



## Enterprise zones focus of scrutiny

**Although tax-credit areas cost \$400 million, no one can prove they work**

By Brandon Lowrey, Staff Writer

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During the past two decades, state officials have thrown billions of dollars in tax credits and other incentives at a program designed to revitalize poor areas such as Pacoima with little way of measuring its effectiveness.

Earlier this year, budget-strapped California extended the nearly \$400 million-a-year program through 2021 - and the governor even expanded it by adding eight enterprise zones designed to create jobs and boost the economy.

The zones provide tax credits for businesses that hire eligible employees - including the disabled, veterans, American Indians, those laid off in a poor economy and those with criminal records. The money also can be used to buy machinery and machine parts.

But while business leaders and politicians defend the 42 enterprise zones as economic boosters, experts concede there is no definitive way to calculate how many jobs they actually have created or how effective they have been.

"We're stuck with a program that can't prove it works," said Jean Ross, executive director for the California Budget Project, a nonprofit, nonpartisan economic watchdog group.

"We're cutting back on payments to health-care providers. We're talking about cutting state parks and beaches. We're talking about cutting \$4.8 billion out of schools.

"We can't afford a program that can't prove without a doubt it's cost-effective."

While the state awaits new data on the programs amid a budget crunch, the nonpartisan California Legislative Analyst's Office is urging lawmakers to eliminate most of the zones in the program.

"(Enterprise Zones are) certainly politically popular at some level, but there isn't compelling evidence they do everything they'd like them to do," said Allen Prohofsky, senior economist for the Legislative Analyst's Office.

"We know there's a person that's been hired, (but) how do we know if that person wouldn't have been hired if the credit didn't exist?"

If all the enterprise zones renewed in 2006 were canceled as the LAO has suggested, it could save the state about \$220 million over the next two years as benefits gradually run out.

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In making its recommendation, the LAO said that since the zones were created in 1986, some have seen successes while others have faltered. And too many other factors are at play to tell where credit or blame lies.

Still, enterprise zones have enjoyed bipartisan political support and in many areas local leaders defend them vehemently.

When Pacoima's enterprise status was threatened in 2006, Valley leaders lobbied the governor to save the zone, and business owners threatened to lay off employees or move their companies.

A spokesman for Gov. Arnold Schwarzenegger deferred questions about the expansion of the program last week to Chris Westlake, a financial director at the state department of Housing and Community Development that oversees the zones.

In 2006, the housing department completed a study defending enterprise zones.

"There was more economic prosperity in the areas that have enterprise zones, which just further emphasizes the importance of the enterprise zones throughout the state as a vital economic tool for businesses," Westlake said, noting critics should wait until new data are in before demanding any drastic action.

"It's also important for the state, as well, for an economic stimulus."

Schwarzenegger hasn't taken a position on the proposal to cancel the renewed zones, but he said he is open to discussion.

Still, the possibility has many concerned, even as they acknowledge more needs to be done to track job creation, sales tax receipts and other measures in the zones.

"There are points of view in Sacramento that correctly argue we need to better assess the performance of the enterprise zones," said Los Angeles Councilman Richard Alarcón, who spent eight years as a state senator and whose district includes Pacoima.

Long a staunch defender of Pacoima's enterprise zone, Alarcón said he bases his support on anecdotal evidence during his time in the state and city governments.

"But I am telling you that the Pacoima and the Northeast Valley enterprise zone is not only a productive trigger to a more positive economy, it is a positive figure of generating revenue for the state of California."

Economists acknowledge the zones likely provide some benefits for businesses and workers, but they are less sure that job creation is one of them.

"(The zones) can be a stabilizing force," said Raphael Bostic, a professor at the University of Southern California's School of Planning, Policy and Development.

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"These incentives can make it easier for existing businesses, if they know about the credits, to survive and produce. So I wouldn't say that just because they're not inducing a whole lot of new jobs, that it's necessarily a failure."

Bostic said it's likely the benefits are reaching their intended targets - businesses and workers in poor areas - but perhaps not efficiently.

"Many of the jobs are being taken advantage of by McDonald's and other fast-food places," Bostic said. "I don't know if those are exactly the kind of jobs that are envisioned. But at some level, employment is employment."

The Public Policy Institute of California expects to release a study of the zones using new statistics from a business credit firm. But officials there said it is too early to tell what the research would show.

Economists who have studied California's enterprise zones agree it would take a massive amount of research to show whether the zones are effective - far beyond the statistical sketches released in the 2006 housing department study.

That report used U.S. Census data from 1980, 1990 and 2000 to estimate and compare wages and the unemployment, poverty and vacancy rates within enterprise zones to other areas within the state.

Many of the areas demonstrated a higher rate of improvement in the categories than the rest of the state, although all of the areas still lagged behind the state average.

The report says "a definitive cost-benefit analysis cannot be done" for enterprise zones because of limited data and several complicating factors.

The housing department took over the enterprise zone program in 2003 from the now-defunct California Technology and Commerce Agency.

The agency soon noticed few records had been kept on the zones. And legislation in 2006 championed by state Assemblyman Juan Arambula, D-Fresno, gave the department more auditing power.

But the first official reports on the zones after that legislation still have not been completed. And while the program's success remains murky, Arambula said he hopes future data reveal more about how the zones are working.

"They do help distressed communities to improve themselves economically," Arambula said. "I think the reforms will be able to track which areas are doing a good job and which ones aren't, and over time the bad ones will be weeded out and, hopefully, the good ones will prosper."

But state Senate Minority Leader Dick Ackerman said it isn't a matter of making the zones

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more efficient.

"I would favor making the entire state of California an enterprise zone," the Irvine Republican said.

And Ackerman said he would battle any attempt to cut existing zones.

"It would be a tax increase for all of the businesses in that particular zone," he said. "The more you regulate or the more you tax business in California, the more they will leave."

Bruce Ackerman, president of the Economic Alliance of the San Fernando Valley and no relation to the senator, said losing the enterprise zones would remove one of the few tools left in the area's arsenal to lure and retain business.

Though the program's impact is unclear, Ackerman said pulling the benefits from existing businesses could be dangerous.

"That's like saying, 'I don't know if this brand of poison is going to kill me, so I'll just take it and see if it happens,'" Ackerman said. "Do you want to run that risk?"

Pacoima was among one of the first areas to gain enterprise zone status in 1986, with the zones set to expire in 2001. That year, the program received a five-year extension.

As the 2006 sunset date approached, the governor approved tacking another 15 years onto

all the enterprise-zone areas except for Pacoima.

The reason: Pacoima had too high a percentage of nonindustrial areas to qualify.

But outcry from local businesses and leaders convinced the governor to attach Pacoima to a sliver of land that crosses from Hollywood over the Santa Monica Mountains, through Studio City.

The close call drew ire and anxiety from many Pacoima business owners.

MOC Products co-owner Nadelin Waco said she thought about firing some of her 250 workers and moving her auto-parts manufacturing business to Mexico.

"These legislators and these politicians are just driving these jobs out of our country," Waco said. "To dare to take Pacoima out as an enterprise zone - it is just horrific. ... We need businesses here to bring income, to bring jobs."

Still, even some business owners say the zones are only a small consolation amid the high costs of doing business in the state.

"It helps a little bit," said Freddy Vidal, CEO of QMP Inc., which manufactures home and commercial drinking water systems in Pacoima.

"Either way, in California, it's kind of difficult."

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