

ZONE DEFENSE: JOBS AREN'T THE ONLY GOAL

Study says Enterprise Zones don't build jobs, but leaders point to other perks

MELANIE TURNER | STAFF WRITER

An enterprising expansion is in the works as three local agencies team up to add 40,000 acres of industrial property to a new, joint enterprise zone.

Two of the region's four enterprise zones expire this year, and Sacramento County and the cities of Sacramento and Rancho Cordova are applying together for an expanded zone across three jurisdictions.

Just as officials work to combine the zones, a new report says the subsidized business districts don't do enough to generate jobs, their "primary purpose."

But, an expanded zone would add "a substantial number of employers who could make use of the (tax) credits," said Jim Pardun, a manager in the county's economic development department.

"We thought it would be a good idea to combine our efforts," he said.

The zone would combine an Army Depot zone expiring Oct. 3, a zone around Florin-Perkins Road that expired April 4, and a North Sacramento zone — plus the additional land.

Legislation only allows for 42 zones statewide and the state Department of Housing and Community Development, which administers the program, has received 15 applications for four openings.

The proposed expanded zone would extend just south of the city of Sacramento, north to Sacramento International Airport and out to Rancho Cordova.

Jim Rinehart, economic development manager for the city of Sacramento, said given the economic downturn it made sense to work together to reduce costs and work

toward the economic good of the region.

"It was an added bonus to partner with the county instead of subtly, or not so subtly, competing," he said.

The local applicants could hear in as soon as two weeks whether their joint proposal makes the cut in this competitive process.

A MARKETING TOOL

The state created the enterprise zone program in 1986 to stimulate business investment in depressed areas, offering tax credits to business for providing jobs to workers who often have a tougher time landing jobs, such as military veterans or former foster children. The program also offers tax credits on machinery and equipment sales taxes.

The Sacramento Housing and Redevelopment Agency administers the three zones in Sacramento.

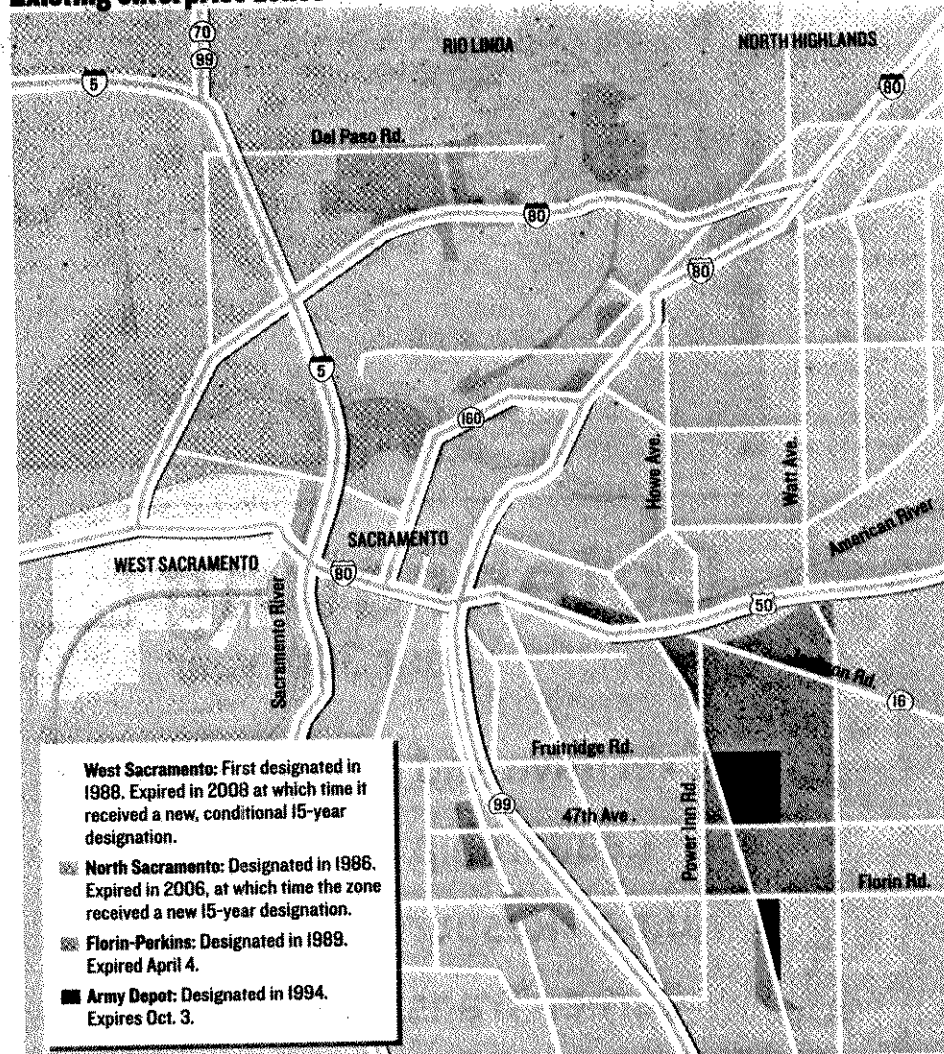
In 2008, SHRA received about 1,200 applications for hiring credits from about 200 companies. In 2009, 59 companies had submitted 518 applications for hiring credits as of June 1.

Companies in the four local enterprise zones — in Sacramento and West Sacramento — filed returns for \$7.8 million in tax credits in 2006. But that's only a portion of what was actually claimed, because more than twice as many business owners file the tax claim on a personal tax return.

