28 Nov. 2010. <<http://www.house.leg.state.mn.us/hrd/pubs/entzones.pdf>>.

⁵ Hirasuna, Don, and Joel Michael. *Minnesota House of Representatives*. Issue brief. Research Department, Jan. 2005. Web. 28 Nov. 2010. <<http://www.house.leg.state.mn.us/hrd/pubs/entzones.pdf>>.

⁶ Blair, R. (2002, April). Policy Tools Theory and Implementation Networks: Understanding State Enterprise Zone Partnerships. *Journal of Public Administration Research and Theory*, pp. 161-190.

⁷ John C. Ham, A. I. (2007). *Government Programs Can Improve Local Labor Markets*.

spur growth in “blighted” or struggling areas. Without these incentives, economic development would be less likely to occur.⁸

- **Some empirical studies have demonstrated that EZs can drive growth.** Given certain existing regional conditions, empirical studies have shown that tax incentives can be successful in EZs. Such conditions include “areas with low unemployment rates, high levels of investment, and suburbs.”⁹ EZs can also drive short-term economic growth depending on the number of EZs within a state and the duration of their benefits. For example, studies show that enterprise zones are most profitable within the first five years and that the addition of more enterprise zones can affect the profitability of the existing enterprise zones.¹⁰
- **Programs can offer incentives for businesses to hire local employees.** For example, programs in Louisiana require 35 percent of employees to be from specified disadvantaged groups while Illinois offers a \$500 income tax credit to each “dislocated worker” or “economically disadvantaged individual” hired, as long as they hire at least five individuals from one of these categories.¹¹
- **New sources of personal income and tax revenue are generated through growth in EZs.** According to the Iowa Department of Economic Development, the nearly 115 projects launched between 2003 and 2007 would generate approximately \$9 billion in new personal income,¹² \$700 million in state tax revenue and \$370 million in local tax revenue. Considering the costs of the program, the Department estimates that that the program will have a rate of return just over 2-to-1.¹³

Costs

- **Empirical studies generally find little net benefit to enterprise zones, including no significant increase in employment in poorer urban areas.**^{14, 15} Rather than create new jobs in an area, enterprise zones may displace businesses jobs from surrounding areas rather than attract new ones.¹⁶ Studies show that businesses would have located in the area without the EZ incentives; however, given two neighboring communities, they will choose the

⁸ Gordon, C. (2008). *EZ Money: Assessing Iowa's Enterprise Zone Program*. Iowa City, IA: Iowa Fiscal Partnership.

⁹ Hirasuna, Don, and Joel Michael. *Minnesota House of Representatives*. Issue brief. Research Department, Jan. 2005. Web. 28 Nov. 2010. <<http://www.house.leg.state.mn.us/hrd/pubs/entzones.pdf>>.

¹⁰ Hirasuna, Don, and Joel Michael. *Minnesota House of Representatives*. Issue brief. Research Department, Jan. 2005. Web. 28 Nov. 2010. <<http://www.house.leg.state.mn.us/hrd/pubs/entzones.pdf>>.

¹¹ Pulsipher, Ian. *Evaluating Enterprise Zones*. Policy brief. NCSL/Annie E. Casey Partnership on Family Economic Success, 26 Feb. 2008. Web. 28 Nov. 2010. <<http://www.ncsl.org/default.aspx?tabid=12806>>.

¹² Total personal income from \$481,893,818 from 2003-2007 according to: "Personal Income." *Iowa Workforce Development*. State of Iowa. Web. 06 Dec. 2010. <<http://www.iowaworkforce.org/trends/income.html>>.

¹³ Gordon, C. (2008). *EZ Money: Assessing Iowa's Enterprise Zone Program*. Iowa City, IA: Iowa Fiscal Partnership.

¹⁴ Hirasuna, Don, and Joel Michael. *Minnesota House of Representatives*. Issue brief. Research Department, Jan. 2005. Web. 28 Nov. 2010. <<http://www.house.leg.state.mn.us/hrd/pubs/entzones.pdf>>.

¹⁵ Pulsipher, Ian. *Evaluating Enterprise Zones*. Policy brief. NCSL/Annie E. Casey Partnership on Family Economic Success, 26 Feb. 2008. Web. 28 Nov. 2010. <<http://www.ncsl.org/default.aspx?tabid=12806>>.

