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ILLINOIS ENTERPRISE ZONES

A Civic Federation Issue Brief

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The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

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EXECUTIVE SUMMARY

Enterprise zones are geographic areas designated by state and/or local governments to stimulate economic growth and create or retain jobs in economically depressed areas. Businesses are provided certain state and local tax exemptions, credits and related benefits to relocate to enterprise zones or to continue operating in them.¹ The concept underlying enterprise zones is that reducing government regulation and taxation in economically depressed areas will stimulate local business enterprise and investment that would otherwise not occur.² Currently 43 states have created enterprise zone programs and there are well over 3,000 enterprise zones in the U.S.³

The purpose of this issue brief is to describe:

- How enterprise zones currently operate in Illinois and recent efforts to reform their administration and implementation;
- The types of tax incentives offered;
- The number and county location of Illinois enterprise zones;
- Enterprise zone fiscal and economic performance;
- A short review of the policy literature on enterprise zones; and
- An overview of enterprise zone operations in five selected states.

Number of Enterprise Zones in Illinois

- In FY2011 there were a total of 96 enterprise zones operating in Illinois.⁴ Of these, 16 enterprise zones were located in Cook County, four in the Collar Counties and 76 in the downstate counties. There are a total of six enterprise zones within the City of Chicago.⁵

Value of Enterprise Zone Tax Expenditures

- According to the Illinois Comptroller's Office the dollar value of the various state enterprise zone tax expenditures was \$104.2 million in FY2010, the last year for which data are available. This is a \$33.1 million or 45.0% increase from five years before.
- Of that amount, approximately 66.3% of the \$104.2 million in tax expenditures were for utility tax exemptions, 24.5% for sales tax exemptions, 8.3% for corporate income tax credits and deductions and just 1.9% for individual income tax credits.

Value of Enterprise Zone Investments

- The Department of Commerce and Economic Opportunity's FY2011 annual enterprise zone report stated that the total dollar amount of Illinois enterprise zone investments was nearly \$2.5 billion in FY2011. It fell from \$4.6 billion in FY2008.⁶

¹Alan Peters and Peter S. Fisher. State Enterprise Zone Programs: Have They Worked? (Kalamazoo, W.E. Upjohn Institute for Employment Research, 2002), p. 23.

² Alan Peters and Peter S. Fisher. State Enterprise Zone Programs: Have They Worked? (Kalamazoo, W.E. Upjohn Institute for Employment Research, 2002), p. 24.

³ Ian Pulsipher. National Conference of State Legislatures. Enterprise Zones: Development for Distressed Communities. Volume 13, Number 38. October 2005.

⁴ Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.

⁵ City of Chicago at http://www.cityofchicago.org/city/en/depts/dcd/supp_info/enterprise_zone_program.html.

⁶ Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.

Jobs Retained or Created in Illinois Enterprise Zones

- The annual DCEO annual enterprise zone report also provides information on jobs retained or created in each zone. Multiple investments by a firm occurring throughout a fiscal year may retain the same jobs.⁷
- The total number of new jobs created and existing jobs retained in Illinois enterprise zones fell by 54.2% between FY2006 and FY2011. This was a drop from 50,417 to 23,099.
- Of that total, the number of new jobs created in this same period fell from 21,332 to 8,980; this is a decrease of 57.9%.
- Of the total, the number of existing jobs retained between FY2006 and FY2011 decreased by 51.5% or from 29,085 to 14,119.

INTRODUCTION

Enterprise zones are geographic areas designated by state and/or local governments to stimulate economic growth and create or retain jobs in economically depressed areas. Businesses are provided certain tax exemptions, credits and related benefits to relocate to enterprise zones or to continue operating in them.⁸

The concept underlying enterprise zones is that reducing government regulation and taxation in economically depressed areas will stimulate local business enterprise and investment that would otherwise not occur.⁹ According to economic theory, enterprise zones can be successful if the following propositions are correct:¹⁰

1. There are significant barriers to economic growth in a target area, such as poor access to transportation, limited access to capital, a shortage of adequately trained or skilled labor or environmental cleanup issues.
2. These barriers can be overcome with the assistance of targeted tax incentives. Firms will locate in an enterprise zone because they calculate that these incentives are high enough to help generate net profits large enough to produce an equal or higher return than other possible investments.
3. Enterprise zone conditions and incentives will reduce costs and barriers for firms sufficiently to allow for long-term profitability.
4. The enterprise zones increase overall economic growth rather than accelerate growth already occurring or shift economic activity from other locations.

Connecticut was the first state to approve an enterprise zone program in 1981. Today 43 states have created similar programs and there are well over 3,000 enterprise zones in the U.S.¹¹ They are called by

⁷Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.

⁸Alan Peters and Peter S. Fisher. *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo, W.E. Upjohn Institute for Employment Research, 2002), p. 23.

⁹ Alan Peters and Peter S. Fisher. *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo, W.E. Upjohn Institute for Employment Research, 2002), p. 24.

¹⁰ This discussion is drawn from Don Hirasuna and Joel Michael. "Enterprise Zones: A Review of the Economic Theory and Empirical Evidence." Policy Brief, Minnesota House of Representatives, January 2005, pp. 5-6.

¹¹ Ian Pulsipher. National Conference of State Legislatures. *Enterprise Zones: Development for Distressed Communities*. Volume 13, Number 38. October 2005.

a number of different names including “Renaissance Zones,” “Empire Zones,” Pine Tree Opportunity Zones,” “Crop Zones” and “Economic Target Areas.”¹²

In 1993 the federal government approved the creation of federal enterprise empowerment zones and communities. The enabling legislation provided for the establishment of nine empowerment zones, of which six were to be located in urban areas and three in rural areas. In addition, 95 enterprise communities were approved (65 urban and 30 rural communities).¹³

Two federal empowerment zones were established in Illinois, one in Chicago and another located in St. Louis, Missouri and East St. Louis, Illinois. In addition, the Southernmost Illinois Delta Empowerment Zone was established in rural southern Illinois as a renewal community. Federally designated empowerment zones expired at the end of 2011. The zones provided businesses with approximately \$11 billion in incentives including tax credits for employing residents of empowerment zones, a 0% tax on capital gains, increased tax deductions on equipment, accelerated real property depreciation and other incentives.¹⁴

ENTERPRISE ZONES IN ILLINOIS

Illinois enterprise zones are geographic areas designated by the State in cooperation with local governments to receive certain tax incentives and other benefits. The purpose of these incentives is to stimulate economic growth and revitalize neighborhoods in economically depressed areas. The zones can range in size from one half square mile to fifteen square miles.¹⁵

The Illinois Enterprise Zone Act was signed into law December 7, 1982.¹⁶ Businesses that are located within the boundaries of an enterprise zone or that choose to locate operations in an enterprise zone can become eligible for certain state and local tax incentives, regulatory relief and improved governmental services. These include corporate and individual income tax credits, sales tax exemptions and utility tax exemptions. The various tax incentives offered require a business to apply to and be certified by the Department. In addition to the incentives provided by the State of Illinois, each enterprise zone provides local incentives. Enterprise zones have been in effect for up to 30 years, although that period may be shorter if specified in the certified designating ordinance.¹⁷

The Enterprise Zone program is administered by the Department of Commerce and Economic Opportunity (DCEO). An administrator is designated for each enterprise zone. He or she is responsible for the zone’s compliance with relevant regulations. The various state exemptions, credits and deductions are offered uniformly, not on a case by case basis. Local incentives are authorized by local

¹² Ian Pulsipher. National Conference of State Legislatures. Evaluating Enterprise Zones. February 26, 2008. See <http://www.ncsl.org/issues-research/econ/evaluating-enterprise-zones.aspx>.

¹³ Ian Pulsipher. National Conference of State Legislatures. Evaluating Enterprise Zones. February 26, 2008. See <http://www.ncsl.org/issues-research/econ/evaluating-enterprise-zones.aspx>.

¹⁴ U.S. Department of Housing and Urban Development at <http://www.hud.gov/offices/cpd/economicdevelopment/programs/rc/index.cfm>.

¹⁵ Illinois Department of Commerce and Economic Opportunity. “Enterprise Zone Program Tax Questions and Answers.” http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

¹⁶ 20 ILCS 655/ Illinois Enterprise Zone Act.

¹⁷ 20 ILCS 655/5.3 (c).

ordinances that are extended automatically through eligibility criteria (e.g., class of property) and formulas (e.g., percentages and numbers of years available).¹⁸ DCEO annually publishes a report that includes information on:

- The types of tax incentives offered;
- Data on the dollar amount of investments made and the number of jobs created or retained in each enterprise zone; and
- Changes in county population, per capita income and unemployment for each county in which an enterprise zone is located.

The DCEO report does not include calculations of how much revenue the State of Illinois loses annually due to the enterprise zone tax incentives. The State Comptroller's Office does include information regarding the value of all state tax expenditures, including those for enterprise zone incentives, in its annual tax expenditure report.

Enterprise Zone Reform Efforts in 2012

Some of the enterprise zones designated in 1983 are due to expire in 2013. The Senate approved legislation in 2011 to extend the lifespan of the zones, but it stalled in the House of Representatives.¹⁹ House Majority Leader Barbara Flynn Currie questioned the usefulness of the zones if they were to last beyond 20 years and raised concerns about abuse of the sales tax exemption incentive for building materials. Much of the business community, including the Illinois Manufacturers' Association, supported the extension of the zones' duration.²⁰

Senate Bill 3688

In 2012 Senate Bill 3688 was introduced to extend the duration of the enterprise zones and to make additional changes to the Illinois Enterprise Zone Act. These changes include:²¹

- Increasing the allowable size of an enterprise zone to as much as 18 square miles.
- Extending the life of enterprise zones from a maximum of 30 years to a maximum of 55 years.
- Authorizing the certification of 10 additional enterprise zones by 2022.
- Requiring each Enterprise Zone Administrator to post a copy of the enterprise zone boundaries on its website and to collect and aggregate certain information.
- Eliminating certain tax incentives, including:
 - The job tax credit for a taxpayer conducting business operations in an enterprise zone;
 - The deduction for dividends paid by a corporation conducting business operations in an enterprise zone; and

¹⁸ Illinois Department of Commerce and Economic Opportunity. "Enterprise Zone Program Tax Questions and Answers." at http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

¹⁹ David Thomas. "Enterprise zone bill advances out of Senate committee," State Journal-Register, April 19, 2012.

²⁰ David Thomas. "Industry lobbying for Illinois to extend life of enterprise zones," State Journal-Register, April 12, 2012.

²¹ The following information is from the text of Illinois Senate Bill 3688 at <http://www.ilga.gov/legislation/billstatus.asp?DocNum=3688&GAID=11&GA=97&DocTypeID=SB&LegID=65742&SessionID=84>.

- The deduction for interest income from a loan or loans secured by property which is eligible for the Enterprise Zone Investment Credit.
- Requiring DCEO to send a letter of notification to each member of the General Assembly whose legislative districts contain all or part of a designated area.
- Expanding reporting requirements by requiring Enterprise Zone Administrators to:
 - Collect and aggregate data on the estimated cost of each building project, including costs for labor and materials. New estimates must be provided each time an applicant requests an extension of a sales tax exemption certificate.
 - Collect and aggregate data on the actual cost of the building project within 60 days after the completion of the project.
 - File a copy of the fee schedule for each zone to be filed by April 1 to DCEO; the Department will be required to review and approve the fee schedule. Enterprise zone administrators will be allowed to charge no more than 0.1% of the actual cost of a project up to \$100,000.
- Changing and clarifying the definitions of “full-time, permanent job” and “retained employee.”
 - A new **full-time permanent job** is defined as a job where the new employee works for the recipient of the tax incentive or for a corporation under contract to the recipient for at least 35 hours per week. A recipient who employs labor or services at a specific site or facility under contract with another may declare one full-time, permanent job for every 1,820 hours worked per year under that contract. Vacation, paid holidays and sick leave are included in the full-time computation. However, overtime would not be included.
 - A **retained employee** is defined as any employee having a full or part-time equivalent job at a specified site or facility. The recipient of enterprise zone tax incentives may declare one retained employee per year for every 1,750 hours worked per year under a contract even if different individuals permit on-site labor or services.

Senate President John Cullerton created a bipartisan Special Senate Committee on Enterprise Zone Extension to obtain information and input about the Enterprise Zone program. Co-chaired by State Senators Michael Frerichs (D-Champaign) and Pamela Althoff (R-McHenry), the committee held hearings in Carbondale, Rockford, Chicago, Peoria and Springfield.²²

On April 19, 2012, the Committee voted to approve SB3688. The full Senate approved the bill on a 55-0 vote on April 27, 2012.²³

House Bill 4189

House Speaker Michael Madigan has called for increasing the accountability of the enterprise zones.²⁴ To that effect, he introduced House Bill 4189, which would have:

- Established standard monitoring methods for enterprise zones.
- Required enterprise zones to meet three of five specific criteria. One of the criteria would be that a new enterprise zone’s average annual unemployment rate would have to be 120% of the

²² Illinois Enterprise Zone Association. “Bipartisan Statewide Hearings on Enterprise Zones Announced,” at <http://www.ieza.org/index.php?view=article&catid=13%3Aieza-news&id=100%>.

