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HB 3017 and 3494
Extension of Enterprise Zones: Demonstrably Unwise Policy

House Revenue testimony, Jody Wiser, February 28, 2011

The Joint Committee on Tax Credits has asked that policy committees address a set of eight questions in making recommendation about extension of sunsets.

The first of those questions I'd like to address today is: **What is expected to happen if this credit fully sunsets or is reduced by 50%.** Given the research we've examined, it appears that the answer is that the number of jobs and businesses in these zones would remain unchanged. But local taxing districts would have more money to spend, the tax burden for bonds in the communities would be more broadly shared, and the distribution of General Fund dollars to backfill for reduced local taxes for schools would shift.

Since 1985 when these programs began, the number of Oregon zones has increased from 30 to 59, with most zones renewed and expanded over the years. While we have EZs in most counties, the benefits flow primarily to urban and not necessarily distressed areas. **Is this is an effective and efficient way to achieve the policy goal of bringing increased employment in distressed areas?** While the program is efficient, has it been proven effective? The Oregon enterprise zone programs under consideration today sunset for most on June 30, 2013. The bills ask for extensions to 12 or 14 years from now. Why you would extend so deeply into the future tax breaks of such uncertain merit?

A third question is: **What background information on the effectiveness of this type of credit is available from other states?**

In a review of the literature in other states, we found few well-designed studies that could validate positive effects of enterprise zones. One study of EZs across a number of states found that the only state in which enterprise zones have detectable employment effects is Ohio.[1]

My review focused on two significant studies of California EZs. The Public Policy Institute of California's 2009 "*Do California's Enterprise Zones Create Jobs*?" is an exhaustive study of California's zones and comparison areas over the 12 years from 1992 to 2004. It focused on the primary goal of the enterprise zone program, job creation: whether employment grows faster in enterprise zones than in appropriately defined comparison areas. The study found that "on average, enterprise zones have no effect on business creation or job growth."[2]

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[1] Ham et al., unpublished paper, "Evidence from State Enterprise Zones, Federal empowerment Zones and Federal Enterprise Communities,"University of Maryland, College Park, Maryland, 2009.

[2] Kolko and Neumark, "Do California's Enterprise Zones Create Jobs?" Public Policy Institute of California, 2006

Further, "The program does not have a statistically significant effect on employment growth during either the year an area is designated or in any of the following years."[3]

It is undoubtedly statements like these that have led Governor Brown to call for an abrupt end to the program: "The absence of evidence of a beneficial effect of California's enterprise zones on job and business creation clearly calls into question whether the state should continue to grant enterprise zone tax incentives."[4]

Another major study, "*California's Enterprise Zones Miss the Mark*," concludes with this: "Numerous studies have failed to establish a link between EZ tax incentives and increased employment, firm growth, or economic development . . . moreover the EZ program has expanded to the point where . . . one out of every eight workers is employed within the boundaries of an EZ and zones include some of the most prosperous areas in the state. The size and scope of the current program undermines its underlying goal of targeting assistance to those areas of the state that are most severely distressed and thus most in need of assistance in order to attract jobs and businesses."[5]

What was said for California applies as well to Oregon.

> "For a cash-strapped state, it is too costly a program to simply continue with 'business as usual' without clearer evidence of the program's benefits or a well-defined plan to make the program more effective."[6]

Oregon communities are losing $62 million next biennium in property taxes and the state faces an undisclosed loss of income tax revenue.

In theory there is nothing wrong with targeted tax breaks for businesses to help create jobs. With our unemployment rate hovering above 10%, we need all the help we can get. But in practice the Enterprise Zone programs across the county have failed.

Over the next months you will see program after program of this state cut, and cut deeply. With 53 cents of every dollar now going to tax expenditures, cuts to tax expenditures must be part of the solution. The $62 million that will be "spent" in these tax breaks in the coming biennium could instead be spent on county services – public safety, health centers, crisis lines, fire protection, licensing and property tax assessment.

To extend these sunsets, you need proof positive that these investments are worthy -- more worthy than any other options for increasing employment, or than allowing the local taxing districts to begin receiving the taxes they are due.

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[3] IBID, page 16. In the conclusion the authors express surprise at their findings and offer as one explanation that "even though the incentives are meant to increase employment... benefits targeting machinery and property could lead to substitution away from labor. This might explain why manufacturing-heavy zones show no positive employment effect." Page 21

[4] IBID, page 22

[5] California Budget Project, California's Enterprise Zones Miss the Mark, 2006

[6] Kolko and Neumark, "Do California's Enterprise Zones Create Jobs?" Public Policy Institute of California, page 23