¹⁶ Hirasuna, Don, and Joel Michael. *Minnesota House of Representatives*. Issue brief. Research Department, Jan. 2005. Web. 28 Nov. 2010. <<http://www.house.leg.state.mn.us/hrd/pubs/entzones.pdf>>.

location with the EZ incentives.¹⁷ Increased tax credits may also cause businesses to invest in more capital rather than labor, thus increasing investment, but not increasing employment.¹⁸ Finally, increasing access to jobs may not be enough to increase employment within the areas because local citizens may not have the skills for the jobs the EZ hopes to attract.¹⁹

- **There is a complicated relationship between businesses and EZ regulations.** To ensure efficiency, regulation may include significant overhead costs to monitor and evaluate the success of enterprise zones as compared to non-enterprise zones.²⁰ These reports are not always seen as effective evaluations due to “incomplete reporting by participating firms, lack of resources and capability to conduct thorough reviews of the zones, and a general misunderstanding of the purpose and goals of the state programs.”²¹ Additionally, if there are too many costs associated with satisfying difficult requirements, the value of the benefits may outweigh the costs of the requirements, discouraging businesses.²²
- **The regulations may produce unexpected consequences based on the incentives.** With state government power to repeal “enterprise zone status,” less investment may result due to increased uncertainty about changing economic conditions and regulations within the area.²³ Tax revenue may also decrease for the surrounding areas resulting in less funding for public services (ex: county services, rural areas).²⁴
- **EZ incentives may be unnecessary.** Incentives in enterprise zones may only moderately influence business decisions because the assistance provided is too small to induce changes in investment or business decisions.^{25, 26} Many areas designated as enterprise are often already expected to be profitable. Additionally, businesses that benefit the most from enterprise zones may already be successful without the additional incentives. For example, in Iowa, approximately \$83 million (or one-fourth of the estimated available credits) go to established firms such as Prudential Insurance in Dubuque, Case Industries in Burlington, Cargill and Quaker Oats in Cedar Rapids, Winnebago in Charles City, Con-Agra in Council Bluffs and Employers Mutual, Nationwide, Equitable Life and Wells Fargo in Des Moines.²⁷

¹⁷ Hirasuna, Don, and Joel Michael. *Minnesota House of Representatives*. Issue brief. Research Department, Jan. 2005. Web. 28 Nov. 2010. <<http://www.house.leg.state.mn.us/hrd/pubs/entzones.pdf>>.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ibid.

²¹ Pulsipher, Ian. *Evaluating Enterprise Zones*. Policy brief. NCSL/Annie E. Casey Partnership on Family Economic Success, 26 Feb. 2008. Web. 28 Nov. 2010. <<http://www.ncsl.org/default.aspx?tabid=12806>>.

²² Hirasuna, Don, and Joel Michael. *Minnesota House of Representatives*. Issue brief. Research Department, Jan. 2005. Web. 28 Nov. 2010. <<http://www.house.leg.state.mn.us/hrd/pubs/entzones.pdf>>.

²³ Ibid.

²⁴ Ibid.

²⁵ Pulsipher, Ian. *Evaluating Enterprise Zones*. Policy brief. NCSL/Annie E. Casey Partnership on Family Economic Success, 26 Feb. 2008. Web. 28 Nov. 2010. <<http://www.ncsl.org/default.aspx?tabid=12806>>.

²⁶ Gordon, C. (2008). *EZ Money: Assessing Iowa's Enterprise Zone Program*. Iowa City, IA: Iowa Fiscal Partnership.

²⁷ Ibid.

State Action

Iowa

In 1997, Iowa began its enterprise zone program with stated intent: “promote new economic development in economically distressed areas by encouraging communities to target resources in ways that attract productive private investment.”²⁸ Businesses are required to meet the eligibility requirements outlined in Table 1, which set minimum investment and job creation guidelines. In turn, businesses receive tax incentives outlined in Table 2, which can be categorized as investment tax credit, property tax relief, and sales and use tax relief.²⁹ It is estimated that between 2003 and 2007, businesses participating in the enterprise zone program received \$300 million in these tax credits, an annual subsidy of \$75 million.³⁰ Analysis done by the Iowa Policy Project found that the per-job cost averages to over \$100,000, and one-third of the jobs created fall below county average wages.³¹ Iowa has over 1,100 EZ spanning 40 counties and 16 cities; Figure 1 denotes their locations in Iowa. Approximately one-third of the state qualifies as an EZ, suggesting that the implementation of the policy has not remained only economically distressed areas as is written the Iowa Code.