²³ Taxpayers Federation of Illinois. “Enterprise Zone Legislation Advances,” TFI Report from the Capitol, April 27, 2012 – Issue 13, pp. 1-2.

²⁴ Michael Madigan. “Hold those receiving tax perks to higher standard.” State Journal Register, April 24, 2012.

unemployment rate in the entire state and the zone would have to create or maintain a minimum of 1,000 full-time jobs.

- Authorized a new 10-year enterprise zone each time one of the current zones expires.
- Allowed all areas of the state to be able to competitively bid for new zones. There would be no preference for areas where an enterprise zone was previously located.
- Shifted authority for siting enterprise zones from DCEO to an appointed enterprise zone board.
- Maintained and reported itemized records for each transaction eligible for a tax incentive as well as additional information regarding economic activity in each zone.
- Given sales tax exemptions as refunds rather than point of sale exemptions.

Public Act 97-0905

Ultimately, neither SB3688 nor HB4189 were approved by the General Assembly. Instead, both houses unanimously approved Senate Bill 3616, House Floor Amendment 1, which was signed into law as Public Act 97-0905 by Governor Quinn on August 7, 2012. P.A. 97-0905 includes the provisions summarized below.

Administration

- Authority for siting enterprise zones will be shifted from DCEO to an enterprise zone board appointed by the Governor. Decisions regarding the awarding or extension of enterprise zones will be made by a new five-member board headed by the Director of the Department of Commerce and Economic Opportunity. The board would also include the Director of the Illinois Department of Revenue and three other gubernatorial appointees.
- Communities will be required to compete to renew zones or be replaced by new zones as old zones expire.
- The Department of Revenue will issue building material sales tax exemption certificates to designated construction contractors, rather than having the exemption certificates be issued by Enterprise Zone administrators.
- The definitions of full-time and qualified jobs will be changed. Companies will be able to use staffing agencies or part-time workers to tap into incentives. A full time job defined as person working for at least 35 hours a week for 52 weeks for a time total of 1,820 hours per year. A company will receive incentives for the number of hours it employs workers rather than the total number of workers employed. Every 1,820 hours worked per year will equal one job.
- In the future, areas will be eligible for enterprise zone designation if they meet 3 or more of the following ten criteria:²⁵
 1. All or part of the local labor market area has had an annual average unemployment rate of at least 120% of the State's annual average unemployment rate for the most recent calendar year or the most recent fiscal year as reported by the Department of Employment Security;
 2. Designation will result in the development of substantial employment opportunities by creating or retaining a minimum aggregate of 1,000 full-time equivalent jobs due to an aggregate investment of \$100,000,000 or more and will help alleviate the effects of poverty and unemployment within the local labor market area;

²⁵ Public Act 97-0905. Section 4(f).

3. All or part of the local labor market area has a poverty rate of at least 20% according to the latest federal decennial census, 50% or more of children in the local labor market area participate in the federal free lunch program according to reported statistics from the State Board of Education or 20% or more households in the local labor market area receive food stamps according to the latest federal decennial census;
4. An abandoned coal mine or a brownfield is located in the proposed zone area or all or a portion of the proposed zone was declared a federal disaster area in the three years preceding the date of application;
5. The local labor market area contains a presence of large employers that have downsized over the years, the labor market area has experienced plant closures in the five years prior to the date of application affecting more than 50 workers or the local labor market area has experienced State or federal facility closures in the 5 years prior to the date of application affecting more than 50 workers;
6. Based on data from Multiple Listing Service information or other suitable sources, the local labor market area contains a high floor vacancy rate of industrial or commercial properties, vacant or demolished commercial and industrial structures are prevalent in the local labor market area or industrial structures in the local labor market area are not used because of age, deterioration, relocation of the former occupants or cessation of operation;
7. The applicant demonstrates a substantial plan for using the designation to improve the State and local government tax base, including income, sales and property taxes;
8. Significant public infrastructure is present in the local labor market area in addition to a plan for infrastructure development and improvement;
9. High schools or community colleges located within the local labor market area are engaged in ACT Work Keys, Manufacturing Skills Standard Certification or other industry-based credentials that prepare students for careers; or
10. The change in equalized assessed valuation of industrial and/or commercial properties in the five years prior to the date of application is equal to or less than 50% of the State average change in equalized assessed valuation for industrial and/or commercial properties, as applicable, for the same period of time.

DCEO will review all applications for open Enterprise Zones based on a scoring system that awards specific points based on the new eligibility criteria mentioned above. They will then assign a final score and forward the applicant information to the new Enterprise Zone Board.

Term

The term of enterprise zones is extended by 25 years. The initial designation will be for 15 years, with a possible 10 year renewal by the new oversight board. The board will review enterprise zone performance in year 13, after which they may recommend extension.

Number

Five additional zones will be created by converting existing River Edge Redevelopment Zones upon their expiration into enterprise zones. This will increase the total number of zones to 102. (The River Edge Redevelopment Zone program will be eliminated when the existing zones expire).

Tax Incentives:

Three current income tax business incentives will be repealed:

- The Jobs Tax Credit for Enterprise Zone employers;
- The Subtraction for dividends paid by corporations doing business in an Enterprise Zone; and
- The Subtraction for financial organizations for interest income on loans secured by property located in an enterprise zone.

Reporting

The legislation contains a number of new reporting requirements for businesses and government agencies:

- The Department of Revenue will report on the value of state tax incentives received by businesses and individuals. The names of individuals or companies will not be disclosed.
- DCEO will be required to send a letter of notification to each member of the General Assembly whose legislative districts contain all or part of a designated area.

New Tax Incentive Reporting Requirements for Taxpayers Receiving Incentives

- Any business receiving tax incentives due to its location within an Enterprise Zone or River Edge Development Zone or that is designed as a High Impact Business must annually report all tax benefits received by the business, broken down by incentive category and Enterprise Zone or River Edge Zone.
- Utility providers required to file a return under the Gas, Electric or Telecommunications excise tax acts must also file an annual report with the Illinois Department of Revenue itemizing the amount of the deduction taken under each Act due to the location of a business in an Enterprise Zone, River Edge Development Zone or because a business is designated as a High Impact Business. The report shall be itemized by business and the business location address.
- Employers within an Enterprise Zone or River Edge Development Zone will have to report their job creation, retention and capital investment numbers within the applicable zone annually to the Zone Administrator, who will compile the information and report it to the Illinois Department of Revenue. High Impact Businesses will have to report their job creation, retention and capital investment numbers directly to the Department of Revenue.

New Reporting by the Department of Revenue

- The Department of Revenue will aggregate and collect the tax, job and capital investment data by Enterprise Zone, River Edge Development Zone or for High Impact Businesses and report the information, formatted to exclude company-specific proprietary information, to DCEO by May 1, 2013 and annually thereafter. DCEO will include this information in its annual report to the General Assembly on enterprise zone activity.

New Reporting by Enterprise Zone Administrators

Enterprise Zone Administrators must:

- Post a copy of the zone boundaries on their website and provide same to DCEO for posting on their website;
- Collect and aggregate:
 1. The estimated cost of each building project, broken down into labor and materials; and
 2. Within 60 days after the end of the project, the estimated cost of each building project, broken down into labor and materials.
- File a copy of the enterprise zone fee schedule with DCEO. The Department will now review and approve the fee schedule. The Zone Administrator may charge a fee of no more than 0.5% of the costs of building materials associated with the project within the zone, with a maximum fee of no more than \$50,000.

ILLINOIS ENTERPRISE ZONE TAX INCENTIVES

Illinois offers a variety of income, sales, utility and property tax incentives in enterprise zones. The description that follows describes the incentives prior to the passage of the 2012 reform legislation. That legislation proposes to eliminate several of these incentives; that change is noted in the text.

Corporate Income Tax Credits

Investment Tax Credit

The Investment Tax Credit provides for a 0.5% credit against the State income tax for investments in qualified property. The credit may be taken by corporations, trusts, estates, partners and subchapter S shareholders and thus can be taken as a credit against the individual or corporate income tax.²⁶ Qualified property is defined as:

- Tangible property, including buildings and structural components of buildings;
- Is depreciable pursuant to Internal Revenue Code Section 167;
- Has a useful life of 4 or more years; and
- Is used by the taxpayer in the enterprise zone.

The credit carries forward if the amount of the credit exceeds the tax liability for a year. It may be applied to the tax liability of the five taxable years following the excess credit year.

Effective Date: 1983.

River Edge Redevelopment Zone Site Remediation Tax Credit. In addition, the State has developed the River Edge Redevelopment Zone Site Remediation Tax Credit. The City of Rockford has established one of these zones. This zone focuses on returning environmentally challenged brownfields sites to productive use. The Zone was approved August 27, 2007 and will be in effect for 30 years through the year 2037.²⁷

Statutory Citations:

²⁶ 35 ILCS 5/201.

²⁷ These figures include the Enterprise Zone Investment tax credit and the River Edge Redevelopment Zone Site Remediation tax credit. Illinois State Comptroller. *Fiscal Year 2010 Tax Expenditures Amended Appendices*, p. B-1.

- Investment Tax Credit: 35 ILCS 5/201 (f)
- River Edge Redevelopment Zone Site Remediation Tax Credit: 35 ILCS 5/201(n)

Note: The River Edge Redevelopment zone program will be sunsetted according to the provisions of Public Act 97-0905 signed into law by the Governor on August 7, 2012.

Dividend and Corporate Charitable Contribution Deductions: Taxpayers are permitted to deduct from their taxable income an amount equal to dividends earned that were paid by a corporation which conducts a substantial portion of its operations in an enterprise zone or multiple enterprise zones. Individuals, corporations, trusts and estates are eligible for this deduction.

Corporations are able to make contributions to organizations in enterprise zones for projects approved by DCEO. They can then claim an income tax deduction at double the value of that contribution if: 1) the contribution can be classified as a charitable contribution under the Internal Revenue Code and 2) DCEO approves the amount and type of charitable contribution. This deduction is only available to corporations.

Effective Date: 1983.²⁸

Statutory Citations:

- Dividend Deduction: 35 ILCS/5-203.
- Corporate Charitable Contribution Deduction: 35 ILCS/5-203.

Note: The dividend deduction incentive was eliminated in Public Act 97-0905 signed into law by the Governor on August 7, 2012.

Financial Institution Income Tax Deduction

Financial institutions may deduct from their taxable corporate income an amount equal to the interest received from a loan for development in an enterprise zone. This is limited to loans on or portions of loans secured by property which is eligible for the enterprise zone investment tax credit.

Effective Date: 1983.²⁹

Statutory Citation: 35 ILCS/5-203.

Note: The financial institution income tax incentive was eliminated in Public Act 97-0905 signed into law by the Governor on August 7, 2012.

²⁸ Illinois Comptroller. *FY2006 Tax Expenditure Report*, p. F-7.

²⁹ Illinois Comptroller. *FY2006 Tax Expenditure Report*, p. F-7.

Individual Income Tax Credit

Jobs Tax Credit

The Enterprise Zone Jobs Tax Credit provides employers with an individual income tax credit of \$500 per eligible employee per year hired to work in a zone. Eligible employees must be certified as economically disadvantaged or dislocated workers.

For employers to qualify for the credit they must hire five eligible employees in a tax year and the number of total employees must increase by five employees greater than the number in the enterprise zone at the end of the previous year for which the credit was taken. The unused portion of a credit may be carried forward to five years.

To qualify as eligible employees for the Jobs Tax Credit, employees must:

- Be certified;
- Be employed in an enterprise zone or employed in an enterprise which is based in the zone; and
- Be employed at least 180 consecutive days for 30 or more hours per week.

Effective Date: 1986.³⁰

Statutory Citation: 35 ILCS 5/201.

Note: This incentive was eliminated in Public Act 97-0905 signed into law by the Governor on August 7, 2012.

Sales and Use Tax Exemptions

Building Materials Sales Tax Deduction

Retailers who make a qualified sale of building materials that are used in an enterprise zone for remodeling, rehabilitation or new construction may deduct receipts from the sales for purposes of calculating sales and use taxes owed. A “qualified sale” is one where the building materials purchased are part of a building project for which a Certificate of Eligibility for Sales Tax Exemption has been issued by the Enterprise Zone administrator. Sales exempted from the State retailer’s occupation tax (ROT) are also exempted from Regional Transit Authority and Metro-East ROT.

Effective Date: 2006.³¹

Statutory Citations: 35 ILCS 105/12, 110/12, 115/12, 120/5k.

