

## **California Enterprise Zone Program: A Review and Analysis - August 18, 2009 Summary**

This is the first in a series of hearings being held by the Assembly Committee on Jobs, Economic Development, and the Economy on the California Enterprise Zone Program and other geographically- targeted economic development area (G-TEDA) programs. Collectively, the G-TEDA programs represent one of the state's primary economic and workforce development initiatives.

In this hearing, presentations provided an overview of the G-TEDA programs, reviewed the implementation of the 2006 reforms, and addressed the effectiveness of the G-TEDA programs in bringing about positive change in California's economically disadvantaged communities.

The committee heard from three panels of witnesses including the Director of the California Department of Housing and Community Development, representatives from several enterprise zone organizations the Director of the California Budget Project, the Director of the California Tax Reform Association, representatives from labor organizations and business owners located in G-TEDAs.

After a review of the programs and specific details on how the programs were administered, monitored, and/or evaluated, the presenters began discussing how the G-TEDA programs can serve as a cornerstone and lifeline to California business during the state's current economic recession. While most presenters agreed that the G-TEDA programs could be improved, many also stated that there has not been enough time to allow for the 2006 reforms relating to oversight and accountability to show positive or negative outcomes.

Concern was also raised by several presenters that the G-TEDA program had failed to meet its statutory mandate and was basically a form of corporate welfare. Further, presenters noted that California's lack of a comprehensive economic development strategy should be a first priority, otherwise changes to the state's G-TEDA programs would not be fully realized.

The committee heard a healthy debate by two economists who presented on their studies of the G-TEDA programs. One of the studies was national in scope and found that in areas where enterprise zones were in effect there was a 2.2% decrease in unemployment, 5% decrease in poverty and a 2% increase in the wage and salary rates. The second study was California-based and addressed the question of whether enterprise zones create jobs. This second study found, conflicting results to the first study, that there was no meaningful difference in job creation inside or outside the zone. Also under discussion, was the different data used and how it affected the outcomes in both studies.

Over the course of the hearing, presenters also discussed the broad range of incentives and benefits offered to businesses in G-TEDAs. Examples of incentives discussed included credits to make it more attractive to loan funds to small businesses, priority training for

unemployed workers residing in zones, and hiring credits to encourage businesses to hire certain disadvantaged individuals. For example, the representative from the City of Los Angeles testified on their program to offer a 35% electric rate reduction and provide a waiver for permit fees for businesses located in a G-TEDA. According to other local government practitioners, many G-TEDAs also have active marketing programs to promote businesses in the zone, work with the local one-stop job placement offices and provide loans to small businesses.

The hearing concluded with a discussion on several examples of new job creation and expansion programs. More than once, the statement was made that businesses actively seek out zone designations in which to locate, hoping to avail themselves of all of the benefits offered to help them become more competitive in the national and international market place.

Presenters made a number of proposals for improving the programs. The list below contains a few highlights. For a full list, refer to *Appendix I* of the enterprise zone white paper.

- Eliminate the apportionment formula under the hiring credit;
- Expand the net interest deduction;
- Incentivize real estate development;
- Delete cap on qualifying equipment purchases.
- Eliminate the targeted tax area;
- Remove the ability to retroactively voucher employees in the hiring credit
- Narrow the designation criteria to only allow those areas with the highest unemployment to qualify for zone designation.

The committee produced a report which provides extensive detail for the hearing's subject matter. This report can be found on the State Assembly's website at [www.assembly.ca.gov](http://www.assembly.ca.gov).