Table 1: Iowa Eligibility Requirements³²

Minimum qualifying investment of \$500,000 over a three-year period (qualifying investment includes the cost of land, buildings, improvements to buildings, manufacturing machinery and equipment, and/or computer hardware)
Create or retain at least 10 full-time, project-related jobs over a three year period and maintain them for an additional two years
Must provide some level of medical benefits to all full time employees. Additionally, the business must also provide all full-time employees with a standard medical and dental insurance plan of which the business pays 80% of the premiums for employee-only coverage, pays 50% of the premiums for family coverage, or provides a monetarily-equivalent benefit package
Must pay new or retained employees a starting wage which is equal to or greater than 90% of the average county or regional wage, whichever is lower
Cannot be a retail establishment or a business whose entrance is limited by coverage charge or membership
Cannot close or relocate its operation in one area of the state and relocate substantially the same operation in the Enterprise Zone
The local Enterprise Zone Commission and IDED must approve the business' application for Enterprise Zone program incentives prior to project initiation

²⁸ Iowa Code. (2009). Retrieved 11 27, 2010, from <http://coolice.legis.state.ia.us/Cool-ICE/default.asp?category=billinfo&service=IowaCode&ga=83>

²⁹ John C. Ham, A. I. (2007). *Government Programs Can Improve Local Labor Markets*.

³⁰ Gordon, C. (2008). *EZ Money: Assessing Iowa's Enterprise Zone Program*. Iowa City, IA: Iowa Fiscal Partnership.

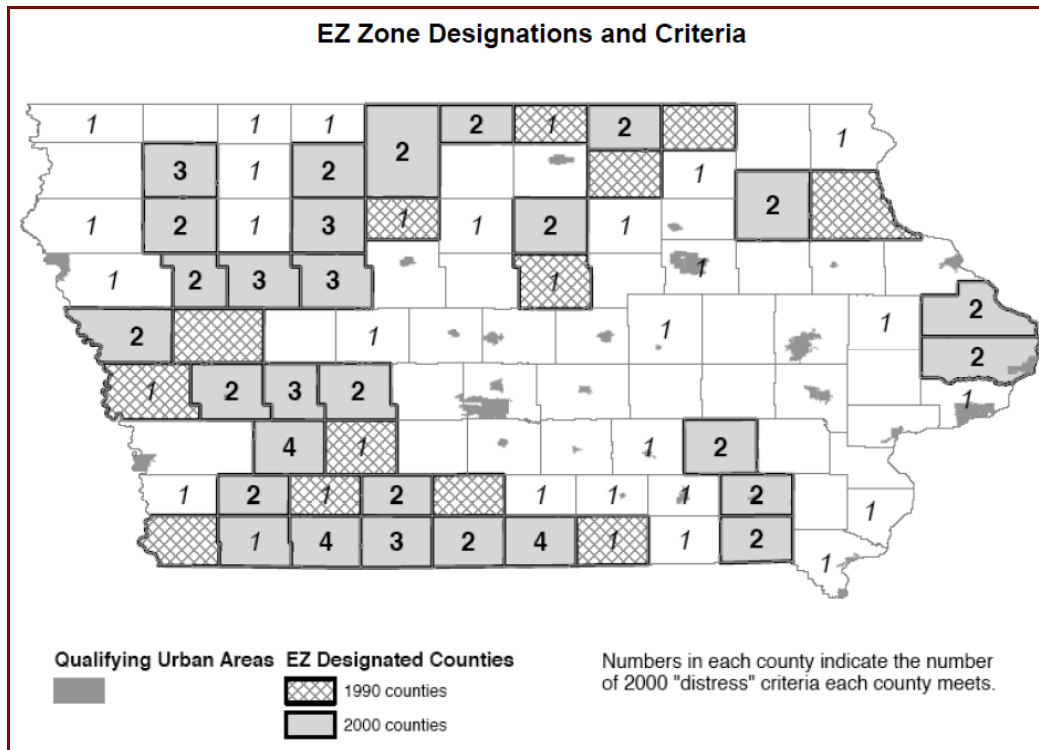
³¹ Ibid.