Enterprise Zone Manufacturing Machinery and Equipment (M, M & E) Sales Tax Exemption

The M, M & E Sales Tax Exemption allows a business certified by DCEO to receive a 6.25% sales tax exemption on tangible personal property used or consumed in an enterprise zone in the process of manufacturing or assembling tangible personal property for wholesale or retail sale or lease. It is also

³⁰ Illinois Comptroller. *FY2006 Tax Expenditure Report*, p. F-6.

³¹ Illinois Comptroller. *FY2010 Tax Expenditure Report*, p. 3.

available for pollution control facilities. Eligibility for the exemption is contingent upon DCEO's certification that a business meets one of the three following criteria:

- It has made an investment of at least \$5 million in an enterprise zone and has created at least 200 full-time equivalent jobs;
- It has made a \$40 million investment and retained a minimum of 2,000 full-time jobs; or
- It has made an investment of \$40 million and retained 90% of the jobs in place on the date of the certification.³²

The exemption applies to:

- Hand tools used to maintain, repair or operate machinery and equipment;
- Abrasives, acids and polishing compounds used in manufacturing or assembly;
- Coolants, adhesive, solvents or cleaning compounds used in the manufacturing or assembly process;
- Fuel manufacture;
- Protective clothing and safety equipment; and
- Fuels, chemicals or catalysts used in pollution control facility operations.³³

This exemption is also called the Designated Tangible Personal Property within an Enterprise Zone.

Effective Date: 1985.³⁴

Statutory Citation: 35 ILCS 120/1d-f

Utility Tax Exemptions

The utility tax exemption provides that businesses in an enterprise zone are potentially eligible for a 5.0% state sales tax exemption on gas, electricity and the Illinois Commerce Commission's 0.1% administrative charge as well as excise taxes on the act or privilege of originating or receiving telecommunications. Eligibility for the exemption is contingent upon DCEO's certification that a business has either created a minimum of 200 full-time equivalent jobs or that it has retained 1,000 full-time jobs. Local governments may also exempt certified enterprises from gas, electricity and water taxes or fees.³⁵ The value of utility tax exemptions accounted for a majority of all exemptions between FY2006 and FY2007, averaging over 55% of the total.

Effective Date: 1986.³⁶

Statutory Citations: The Public Utility Act - 220 ILCS 5/9-222.1 - as amended and the Telecommunications Excise Tax Act - 35 ILCS 630(a)(5) - as amended.

³² Illinois Department of Commerce and Economic Opportunity. "Enterprise Zone Program Tax Questions and Answers," p. 5 at http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

³³ Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 2.

³⁴ Illinois Comptroller. *FY2006 Tax Expenditure Report*, p. F-5.

³⁵ Illinois Department of Commerce and Economic Opportunity. "Enterprise Zone Program Tax Questions and Answers," p. 6 at http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

³⁶ Illinois Comptroller. *FY2006 Tax Expenditure Report*, p. F-9.

Property Tax Incentives

Illinois statute provides for local property tax abatement in enterprise zones throughout the state and assessment reduction in Cook County enterprise zones.

Any taxing district can require the county clerk to abate a portion of real estate taxes on real property or improvements within an enterprise zone. The abatement specifically applies to taxes on the increased value that can be directly attributed to new construction, renovation or rehabilitation. Taxes levied on the assessed value of land and existing improvements are not abated.³⁷ The abatement can be applied to all classes of real property, it may be offered for any number of years up to the termination of the enterprise zone and it may be offered by a taxing district in any amount. Tax increment financing (TIF) districts must be excluded from areas eligible for abatement in the Enterprise Zone's designation ordinance.³⁸

The enterprise zone property tax abatement provisions are different from those allowed under Section 18-165 of the Illinois Property Tax Code, which limit abatements to commercial and industrial improvements for a period of no more than 10 years in an aggregated amount not to exceed \$4 million.³⁹

The Cook County assessment reduction incentive is offered for property in enterprise zones; it receives special consideration under the County's Class 6b Industrial Program. The program permits qualifying industrial properties to receive an assessment reduction from 25% of market value to 10% for the first 10 years, 15% for the 11th year and 20% in the 12th year before expiring.⁴⁰

NUMBER AND LOCATION OF ILLINOIS ENTERPRISE ZONES

In FY2011 there were a total of 96 enterprise zones operating in Illinois.⁴¹ DCEO designated 89 of these enterprise zones while eight zones were certified under the auspices of the Quad Cities Regional Economic Development Authority Act, the Southwestern Illinois Economic Development Authority Act, the Illinois River Valley Development Authority Act, the Western Illinois Economic Development Authority Act and under the auspices of 20 ILCS 655/5.3 (e) relating to closed military bases.⁴²

There were 16 enterprise zones in Cook County, four in the Collar Counties and 76 in the downstate counties. The South Beloit/Rockton/Winnebago County enterprise zone expired on March 1, 2010.⁴³ There are a total of six enterprise zones within the City of Chicago.⁴⁴

³⁷ 35 ILCS 200/18-170.

³⁸ Illinois Department of Commerce and Economic Opportunity. "Enterprise Zone Program Tax Questions and Answers," pp. 8-9 at http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

³⁹ 35 ILCS 200/18-165.

⁴⁰ Illinois Department of Commerce and Economic Opportunity. "Enterprise Zone Program Tax Questions and Answers," p. 8 at http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

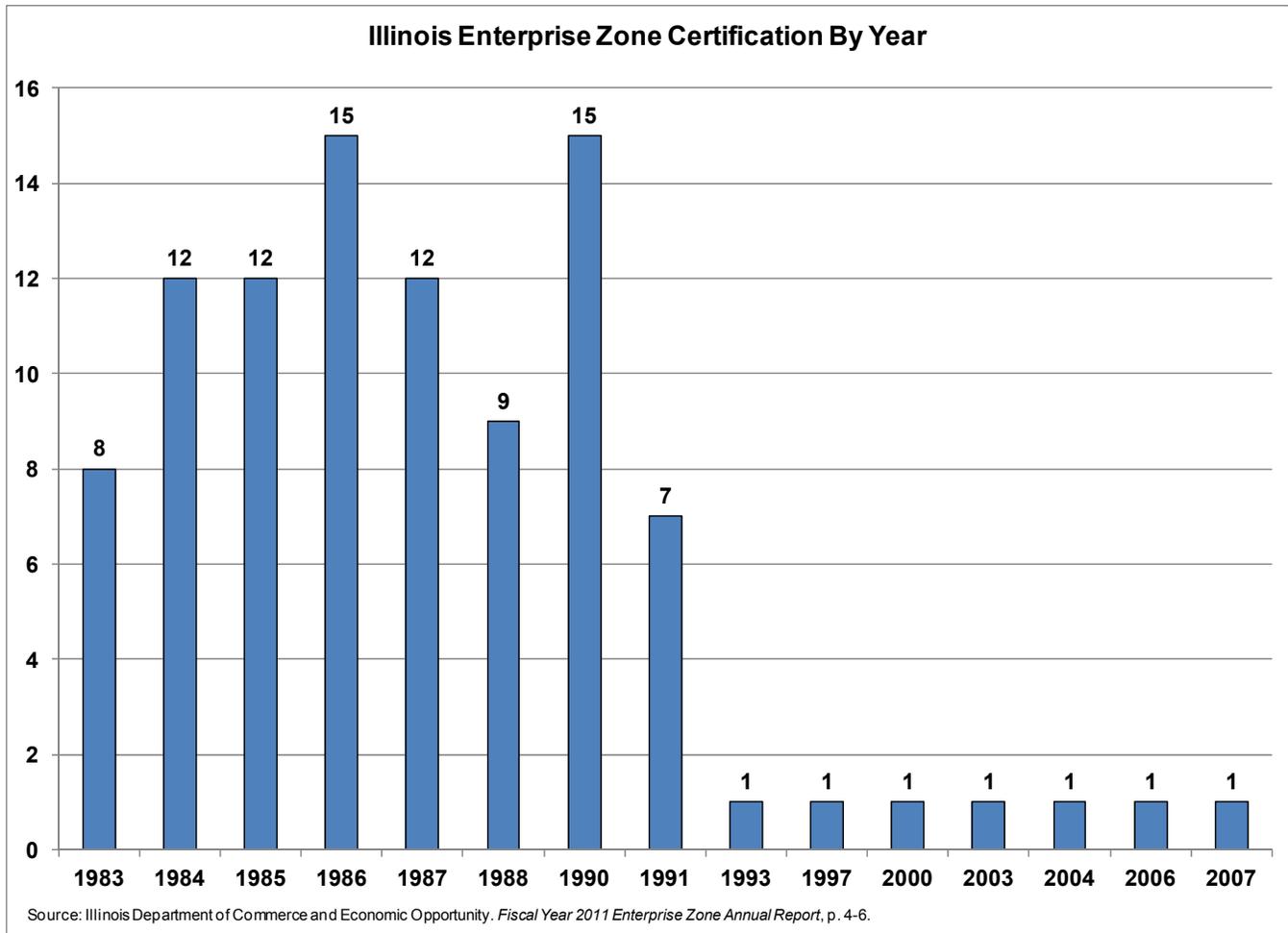
⁴¹ Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.

⁴² Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 1.

⁴³ Illinois Department of Commerce and Economic Opportunity. Illinois Enterprise Zones, March 2010 at http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

⁴⁴ City of Chicago at http://www.cityofchicago.org/city/en/depts/dcd/supp_info/enterprise_zone_program.html.

The next exhibit shows when the various enterprise zones in Illinois were established. Between 1983 and 1988, 68 of the enterprise zones were established. Twenty-four were founded in the 1990s and five have been established since 2000.



ILLINOIS ENTERPRISE ZONE FISCAL AND ECONOMIC PERFORMANCE

There are two primary sources of fiscal and economic performance data for State authorized enterprise zones in Illinois. The Illinois Comptroller’s Office annually publishes a report that provides the dollar value of each of the various tax expenditures provided in the zones. The Illinois Department of Commerce and Economic Opportunity annually publishes a report providing statistical information on the state’s enterprise zones including the dollar value of investments and the number of jobs created or retained in each zone. There is no reporting requirement or central database of information for local enterprise zone incentive programs.

Value of Illinois Enterprise Zone Tax Expenditures

Tax expenditures are exemptions, credits or abatements given to individuals, corporations or other organizations. As noted previously, enterprise zone tax credits and exemptions are intended to stimulate private sector economic development activity. The Illinois Comptroller’s Office annually publishes a

report that provides the dollar value of each of the various tax expenditures provided. The following table shows the value of various enterprise zone tax expenditures for the past five years for which data are available: FY2006 through FY2010. The total value of these tax expenditures was \$104.2 million in FY2010, a \$33.1 million, or 45.0%, increase from five years before.

State of Illinois Enterprise Zone Tax Expenditures FY2006-FY2010							
	FY2006	FY2007	FY2008	FY2009	FY2010	5 YR \$ CHG	5 YR % CHG
Corporate Income Tax Credits							
Enterprise Zone & River Redevelopment Zone Investment Credit*	\$ -	\$ 7,442,000	\$ 10,281,000	\$ 11,738,000	\$ 7,169,000	\$ 7,169,000
Dividend, Interest & Charitable Contribution Deductions**	\$ 1,678,000	\$ 4,000	\$ 1,888,000	\$ 1,827,000	\$ 1,505,000	\$ (173,000)	8.9%
Jobs Tax Credit***	\$ 716,000	\$ 11,000	\$ -	\$ -	\$ -	\$ -
Subtotal Corporate Income Tax Credits/Deductions	\$ 2,394,000	\$ 7,457,000	\$ 12,169,000	\$ 13,565,000	\$ 8,674,000	\$ 6,996,000	262.3%
Individual Income Tax Credits							
Enterprise Zone Investment Credit	\$ 97,000	\$ 786,000	\$ 1,397,000	\$ 1,511,000	\$ 417,000	\$ 320,000	329.9%
Jobs Tax Credit***	\$ 1,000	\$ 1,000	\$ 20,000	\$ 62,000	\$ 652,000	\$ 651,000	65100.0%
Subtotal Individual Income Tax Credits	\$ 98,000	\$ 787,000	\$ 1,417,000	\$ 1,573,000	\$ 1,069,000	\$ 971,000	990.8%
Sales and Use Tax							
Building Materials within Enterprise Zone	\$ 4,419,000	\$ 5,780,000	\$ 6,700,000	\$ 4,700,000	\$ 4,400,000	\$ (19,000)	-0.4%
Designated Tangible Personal Property w/in EZ	\$ 24,077,000	\$ 36,921,000	\$ 36,900,000	\$ 26,000,000	\$ 21,000,000	\$ (3,077,000)	-12.8%
Subtotal Sales Tax Exemptions	\$ 28,496,000	\$ 42,701,000	\$ 43,600,000	\$ 30,700,000	\$ 25,400,000	\$ (3,096,000)	-10.9%
Utility Tax Exemptions****							
Electricity Excise Tax	\$ 39,196,000	\$ 45,675,000	\$ 52,009,000	\$ 37,411,000	\$ 44,835,000	\$ 5,639,000	14.4%
Gas Revenue Tax	\$ 1,661,000	\$ 1,445,000	\$ 1,514,000	\$ 13,034,000	\$ 12,783,000	\$ 11,122,000	669.6%
Telecommunications Excise Tax	\$ 29,000	\$ 33,000	\$ 2,060,000	\$ 11,489,000	\$ 11,458,000	\$ 11,429,000	39410.3%
Subtotal Utility Tax Exemptions	\$ 40,886,000	\$ 47,153,000	\$ 55,583,000	\$ 61,934,000	\$ 69,076,000	\$ 28,190,000	68.9%
Grand Total	\$ 71,874,000	\$ 98,098,000	\$ 112,769,000	\$ 107,772,000	\$ 104,219,000	\$ 33,061,000	45.0%

* Includes value of the River Edge Redevelopment Zone Site Remediation Tax Credit.