NOT GOOD ENOUGH

Companies claimed \$385 million in enterprise zone-related tax credits in 2006. Hiring credits were claimed on 88,588 jobs statewide that year, according to the state

Existing enterprise zones



Sources: Sacramento Housing and Redevelopment Agency, city of West Sacramento

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suiting jobs with companies such as ICF Jones & Stokes, a Sacramento-based subsidiary of ICF International Inc. The company declined to comment on the new venture.

MCS' Web site went live last week, and it has Facebook and LinkedIn profiles, Clint Myers said.

"The people you have to appeal to for

non industry for so long, there are a variety of people that we've known over the years who are now retired who are looking for something to do," Clint Myers said. "Our experience, combined with people we're able to bring in, can give us the ability to do some fairly high-end consulting for businesses wanting to grow or diversify."

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He said the district believes in working with small, local companies "as much as possible."

MCS also has contracted with the Nevada Irrigation District on a project to build a station for environmental scientists

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ZONES | Local administrators say the program is a big incentive in attracting businesses

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Franchise Tax Board.

But some say that's not enough.

A report issued last week by the Public Policy Institute of California says the program fails to create much-needed jobs in hard-hit economic regions.

PPIC associate director of research Jed Kolko co-authored the report with David Neumark, PPIC senior fellow and economics professor at the University of California Irvine.

Kolko said they focused on job creation because the program's main incentive is a credit designed to encourage businesses to hire, and if the program was having an effect on unemployment and poverty it would be by raising employment.

"It's a very broad measure," he said.

The report's main finding was this: Employment grew no faster in enterprise zones than in similar comparison areas.

"While it is possible that the enterprise zone program achieves some of its other goals, it is unlikely that the enterprise zone program would lower unemployment or raise the employment of disadvantaged workers without raising the level of employment overall," Kolko said.

The report looked at enterprise zone job creation between 1992 and 2004. It's possible that reforms to the program in 2006 have had an effect on employment, Kolko said. The reform, in part, aims to encourage local administrators to take more responsibility for setting strategies and objectives for individual zones.

Zone proponents say they have a wider impact than job creation.

Craig Johnson, president of the California Association of Enterprise Zones, questioned the Public Policy Institute report.

"The PPIC paper focused only on jobs," he said. "The program is much more than jobs."

Studies have shown that poverty levels decrease and salaries increase in enterprise zones, he said.

"It is working," he said. "This program is vital to the economic condition of this state. To take it away is economic suicide."

Diane Richards, West Sacramento economic development coordinator and a former administrator of West Sacramento's zone, said the zone is a helpful economic development tool.

"It's a magnet for us," she said. "It gives us a little bit of a leg up in the attraction arena, even with existing businesses."

"It makes a company think twice," she said. "It's not the factor. It's a factor."

"They may not close the deal in and of themselves," Sacramento's Rinehart agreed. "But it opens up that dialogue."

He said the first question Fortune 1000 companies ask is "Do you have enterprise zones?"

A MEASURE OF SUCCESS

Some zones have been more successful than others, the PPIC report said. They appear to do better when administrators report more marketing and outreach.

That's true for Bill Fernengel, manager of Gunther's Collision Service on Florin-Perkins Road. The auto body shop, first founded in 1971, has been in the enterprise zone since 1990, but only learned of it last year, from an accountant.

As a result, Gunther's received a total of \$50,000 in tax credits going back five years.

"It was beautiful timing with the economy," Fernengel said, adding that he was able to keep all four employees doing odd-ball jobs even when work slowed down. "They still got a paycheck," he said. "We were able to put more money into the business during slow economic times."

Fernengel said once he learned about the tax credit he changed his hiring practices.

"If someone's been out of a job three or four months with the same skills, I'll hire him because I get the hiring credit through the state," he said.

Kolko stands by his report's conclusions.

"There's no question that within enterprise zones some jobs have been created. I'm sure there are many businesses in enterprise zones that have come to the area or increased their employment. The question is would they have done that without the enterprise zone benefits?" he said. "Asking businesses if it helped them is not the best way to understand scientifically whether the program has an effect."

Pardun said the program is one of the few benefits California has to attract businesses.

"They're an extremely powerful tool for business attraction and business retention and expansion in the Sacramento region," he said, adding that when he mentions enterprise zones to companies looking to relocate here "their eyes light up."

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INSURANCE | Governor's office estimates State Fund is worth \$20B, plus \$5B in reserves

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decided to support the governor's plan. "If he thinks he can do it, we think we can accept it," she said.

"HUGE PUBLIC POLICY BLUNDER"

Many stakeholders of California's workers' compensation system said they don't understand how the partial sale of State Fund would work, and question the ramifications to the marketplace, including costs to employers.

Scott Hauge, president of Small Business California, an advocacy organization.

How will the accounts be sorted, he asked, so that the business would be attractive to a buyer and "still have a viable company left?"

Fundamentally transforming State Fund would be a "huge public policy blunder" and "extraordinarily ill advised," said Steve Young, senior vice president and general counsel for Insurance Brokers and Agents of the West, a trade association. "I really believe it would be catastrophic for

that has significant value," said H.D. Palmer, spokesman for the state Department of Finance, which represents the governor's administration on the budget.

Also, the plan to shed something that is not "a core mission of state government" is consistent with Schwarzenegger's effort to streamline the government, he said.

The state estimates State Fund is worth \$20 billion plus its \$5 billion in reserves. The state figures it could get \$1 billion by selling a part of State Fund. "We believe it's a reasonable estimate given the size of

contending that State Fund's profits should be going back to employers as dividends.

It "is the employers' money, not the state's," Neuhauser said.

He contends that State Fund cannot quickly scale down or up its staffing because it is such a large organization. It employs about 7,700 people, including nearly 600 in Sacramento County. He believes the insurer could remain burdened with high administrative costs and overhead even after some of its policies were sold off.

Sacramento workers' comp brokers