³² Iowa Department of Economic Development. (2009, December). *Iowa Life Changing*. Retrieved 11 27, 2010, from Enterprise Zone Program: http://www.iowalifechanging.com/business/enterprise_zones.aspx

Table 2: Iowa Tax Incentives³³

Local property tax exemption of up to 100% of the value added to the property to a period not to exceed 10 years may be available
Funding for training new employees. If applicable, these funds would be in addition to those authorized under the Iowa New Jobs Training Program
Refund of state sales, service, or use taxes paid to contractors or subcontractors during construction
For distribution center projects, a refund of sales and use taxes paid on racks, shelving, and conveyor equipment
Investment tax credit of up to a maximum of 10% of the qualifying investment, amortized over 5 years. This tax credit is earned when the corresponding asset is placed in service and can be carried forward for up to seven additional years or until depleted, whichever occurs first
State's refundable research activities credit may be doubled while the business is participating in the program

Figure 1: Enterprise Zone Counties and Urban Areas of Iowa³⁴



³³ Iowa Department of Economic Development. (2009, December). *Iowa Life Changing*. Retrieved 11 27, 2010, from Enterprise Zone Program: http://www.iowalifechanging.com/business/enterprise_zones.aspx

³⁴ Gordon, C. (2008). *EZ Money: Assessing Iowa's Enterprise Zone Program*. Iowa City, IA: Iowa Fiscal Partnership.

Ohio

Similar to Iowa, approximately one-third of Ohio is classified as an Enterprise Zone. Ohio's program primarily gives businesses property tax relief, which has important ramifications on school funding.³⁵ Analysis of Ohio's program found that EZ projects were more likely to be found in low-income areas; however, high-income areas are more likely to have more new jobs created by the project.³⁶ It was also found that high-income areas had almost five-times the property investment than low-income areas. For these reasons, it is advisable to create more targeted areas for development.

³⁵Cassell, M.(2003). *Zoned Out: Distribution and Benefits in Ohio's Enterprise Zone Program*. Policy Matters Ohio.

³⁶ *Ibid.*

Table 3: Enterprise Zone Incentives by State³⁷

State	Pre-Qualify	Hiring Credit	Investment Tax Credit	Profits Tax Credit	Property Tax Relief	Sales/Use Tax Relief
Alabama						
Alaska	No	X	X			X
Arizona	No	X		X		
Arkansas	Yes	X				X
California	No	X				X
Colorado	No	X	X	X		
Connecticut	Yes			X	X	
Delaware	No	X	X			
Florida	No	X			X	X
Georgia	No	X			X	
Hawaii	No			X		
Idaho						
Illinois	No	X	X			X
Indiana	No		X		X	
Iowa	Yes		X		X	X
Kansas	Yes	X	X			
Kentucky	No		X		X	X
Louisiana	Yes	X				X
Maine	No				X	
Maryland	No		X		X	
Massachusetts	No		X		X	

³⁷ John C. Ham, A. I. (2007). *Government Programs Can Improve Local Labor Markets*.

State	Pre-Qualify	Hiring Credit	Investment Tax Credit	Profits Tax Credit	Property Tax Relief	Sales/Use Tax Relief
Michigan	No			X	X	
Minnesota	No	X	X	X	X	X
Mississippi						
Missouri	No	X	X	X	X	
Montana						
Nebraska	No	X				
Nevada						
New Hampshire	Yes		X		X	
New Jersey	No	X	X			X
New Mexico						
New York	No	X	X		X	X
North Carolina	No	X	X		X	
North Dakota	Yes	X	X		X	
Ohio	Yes				X	
Oklahoma	No	X	X		X	
Oregon	Yes				X	
Pennsylvania	No			X	X	X
Rhode Island	No	X				
South Carolina	Yes	X			X	
South Dakota						
Tennessee						
Texas	Yes				X	
Utah	Yes	X	X			
Vermont						

State	Pre-Qualify	Hiring Credit	Investment Tax Credit	Profits Tax Credit	Property Tax Relief	Sales/Use Tax Relief
Virginia	No	X	X	X	X	
Washington	No	X				
West Virginia						
Wisconsin	No	X				
Wyoming						
Summary	No-27 Yes-11	24	18	9	22	11

This report was prepared in December 2010 by the Iowa Policy Research Organization (IPRO), a non-partisan public policy undergraduate research group at the University of Iowa. For additional research on this or other issues, please visit our website at <http://www.uiowa.edu/~ipro/> or contact us at caroline-tolbert@uiowa.edu