** Includes a mix of corporate and individual income tax deductions - they are listed in the Comptroller's Reports as corporate tax deductions.

*** There is no disaggregation for total Jobs Tax credit figures for enterprise zones.

**** The Enterprise Zone and Foreign Trade Zone High Economic Impact Business Exemption

Sources: Illinois Comptroller. Tax Expenditures Report, various years.

The value of Illinois enterprise zone tax expenditures as a percentage of all state tax expenditures ranged from a low of 1.1% in FY2006 to a high of 1.6% in FY2009 and FY2010. It is important to note that a few large tax expenditures such as the state sales tax exemption on food and drugs, income tax deductions for retirement and social security, the standard deduction for individual income taxes and property tax credits for individual income taxes consumed nearly 60% of all Illinois tax expenditures in FY2010.⁴⁵

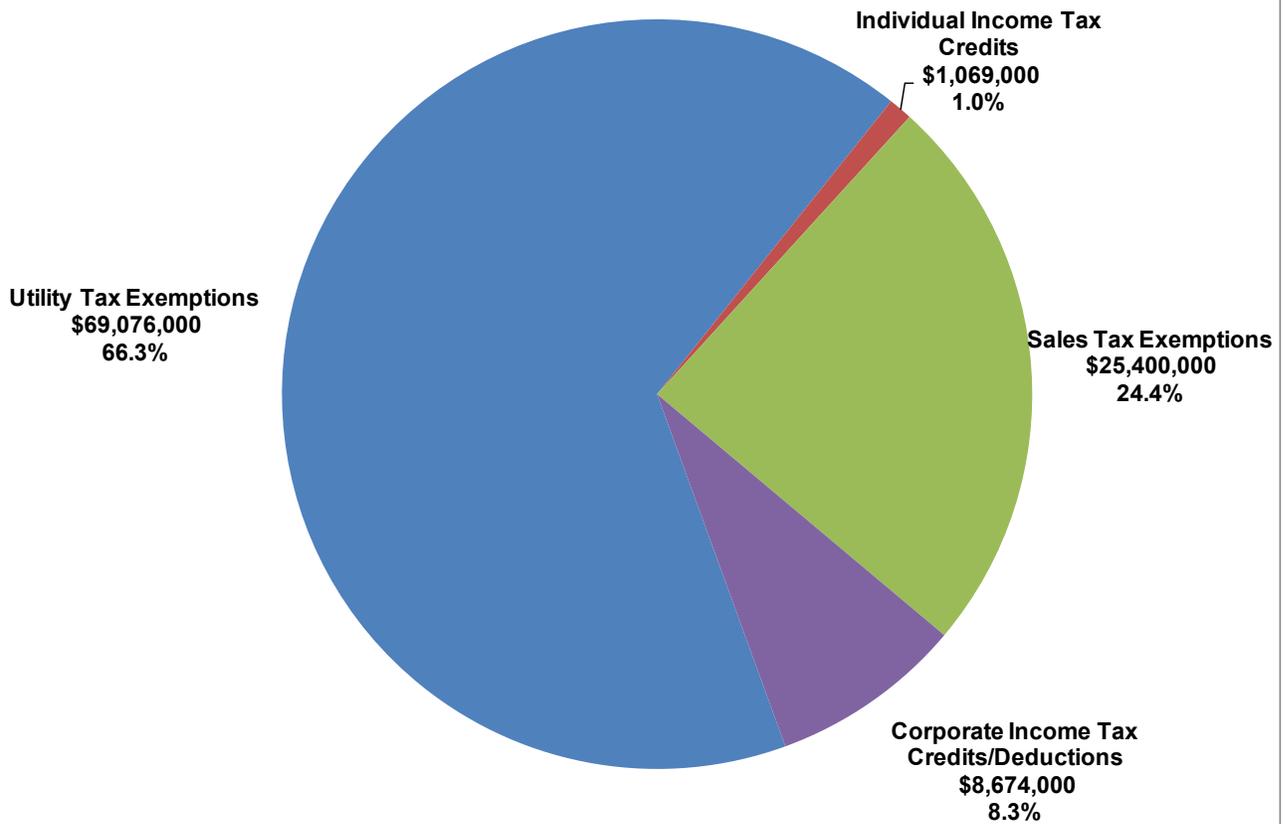
State Enterprise Zone Tax Expenditures as a Percentage of Total State Tax Expenditures					
	FY2006	FY2007	FY2008	FY2009	FY2010
Total State Enterprise Zone Tax Expenditures	\$ 71,874,000	\$ 98,098,000	\$ 112,769,000	\$ 107,772,000	\$ 104,219,000
Total State Tax Expenditures	\$ 6,571,575,000	\$ 7,184,747,000	\$ 6,592,727,000	\$ 6,626,514,000	\$ 6,594,165,000
Enterprise Zone Tax Expenditures as a % of Total Tax Expenditures	1.1%	1.4%	1.7%	1.6%	1.6%

Sources: Illinois Comptroller. Tax Expenditures Report, various years.

The next exhibit shows the proportion of Illinois Enterprise Zone tax expenditures per type of credit, exemption or deduction in 2010. Approximately 66.3% of the \$104.2 million in tax expenditures were for utility tax exemptions, 24.5% for sales tax exemptions, 8.3% for corporate income tax credits and deductions and just 1.9% for individual income tax credits.

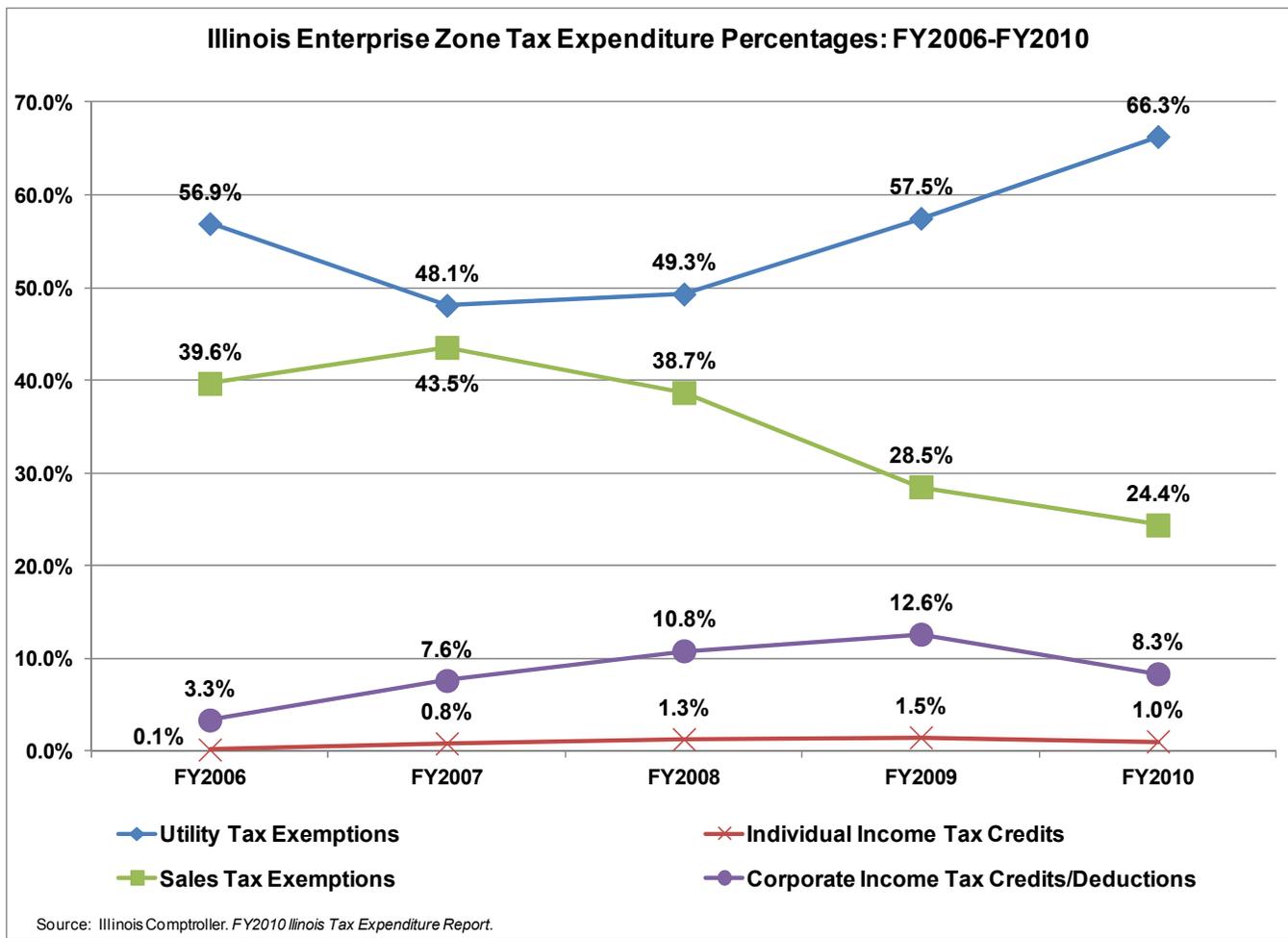
⁴⁵ Illinois Comptroller. FY2010 Tax Expenditures Report, p. 7.

Illinois Enterprise Zone Tax Expenditures FY2010



Source: Illinois Comptroller. *FY2010 Tax Expenditure Report*.

Between FY2006 and FY2010, utility tax exemptions represented the largest share of enterprise zone tax expenditures. The proportion of total enterprise zone tax expenditures attributable to utility tax exemptions rose from 56.9% in FY2006 to 66.3% five years later. Sales tax exemption tax expenditures fell from 39.6% of all tax expenditures in FY2006 to 24.4% in FY2010; during that same period corporate income tax credits and deductions increased from 3.3% to 8.3%. Individual income tax credits taken were a relatively small percentage of all enterprise zone tax expenditures, averaging 0.9%.



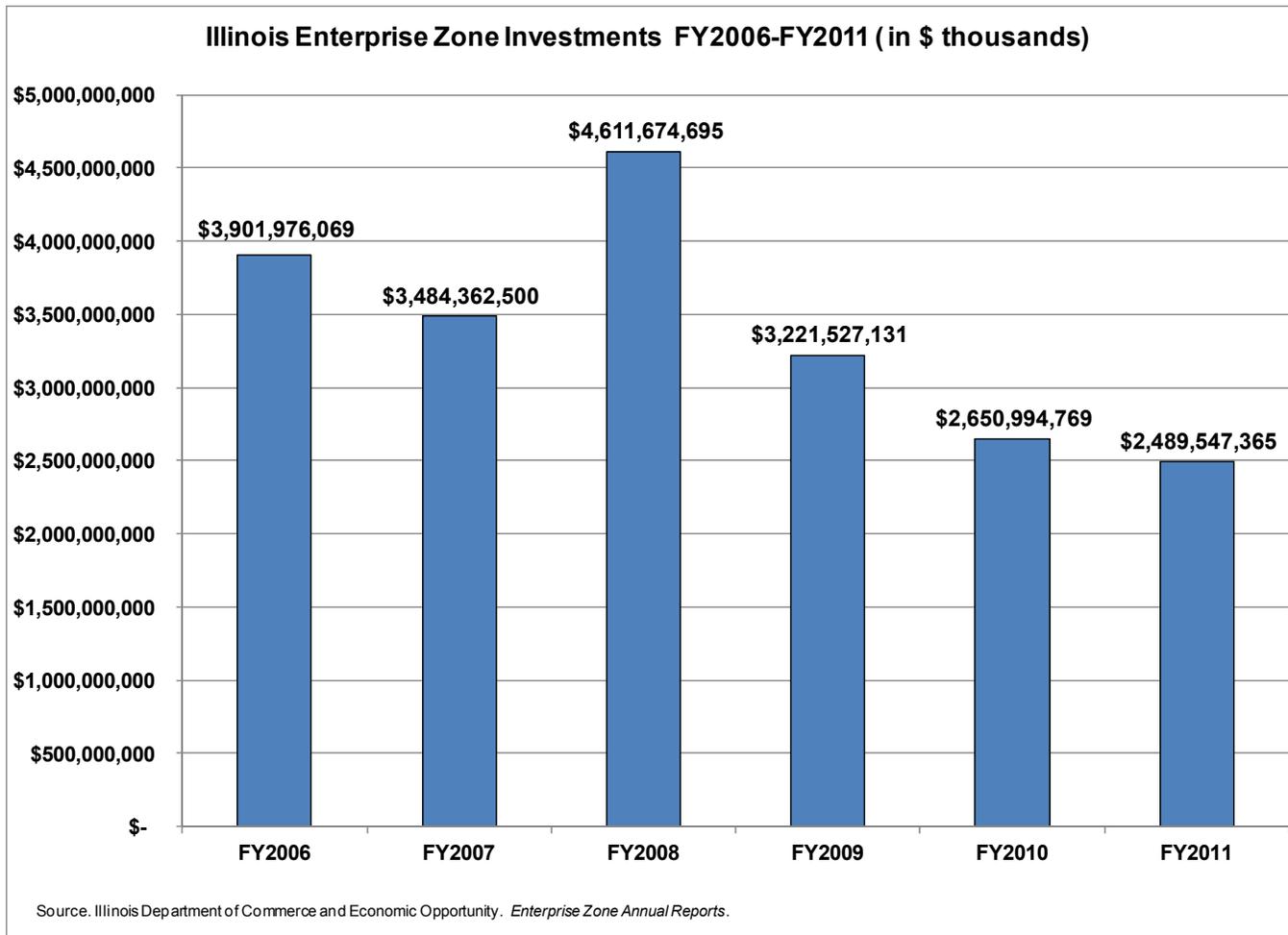
Value of Investments in Illinois Enterprise Zones

The DCEO annual enterprise zone report lists the total dollar amount of enterprise zone private sector investments. The economic activity reported is based on data submitted to DCEO by local enterprise zone administrators. The data reflect economic activity submitted after the issuance of a building permit or a certificate of eligibility obtained from the local zone administrator. Investments not requiring a building permit or certificate of eligibility are not reported.⁴⁶

The total dollar amount of Illinois enterprise zone investments increased from \$3.9 billion in FY2006 to \$4.6 billion in FY2008 before dropping to nearly \$2.5 billion in FY2011.⁴⁷ The drop in investments after FY2008 is due in part of the effects of the recession. Over the six-year period reviewed, enterprise zone investment fell by \$1.4 billion or 36.2%.

⁴⁶Investment is not broken for new versus retained jobs, so calculations cannot be made for those categories. Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.

⁴⁷. Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.



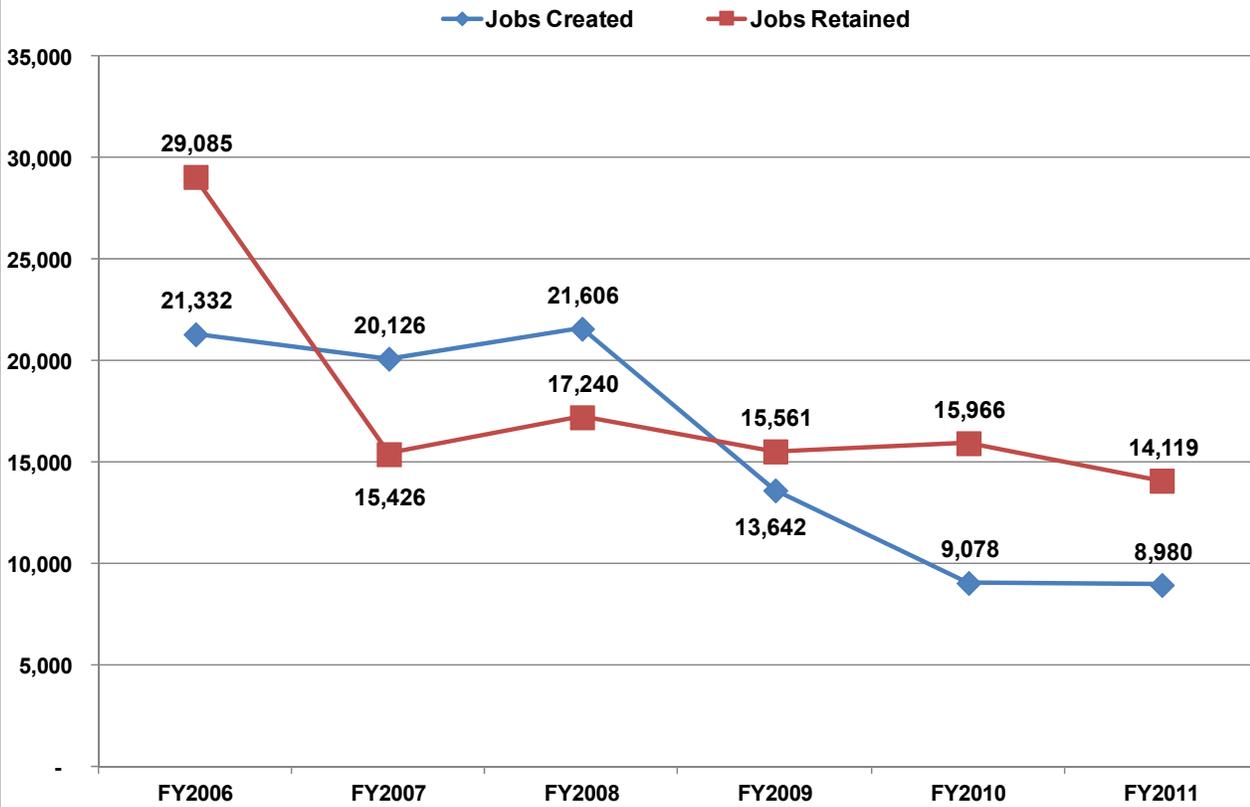
Jobs Created and Retained in Illinois Enterprise Zones

The annual DCEO annual enterprise zone report also provides information on job retained or created in each zone. Multiple investments by a firm occurring throughout a fiscal year may retain the same jobs.⁴⁸

The total number of jobs created and retained in Illinois enterprise zones fell by 54.2% between FY2006 and FY2010. This was a drop from 50,417 to 23,099. The number of jobs created fell from 21,332 to 8,980; this is a decrease of 57.9%. Jobs retained decreased by 51.5% or from 29,085 to 14,119.

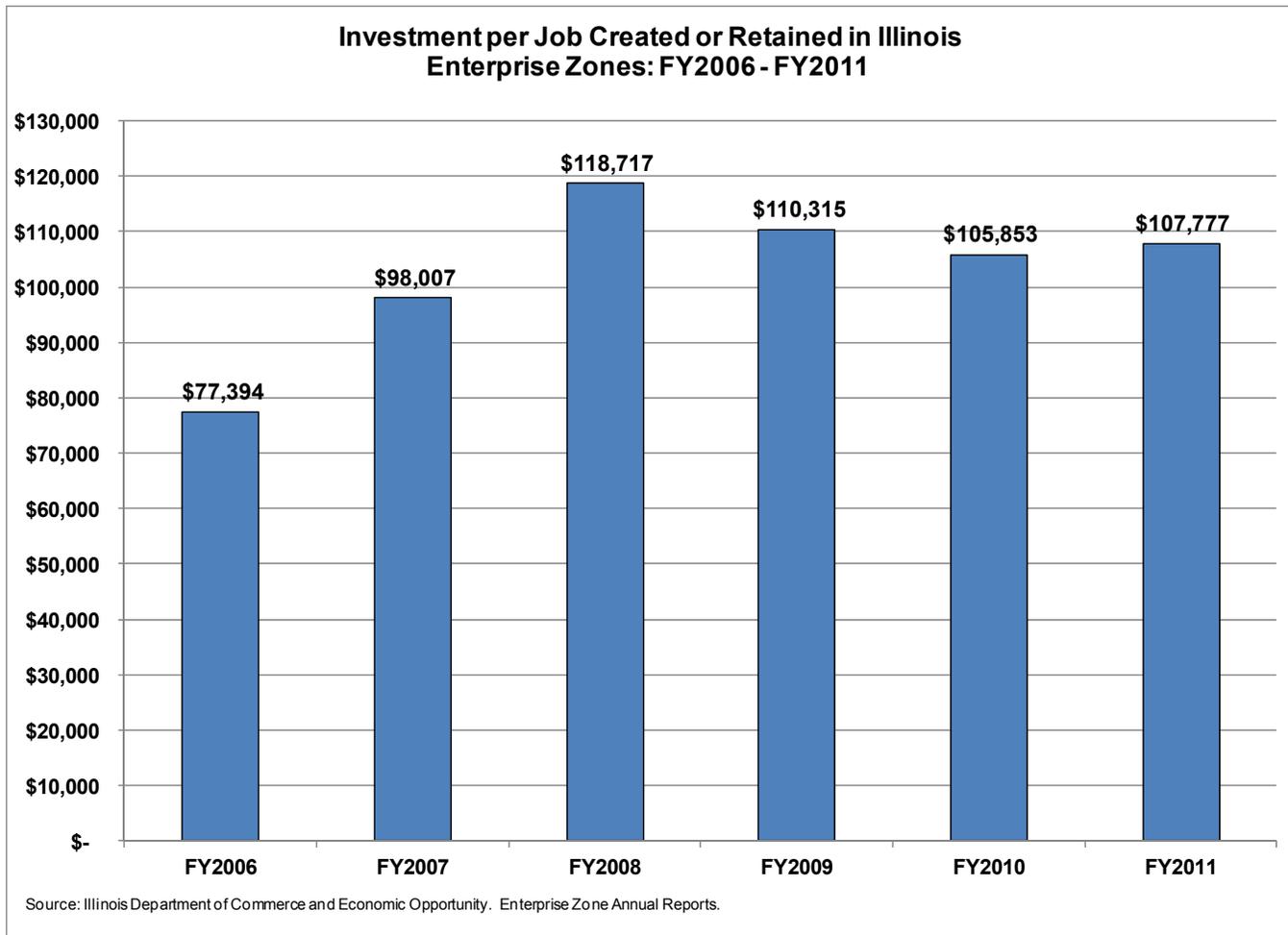
⁴⁸Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.

Jobs Created and Retained in Illinois Enterprise Zones: FY2006-FY2011



Source: Illinois Department of Commerce and Economic Opportunity. Enterprise Zone Annual Reports.

The dollar investment per job created and retained is shown in the next exhibit. This statistic takes the dollar amount of enterprise zone investments per year and divides that amount by the number of jobs retained and created. The investment per job rose from \$77,394 to \$118,717 between FY2006 and FY2008 before dropping to \$107,777 in FY2011. Over the six-year period reviewed the investment per job rose by 39.3%, or \$30,383.



REVIEW OF THE POLICY LITERATURE ON ENTERPRISE ZONES

There have been a number of empirical and policy studies of the effectiveness of enterprise zone programs. In addition, states frequently conduct reviews of enterprise zone programs, particularly when the programs are under consideration for reauthorization. This section presents a brief overview of the findings of several of these studies.

Empirical Studies

The empirical literature presents a mixed picture on whether enterprise zones generate jobs and create new businesses or retain existing businesses.

A 2002 study of state enterprise zone programs used statistical models to measure the value of enterprise zone programs and to evaluate whether the programs work by generating new local growth. The researchers evaluated incentive packages provided in 75 enterprise zone programs in 13 states with significant manufacturing employment from 1990 to 1994 as well as changes in manufacturing

establishments within these zones from 1989 to 1995.⁴⁹ The authors concluded that the zones have little or no impact on the growth of business establishments or employment growth. This could be because many enterprise zones are located in economically distressed areas where tax incentives are not likely to make a big difference given problems of poor worker training, inadequate infrastructure and crime. The authors do suggest that large enterprise zones may be effective if they are targeted appropriately and managed correctly. They pointed to Michigan's Renaissance Zone as an example, where the incentives were so large as to be effective.⁵⁰

In a 2005 review of 10 major empirical studies of enterprise zones in various states using regression analysis, Hirasuna and Michael found mixed results.⁵¹

- Four studies found no impact on employment.⁵²
- Four studies found some positive impact on employment. Of these, two studies found some reductions in unemployment rates⁵³ or a temporary increase in employment.⁵⁴ Another study found that employment increased faster within the enterprise zone than in areas not included in the zone.⁵⁵
- One study found an increase in the number of business establishments within enterprise zones.⁵⁶ A second study also found an increase in the creation of businesses but a decrease in the retention of existing businesses.⁵⁷

Ian Pulsipher noted in a 2008 article for the National Conference of State Legislatures status report on enterprise zones that the zones are rarely considered the sole factor in the relocation, hiring or investment decisions of firms. But they are considered an important tool by state officials and businesses in attracting or retaining business activity. However, academic reviews of enterprise zone

⁴⁹ Alan H. Peters and Peter S. Fisher. *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo W.E. Upjohn Institute for Employment Research, 2002), pp. 3-5.

⁵⁰ Alan H. Peters and Peter S. Fisher. *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo W.E. Upjohn Institute for Employment Research, 2002), pp. 225-226.

⁵¹ Don Hirasuna and Joel Michael. *Enterprise Zones: A Review of the Economy Theory and Empirical Evidence*. Policy Brief: Minnesota House of Representatives, January 2005.

⁵² Marlon G. Boarnet and William T. Bogart, "Enterprise Zones and Employment: Evidence from New Jersey," *Journal of Urban Economics* 40, no. 2 (1996): 198-215; John Engberg and Robert Greenbaum, "An Evaluation of State Enterprise Zone Policies," *Policy Studies Review* 17, no. 2-3 (2000): 29-46; Daniele Bondonio and John Engberg, "Enterprise Zones and Local Employment: Evidence from the States' Programs," *Regional Science and Urban Economics* 30, no. 5 (2000): 519-49; and Peter S. Fisher and Alan H. Peters, "The Cost of Enterprise Zone Incentives and an Alternative Use of the Money" (presentation, National Tax Association: Proceedings of the 93rd Annual Conference, 2000): 67-73.

⁵³ Leslie E. Papke, "Tax Policy and Urban Development: Evidence from an Enterprise Zone Program" (working paper 3945, National Bureau of Economic Research, 1991) and Kala Seetharam Sridhar, "The Incentive Programs and Unemployment Rate," *Review of Regional Studies* 30, no. 3 (1999): 275-98.

⁵⁴ Suzanne O'Keefe, "Job Creation in California's Enterprise Zones: A Comparison Using a Propensity Score Matching Mode," *Journal of Urban Economics* 55, no. 1 (2004): 131-50.

⁵⁵ Frank D. Beck, "Do State-designed Enterprise Zones Promote Economic Growth?" *Sociological Inquiry* 71, no. 4 (2001): 508-32.

⁵⁶ William S. Moore, "Enterprise Zones, Firm Attraction and Retention: A Study of the California Enterprise Zone Program," *Public Finance and Management* 3, no. 3 (2003): 376-92.

⁵⁷ Robert T. Greenbaum and John B. Engberg, "The Impact of State Enterprise Zones on Urban Manufacturing Establishments," *Journal of Policy Analysis and Management* 23, no. 2 (2004): 315-39.

programs, particularly those employing econometric or other economic analyses, have usually not found evidence that the zones produce positive results in regard to job creation or increased community investment.⁵⁸

The Effectiveness of Enterprise Zone Policy Administration and Reporting

The Pew Center on the States published a report in 2012 titled “Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth.” It was an evaluation of how well states collected and evaluated data on the effectiveness of economic development incentive programs to help guide decision making by policymakers. Researchers reviewed hundreds of policy documents and interviewed over 175 policymakers, experts and agency officials.⁵⁹ Researchers gave each state a rating based on two criteria:⁶⁰

1. Scope: Does the state evaluate all of its economic development incentive programs and does it use the results of evaluations to inform decision making. Illinois was one of 35 states that did not review all major tax incentives or use data to inform choices.
2. Quality: Do state-conducted evaluations examine the impact of incentives on the state’s economy and draw clear conclusions about whether the incentives are achieving the state’s goals and/or how performance might be improved? Illinois was one of 29 states that did not either conduct any evaluations or whose best evaluations did not draw conclusions about whether incentives were meeting goals or if performance could be improved.

The Pew Center found that no state rigorously and regularly tests or evaluates whether tax incentives are meeting their stated policy goals. Overall, 13 states were determined to be doing a good job in evaluating tax incentives, 12 had mixed results and 25 states plus the District of Columbia failed to meet criteria for scope or quality of evaluation.⁶¹

Many states review their enterprise zone programs on a regular or occasional basis. The reviews are often conducted prior to a renewal of enterprise zone authorization. In 2004, the New York State Comptroller’s Office conducted a review of the effectiveness of eight Empire (enterprise) Zones. The study reviewed data from 1999 to 2002 to evaluate the following issues:⁶²

- Do Empire Zones achieve their stated goals and objectives?
- Do quantifiable benefits received exceed program costs?
- Are reported program costs and benefits accurate and supported?
- Are Empire Zones designing and implementing adequate systems to continuously monitor and evaluate Zone performance and effectiveness?
- Are Empire Zones adequately addressing any performance shortfalls?

⁵⁸ Ian Pulsipher. Evaluating Enterprise Zones. NCSL/Annie E. Casey Partnership on Economic Success. February 26, 2008 at <http://www.ncsl.org/issues-research/econ/evaluating-enterprise-zones.aspx>.

⁵⁹ The Pew Center for the States. Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth. 2012. p. 9.

⁶⁰ The Pew Center for the States. Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth. 2012. p. 11.

⁶¹ The Pew Center for the States. Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth. 2012. p. 11.

⁶² Office of the New York State Comptroller. *The Effectiveness of Empire Zones*, March 2004, p. 5.

- Are Empire Zones designing and modifying their goals, objectives and boundaries to achieve specific and measurable results that align with the program's goals?

The report found that the boards administering the Empire Zones did not have adequate procedures in place to effectively monitor the progress or effectiveness of the program. Six of the eight Empire Zones' annual reports were either inaccurate and/or incomplete. The employment results were less than promising.⁶³

- The 375 businesses surveyed increased their full-time employees by 4,303 but had 2,380 fewer full-time employees (36 %) than they had projected when they applied for the Program.
- Twenty-three percent of the surveyed businesses had reduced staffing.
- Only 30% of 375 businesses surveyed met or exceeded their full-time job creation goals while 47% did not meet their goals but increased staffing.

There were also issues regarding the tax incentives provided to businesses in the Empire Zones.⁶⁴

- Thirty-two businesses reported receiving tax breaks that surpassed the benefits provided by the businesses by an aggregate of approximately \$3.6 million in 2002. The amounts per business averaged approximately \$112,500.
- Thirty-four businesses that reduced jobs also apparently improperly claimed certain tax breaks totaling approximately \$2.4 million.

New York sun sunsetted its Empire Zone program in 2010, shifting economic development resources to more targeted efforts.⁶⁵

Policy Evaluation of Enterprise Zone Effectiveness

California's enterprise zones have been the subject of several policy studies from the state legislature's research office and independent organizations.

The California Legislative Analyst's Office (LAO) reported to the California Legislature in 2005 that overall the zones and related programs had little or no impact on the generation of economic activity or employment. However, enterprise zones were effective in generating economic activity within smaller geographic areas such as metropolitan areas when businesses decide where to locate.⁶⁶ In 2011 the LAO conducted another study of enterprise zones and concluded that the state's enterprise zone program was not effective because research had demonstrated that it did not create a net increase in jobs or increase the rate of job creation. The report noted that even if a particular enterprise zone had a positive impact on jobs locally, the incentives offered might just move jobs around the state.⁶⁷

In a 2009 study, the Public Policy Institute of California, a nonprofit, nonpartisan thinktank evaluated the effect of enterprise zones on employment in each year from 1992 through 2004. The report found

⁶³ Office of the New York State Comptroller. *The Effectiveness of Empire Zones*, March 2004, p. 6.

⁶⁴ Office of the New York State Comptroller. *The Effectiveness of Empire Zones*, March 2004, p. 6.

⁶⁵ See <http://esd.ny.gov/businessprograms/empirezones.html>.

⁶⁶ Legislative Analysts's Office. *California's Enterprise Zone Program*. December 5, 2005, p. 6.

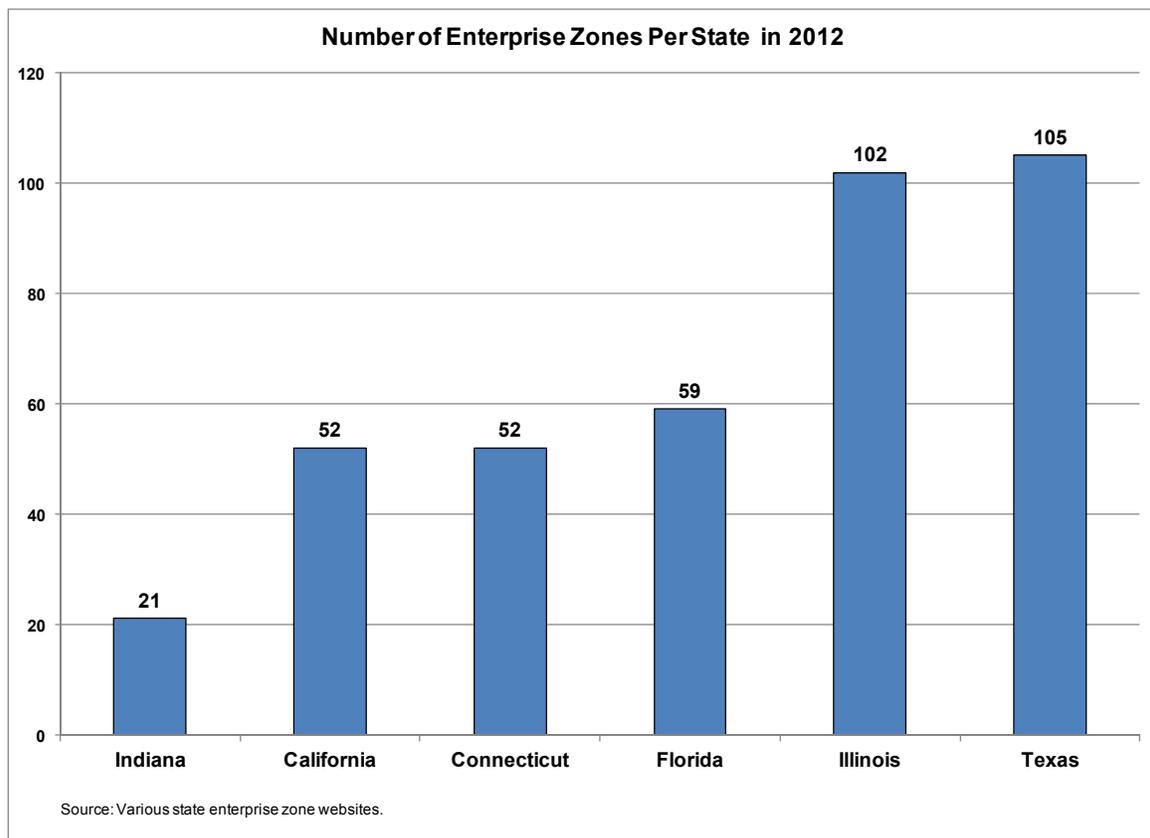
⁶⁷ Legislative Analysts's Office. *California's Enterprise Zone Program*. February 7, 2011, p. 5.

that on average the zones have had no impact on job creation or business development. However, the effectiveness of the zones varied, with a more favorable effect on job creation in zones with smaller share of manufacturing and zones where administrators utilized greater marketing and outreach activities.⁶⁸

Governor Jerry Brown cited the two studies described above as well as the Peters and Fisher book *State Enterprise Zone Programs: Have They Worked?* as evidence that the zones are not effective in his 2011 proposal to eliminate enterprise zone tax incentives. This was part of his plan to help close the state's then FY2012 \$25 billion budget deficit. The Legislature did not approve this proposal but it may resurface for the 2013 budget.⁶⁹

ENTERPRISE ZONES IN SELECTED STATES

This section of the report compares the operation of enterprise zones in a representative sample of states: Indiana, California, Connecticut, Florida and Texas. The number of enterprise zone and related areas located in each of these states and Illinois is shown below. The Illinois figure will be operative in 2013, reflecting recent passage of legislation increasing the number of zones.



⁶⁸ Jed Kolko and David Neumark. "Do California's Enterprise Zones Create Jobs?," Public Policy Institute of California. June 2009, p. 1 at <http://www.ppic.org/main/publication.asp?i=742>.

⁶⁹ Governor Brown was successful in eliminating the state's local redevelopment agencies and re-directing funds to address the state's FY2012 budget deficit. Michael Shaw. "Enterprise Zones Brace for Change." *Sacramento Business Journal*. February 3, 2012.

The states offer a wide variety of state and local enterprise zone incentives to qualifying businesses and individuals. These are summarized in the table below. Illinois offers the greatest types of incentive and is the only state to offer utility tax incentives.

Enterprise Zone Financial Incentives						
	Illinois	Indiana	California	Connecticut	Florida	Texas
Corporate Income Tax Credit or Abatement	X	X	X	X	X	
State Individual Income Tax Credit or Refund*	X	X	X			
State Sales and Use Tax Credit or Exemption	X		X		X	X
State Utility Tax Exemptions	X					
State Insurance Premium Tax Credit						X
Local Property Tax Incentives	X	X	X	X		X

Illinois will eliminate this incentive in 2013 per P.A. 97-0905.

Sources: State Enterprise Zone Websites.

The stated purpose of enterprise zone programs in different states is shown below. All note that the intent of these programs is to remediate blight. However, they emphasize different ways to achieve that goal ranging from stimulating business development job creation to improving the quality of life.

Purpose of State Enterprise Zone Programs	
California	Stimulate business investment and job creation for qualified disadvantaged individuals in state-designated economically distressed areas
Connecticut	Stimulate economic development in economically distressed communities
Florida	Encourage economic growth and investment in specific geographic areas by providing tax incentives to businesses within those areas
Illinois	Stimulate economic growth and revitalize neighborhoods in economically depressed areas
Indiana	Improve the quality of life in blighted areas through community and business redevelopment initiatives
Texas	Promote job creation and economic development in economically distressed areas of the state

California

The California Department of Housing and Community Development states the purpose of the state's enterprise zones as being the stimulation of "business investment and job creation for qualified disadvantaged individuals in state-designated economically distressed areas."⁷⁰ The state provides certain tax incentives and there are also a variety of locally provided incentives and benefits.

There are four different types of enterprise zone in California:

1. **Enterprise Zones**, which provide tax incentives to qualified businesses.

⁷⁰ California Department of Housing and Community Development. "California Enterprise Zones," at <http://www.hcd.ca.gov/fa/ez/>.

2. **Local Agency Military Base Recovery Areas (LAMBRAs)** provide incentives to businesses locating in closed military facilities; LAMBRAs include either an entire closed military base or a portion of it. There are seven LAMBRAs.
3. **Manufacturing Enhancement Areas (MEAs)** are two areas in Imperial County that provide incentives to manufacturing businesses engaged in the lines of business described in Standard Industrial Classification Codes 2011 to 3999. These areas expire December 31, 2012.⁷¹
4. The one **Targeted Tax Area (TTA)** in Tulare County offer incentives to companies engaged in a trade or business within the following Standard Industrial Codes: food processing; trucking and warehousing; air transportation; transportation services, communications and wholesale trade; and certain other manufacturing enterprises. This area expires December 31, 2012.⁷²

Year Established: California's enterprise zone program was established in 1984. Manufacturing enhancement areas and targeted tax areas were added in 1998 while the local agency military base recovery areas were added in 1993.⁷³

Locations: Enterprise zones are permitted in counties, municipalities or former military installations.

Administration: The California Department of Housing and Community Development oversees the state's enterprise zone program. Each zone is administered by its local jurisdiction.

Term: Enterprise zones are designated for 15 years. However, zones designated prior to 1990 can be extended for five additional years for a total of 20 years.⁷⁴ A LAMBRA designation is binding for a period of eight years.⁷⁵

Number: There are a total of 52 state-sponsored economic development incentive programs in California. They include:

- 42 enterprise zones;
- 7 Local Agency Military Base Recovery Areas;
- 2 Manufacturing Enhancement Areas; and
- 1 Targeted Tax Area.

Tax Incentives:

Enterprise zones: Individuals or businesses located in an enterprise zone may be eligible for the following program benefits:

- Hiring Credits - Firms can earn \$37,440 or more in state income tax credits for each qualified employee hired;

⁷¹ http://www.hcd.ca.gov/fa/ez/manufac_enhance/.

⁷² http://www.hcd.ca.gov/fa/ez/tax_area/.

⁷³ Legislative Analyst's Office. *California's Enterprise Zone Program*, December 5, 2005, p. 1.

⁷⁴ California Codes. Government Code Section 7073 (d) (1) (2).

⁷⁵ <http://www.hcd.ca.gov/fa/ez/lambra/>.

- Up to 100% Net Operating Loss (NOL) carry-forward for state income tax liability. NOL may be carried forward for 15 years (it was suspended for tax years 2002 and 2003);
- Up-front expensing of certain depreciable property. Lenders to Zone businesses may receive a net interest income deduction on state income taxes;
- Corporations can claim a credit equal to the sales or use tax paid or incurred on the purchase of qualified property not to exceed \$20 million. Individuals and partnerships can receive the credit for up to \$1 million;
- Unused tax credits can be applied to future tax years, stretching out the benefit of the initial investment; and
- Enterprise Zone companies also can earn preference points on state contracts.

LAMBRAs: Businesses located in a LAMBRA Zone are eligible for program benefits. The tax incentives provided include:

- Up to 100% Net Operating Loss (NOL) carry-forward. The NOL may be carried forward 15 years. Firms can earn \$31,544 or more in state tax credits for each qualified employee hired up to \$2 million per year;
- Corporations can earn sales tax credits on purchases of \$20 million per year of qualified machinery and machinery parts;
- Businesses are eligible for up-front expensing of certain depreciable property, up to \$40,000 annually from state income taxes; and
- Unused tax credits can be applied to future tax years, stretching out the benefit of the initial investment.

LAMBRA communities also are eligible for local community incentives as a part of a business attraction package. The incentives may include the use of machinery, tools or office equipment left behind by the military.

Manufacturing Enhancement Areas (MEAs): Businesses in the MEAS are eligible for:

- Streamlined local regulatory controls;
- Reduced local permitting fees; and
- Up to \$29,234 or more in state income tax credits for each qualified employee hired.⁷⁶

Targeted Tax Areas (TTA): Businesses in a TTA may be eligible for:

- Tax credits for sales and use taxes paid on certain machinery, machinery parts and equipment;
- Income Tax credits for hiring qualified employees; and
- A fifteen year net operating loss carry-forward.⁷⁷

Reporting: All enterprise zones are required to submit reports to the Department of Housing and Community Development describing progress made toward goals and objectives in the original application for designation for the two prior fiscal years.

⁷⁶ http://www.hcd.ca.gov/fa/ez/manufac_enhance/.

⁷⁷ http://www.hcd.ca.gov/fa/ez/tax_area/.

The Department submits to the Legislature a report every five years that evaluates the enterprise program's effect on employment, investment and incomes and on state and local tax revenues in designated enterprise zones. The Franchise Tax Board provides the department and the Legislature aggregate information on the dollar value of enterprise zone tax credits that are claimed each year by businesses.⁷⁸

Connecticut

Connecticut was the first state to implement an enterprise zone program in the United States. The purpose of the state's enterprise zone program is to stimulate economic development in economically distressed communities. There are several different programs available, including enterprise zones, the urban jobs program and enterprise corridors.⁷⁹

1. **Enterprise Zones:** Connecticut enterprise zones consist of primary or secondary census tracts plus contiguous tracts within a community. The census tracts must contain certain socio-economic conditions. Primary census tracts must have a poverty rate of at least 25%, an unemployment rate of two times the state average, and at least 25% of the tract's population must receive public assistance. Secondary census tracks must have a poverty rate of at least 15%, an unemployment rate of one and a half times the state average, and at least 15% of the tract's population must receive public assistance. Municipalities containing an enterprise zone are classified as Targeted Investment Communities.⁸⁰

Three enterprise zones, in East Hartford, Groton and Southampton, were designated as enterprise zones even though they did not meet the socio-economic requirements because they have experienced severe cutbacks in defense industry related employment.

State statute only allows municipalities to have one enterprise zone. However, municipalities that are Targeted Investment Communities can designate additional areas which can receive the equivalent of enterprise zone benefits. These include Entertainment Districts, Qualified Manufacturing Plants and Railroad Depot Zones.

There are also several other designations that allow eligible projects in designated facilities to be eligible for the same benefits as projects located in enterprise zones in targeted investment communities.

- The Contiguous Municipality Zone provides for the designation of one or more census tracts, or portions of such census tracts.
- The Defense Plant Zone encompasses any municipality with a former defense manufacturing plant that was vacant on July 1, 1998.

⁷⁸ California Codes. Government Code Section 7085.

⁷⁹ The information in this section about Connecticut enterprise zones is directly from Connecticut Department of Community and Economic Development. "Enterprise Zone Guide" at <http://www.ct.gov/ecd/cwp/view.asp?a=1099&q=249762>.

⁸⁰ Connecticut Department of Community and Economic Development. "Enterprise Zone Guide" at <http://www.ct.gov/ecd/cwp/view.asp?a=1099&q=249762>.

- The Manufacturing Plant Zone designation is available to any municipality with a population less than 20,000 that is contiguous to a Targeted Investment Community.
 - The Bradley Airport Development Zone located around Bradley International Airport includes specified census blocks within the towns of East Granby, Suffield, Windsor and Windsor Locks.
 - The Bioscience Enterprise Corridor Zone is for eligible businesses that do not have more than three hundred employees at any time during the preceding twelve months and are engaged in bioscience, biotechnology, pharmaceutical or photonics research, development or production.
2. **Urban Jobs Program:** Connecticut has an Urban Jobs Program that provides benefits to eligible companies that are located in a Targeted Investment Community but outside of the Enterprise Zone, and which are not impacted by any of the additional enterprise zone-level benefit areas. Urban Jobs benefits are lesser benefits than Enterprise Zone-level benefits but the same qualifying criteria generally apply.
 3. **Enterprise Corridor Zones:** Benefits for eligible projects in an Enterprise Corridor Zone are identical to those in an Enterprise Zone, and subject to similar qualifying terms and conditions. However, these municipalities are not classified as Targeted Investment Communities, and are therefore not eligible to extend Urban Jobs Program benefits. Enterprise Corridor Zones are located along Route 8 South and Route 8 North in the state's Naugatuck Valley and Interstate 395 in the eastern region of the state. Projects in fifteen communities qualify for those programs.

Year Established: 1982.

Locations: Municipalities.

Administration: The state's enterprise zone program is administered by the Connecticut Department of Economic and Community Development.

Term: Various enterprise zone tax incentives have differing terms (see below).

Number: Connecticut has 17 enterprise zones, 20 areas offering enterprise zone type incentives and 15 enterprise corridor zones.

Tax Incentives: Connecticut provides a variety of property tax and corporate business tax incentives for enterprise zone businesses.

Enterprise Zones: *Qualified businesses* in enterprise zones are eligible for several tax incentives:

- A five-year, 80% abatement of local property taxes on all qualifying real and personal properties that are new to the municipal tax rolls as a direct result of a business relocation, expansion or renovation project.
- A 10-year, 25% or 50% credit on that portion of the Connecticut Corporate Business Tax that is directly attributable to the business's business relocation, expansion or renovation project as determined by the Connecticut Department of Revenue Services. Qualifying for the 50% credit requires that at least 30% of new employees are residents of the municipality and are eligible under the federal Workforce Investment Act.

- Exemption from the real estate conveyance tax.

Newly formed corporations located in a zone qualify for a 100% corporate tax credit for their first three taxable years and a 50% tax credit for the next seven taxable years. The corporation must have: (1) at least 375 employees, of which at least 40% are either zone residents or are residents of the municipality and who qualify for the Workforce Investment Act, *or* (2) has less than 375 employees, at least 150 of which are zone residents or are residents of the municipality and who qualify for the Workforce Investment Act.

Any businesses engaged in *biotechnology, pharmaceutical, or photonics research, development or production*, with not more than three hundred employees, are eligible for Enterprise Zone benefits if they are located anywhere in a municipality with (1) a major research university with programs in biotechnology, pharmaceuticals or photonics and (2) an Enterprise Zone. Benefits are subject to the same conditions as those for businesses located in an Enterprise Zone.

Residential and commercial property owners are also eligible for fixed property assessments for improvements made during the time an area is designated as an enterprise zone. The fixed assessment is for a seven year period. The amount of deferral on increased assessments due to improvements is 100% in years one and two, 50% in year three, then declining 10% per year through year seven. These benefits are provided at the local level.

Urban Jobs Program: Urban Jobs Program benefits include:

- A five-year, 80% property tax abatement.
- A ten-year, 25% corporation business tax credit to qualified manufacturing businesses.
- A five-year, 80% property tax abatement for real estate and/or equipment for qualifying *service facilities*, provided on a sliding scale basis. The minimum investment is \$20 million to qualify for a five-year, forty percent tax abatement. This benefit increases to an eighty percent, five-year tax abatement for projects with an investment greater than \$90 million. The equipment qualifies only if it is installed in a facility that has been newly constructed, substantially renovated or expanded.
- A ten-year corporate business tax credit for or qualifying *service facilities* on a sliding scale basis based on new full-time jobs created. The minimum tax credit of 15% is allowed for service companies creating 300 or more but less than 599 new jobs. The benefit increases to 50% for such companies creating 2,000 or more new jobs at the eligible facility.

Reporting: The Connecticut Department of Economic and Community Development prepares an annual report that includes information on the state's enterprise zone program. Specifically, summary data are provided on the number of jobs retained and created, the number of companies certified for participation in the program and the amount of square footage leased, purchased, expanded or removed with the assistance of enterprise zone incentives.⁸¹

⁸¹ Connecticut Department of Economic and Community Development. *Annual Report for Fiscal Year 2010-2011*, February 1, 2012, p. 177.

Florida

Florida enterprise zones are designed to encourage economic growth and investment in specific geographic areas by providing tax incentives to businesses within those areas. Enterprise zones are designated as either urban or rural zones. An enterprise zone is eligible for a rural designation if it is in a:

- Nominating county with a population of 75,000 or less;
- Nominating county with a population of 100,000 or less and is contiguous to a county with a population of 75,000 or less;
- Nominating municipality that is located in a county with a population of 75,000 or less ; or
- Nominating municipality that is located in a county with a population of 100,000 or less and is contiguous to a county with a population of 75,000 or less.⁸²

Year Established: The state of Florida established its enterprise zone program in 1982. The program was reformed in 1994 and a sunset provision set for 2005. In that year, the program was extended for an additional 10 years.⁸³

Locations: Counties and municipalities.

Administration: The Division of Strategic Business Development within the state Department of Economic Opportunity administers the Florida Enterprise Zone Program. The Division receives, reviews and approves enterprise zone applications and reports on enterprise zone outcomes to the legislature. The Florida Department of Revenue processes enterprise zone tax incentive applications. Enterprise Zone Development Agencies administer individual zones at the local level.

Term: There are variable terms for different tax incentives. These are for both urban and rural zones.⁸⁴

Number: There are 59 Florida enterprise zones. Of that number, 30 are rural enterprise zones and 29 are urban enterprise zones.

⁸² http://floridaenterprisezones.com/Pageview.asp?edit_id=8.

⁸³ See http://floridaenterprisezones.com/Pageview.asp?edit_id=8.

⁸⁴ Florida Enterprise Zone Program Tax Incentive Fact Sheets for Urban Enterprise Zones and Florida Enterprise Zone Program Tax Incentive Fact Sheets for Rural Enterprise Zones. See http://floridaenterprisezones.com/Pageview.asp?edit_id=167

Tax Incentives: Florida provides a variety of enterprise zone incentives, including sales and use tax, corporate income tax and credits, exemptions and refunds.⁸⁵ Local communities also offer a variety of incentives.

Sales and Use Tax

Jobs Tax Credit - Rural Enterprise Zones: Allows a business located within a Rural Enterprise Zone to take a sales and use tax credit for 30 or 45 percent of wages paid to new employees who live within a Rural County. To be eligible, a business must create at least one new job. The Sales Tax Credit cannot be used in conjunction with the Corporate Tax Jobs Credit.

Jobs Tax Credit - Urban Enterprise Zones: Allows a business located within an Urban Enterprise Zone to take a sales and use tax credit for 20 or 30 percent of wages paid to new employees who reside within an enterprise zone. To be eligible, a business must create at least one new job. The Sales Tax Credit cannot be used in conjunction with the Corporate Tax Jobs Credit).

Business Equipment Sales Tax Refund - Rural and Urban Enterprise Zones: A refund is available for sales taxes paid on the purchase of certain business property, which is used exclusively in an Enterprise Zone for at least 3 years.

Building Materials Sales Tax Refund - Rural and Urban Enterprise Zones: A refund is available for sales taxes paid on the purchase of building materials used to rehabilitate real property located in an Enterprise Zone.

Sales Tax Exemption for Electrical Energy - Rural and Urban Enterprise Zones: A 50% sales tax exemption is available to qualified businesses located within an Enterprise Zone on the purchase of electrical energy, if the municipality has reduced the municipal utility tax by at least 50%.

Corporate Income Tax Credits

Jobs Tax Credit - Rural Enterprise Zones: Allows a business located within a Rural Enterprise Zone to take a corporate income tax credit for 30 or 45 percent of wages paid to new employees who reside within a Rural County. To be eligible, a business must create at least one new job. The Corporate Tax Credit cannot be used in conjunction with the Sales Tax Credit.

Jobs Tax Credit - Urban Enterprise Zones: Allows a business located within an Urban Enterprise Zone to take a corporate income tax credit for 20 or 30 percent of wages paid to new employees who reside within an enterprise zone. The Corporate Tax Credit cannot be used in conjunction with the Sales Tax Credit.

Property Tax Credit - Rural and Urban Enterprise Zones: New or expanded businesses located within an enterprise zone are allowed a credit against Florida corporate income tax equal to 96% of ad valorem taxes paid on the new or improved property.

⁸⁵ The information about enterprise zone tax incentives is from http://floridaenterprisezones.com/Pageview.asp?edit_id=15

Choice of Corporate Income Tax, Insurance Premium Tax or Sales Tax Credits

Community Contribution Tax Credit Program - Rural and Urban Enterprise Zones: Allows businesses a 50% credit on Florida corporate income tax, insurance premium tax, or sales tax refund for donations made to local community development projects. Businesses are not required to be located in an enterprise zone to be eligible for this credit.

Property Tax Exemption

Property Tax Exemption for Childcare Facilities - Rural and Urban Enterprise Zones: Provides an exemption from ad valorem property tax for licensed childcare facilities operating in areas designated as enterprise zones.

Reporting: The Division of Strategic Business Development receives progress reports from local enterprise zones as well as reports from the Florida Department of Revenue and prepares an Annual Report to the Governor and the Florida Legislature. The report includes data on the number of incentives approved, the value of state and local incentives, funding resources accessed and contact information for individual enterprise zone administration.⁸⁶

Indiana⁸⁷

Indiana's enterprise zones are designed to improve the quality of life in blighted areas through community and business redevelopment initiatives.⁸⁸

Year Established: Indiana's enterprise zone program was established in 1983.⁸⁹

Locations: Enterprise zones are permitted in municipalities or on former military installations.

Administration: The Indiana Economic Development Corporation (IDEC) administers the enterprise zone program and the operation of enterprise zones. The DEC is a public-private partnership. The IDEC Board, chaired by the Governor, approves applications for enterprise zones, renews existing zones, monitors operations and the use of incentives.

Term: The initial term for enterprise zones was 20 years. The initial designation is for 10 years with eligibility for two 5-year renewals based on performance reviews conducted by the IDEC Board. Zones that have operated for a full 20 years can be re-designated by the Board for a new term with an initial 10-year period. The Board can designate two new municipal enterprise zones annually through 2015.

Number: There are currently 21 municipal and former military installation enterprise zones.

⁸⁶ See Florida Department of Economic Opportunity. *Florida Enterprise Zone Program Annual Report*, March 1, 2012.

⁸⁷ This discussion is drawn from Indiana Legislative Services Agency. "Fiscal Issue Brief: Indiana's Geographically Targeted Development Programs: Enterprise Zones," September 27, 2010, pp. 1-4.

⁸⁸ <http://www.aiez.org/news.html>.

⁸⁹ P.L. 23-1983 [IC 5-28-15].

Tax Incentives: Indiana provides three state business tax incentives in enterprise zones: the employment expense credit, the investment cost credit and the loan interest credit. It also provides an employee income tax deduction and a property tax investment credit.

Employment Expense Credit

A state tax credit equal to 10% of the additional wages paid to qualified employees up to a maximum of \$1,500. At least 90% of the employee's services must be directly related to the enterprise zone business, and at least 50% of the employee's time must be spent working at the enterprise zone business. Unused credits may be carried forward for up to 10 years or carried back for up to three years. The credit may be applied against the individual or corporate adjusted gross income taxes, the financial institutions tax or the insurance premiums tax liabilities.

Investment Cost Credit:

A state tax credit for equity investment in an enterprise zone business equal to a maximum of 30% of the price of the ownership interest purchased by the taxpayer. The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. This credit may be applied against individual or corporate adjusted gross income tax liability.

Loan Interest Credit:

This is a state tax credit for interest income earned by a taxpayer from a loan that directly benefits an enterprise zone business, increases enterprise zone property values, or is used to rehabilitate, repair, or improve an enterprise zone residence. The credit is equal to 5% of the loan interest received during the year. The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. The credit may be applied against the individual or corporate adjusted gross income taxes, the financial institutions tax or the insurance premiums tax liabilities.

Employee Income Tax Deduction:

Qualified employees in an enterprise zone may deduct half of the adjusted gross income tax liability earned during the year up to a maximum deduction of \$7,500. This can result in a \$255 reduction in state income tax liability for a qualified employee. A qualified employee is an individual who lives in an enterprise zone and is also employed within that zone. To qualify for the deduction at least 90% of the employee's services must be directly related to the enterprise zone business and at least 50% of the employee's time must be spent working at the enterprise zone business.

Indiana also provides for reduction in property taxes at the local level.

- *Property Tax Investment Deduction:* This is a property tax deduction for the increased value of an enterprise zone business property due to real and personal property investment by the business. The added valuation may be deducted for up to 10 years. Qualified investment at an enterprise zone location includes the following: (1) purchase of a building, new manufacturing or production equipment; (2) costs associated with the repair, rehabilitation, or modernization of an existing

building and related improvements; (3) onsite infrastructure improvements; (4) construction of a new building; and (5) costs associated with retooling existing machinery.

Reporting: There do not appear to be any regular public reporting requirements for Indiana economic development zone.

Texas

The purpose of the enterprise zone program in Texas is to promote job creation and economic development in economically distressed areas of the state. Economically distressed areas include:

- *Any block group with a poverty rate of 20% or more*, as determined by the U.S. Census Bureau. The block group remains an enterprise zone until it no longer qualifies, as a result of a subsequent decennial census.
- *Any distressed county*. A distressed county is one that has a poverty rate above 15.4 percent based on the most recent decennial census; in which at least 25.4 percent of the adult population does not hold a high school diploma or high school equivalency certificate based on the most recent decennial census; and that has an unemployment rate that has remained above 14.9 percent during the preceding five years, based on Texas Workforce Commission data.
- *Any federally designated empowerment zone, enterprise community or renewal community* is also a State enterprise zone, for the duration of the federal designation.

Projects may be physically located in or outside of an Enterprise Zone. If located within a zone, companies must commit that at least 25 percent of their new employees will meet economically disadvantaged or enterprise zone residence requirements. If located outside of a zone, the companies must commit that at least 35 percent of their new employees will meet economically disadvantaged or enterprise zone residency requirements. In addition, an enterprise project designation may be granted for job retention.⁹⁰

Local communities must offer incentives to a proposed enterprise zone project for it to be considered. These incentives include such as tax abatement, tax increment financing and one-stop permitting.⁹¹

Year Established: 1983 by agency rule. The Legislature codified the program by statute in 1993.

Locations: Any municipality or county in the State of Texas may participate in the enterprise zone program.

Administration: The Texas Enterprise Zone Program is managed by the Economic Development Bank in the Office of the Governor.

Term: The designation period for enterprise zones is determined by the Economic Development Bank located in the Governor's Office. The zones can last for a period of up to 5 years.

⁹⁰ Office of the Governor. Economic Development and Tourism. *Tax Incentives* at <http://www.texaswideopenforbusiness.com/incentives-financing/tax/tez.php>.

⁹¹ Office of the Governor. Economic Development and Tourism. *Tax Incentives* at <http://www.texaswideopenforbusiness.com/incentives-financing/tax/tez.php>.

Number: The number of projects allowed is limited to no more than 105 projects per legislative biennium.⁹² Currently there are 305 funded enterprise zone projects.⁹³ Municipalities or counties with a population of 250,000 or more are eligible for up to nine enterprise project designations during a state biennium based upon availability. Municipalities or counties with a population of less than 250,000 are eligible for up to six enterprise project designations during a state biennium based upon availability.⁹⁴

Tax Incentives:

Approved enterprise projects are eligible to apply for state sales and use tax refunds on qualified expenditures. The level and amount of refund is related to the capital investment and jobs created at the site.⁹⁵

Level of Capital Investment	Maximum number of jobs allocated	Maximum potential refund	Maximum refund per job allocated
\$40,000 to \$399,999	10	\$25,000	\$2,500
\$400,000 to \$999,999	25	\$62,500	\$2,500
\$1,000,000 to \$4,999,999	125	\$312,500	\$2,500
\$5,000,000 to \$149,999,999	500	\$1,250,000	\$2,500
Double Jumbo Project \$150,000,000 to \$249,999,999	500	\$2,500,000	\$5,000
Triple Jumbo Project \$250,000,000 or more	500	\$3,750,000	\$7,500

Each project is limited to a maximum refund of \$250,000 per year for five years for a regular enterprise project designation, \$500,000 per year for five years for a double jumbo enterprise project and \$750,000 per year for five years for a triple jumbo enterprise project.

Reporting: Each October 1, the nominating body of a project or activity designated as an enterprise project must submit to the Economic Development Bank a report that includes:⁹⁶

- A list of local incentives for community development available in the jurisdiction of the governmental entity nominating the enterprise project;

⁹² Office of the Governor. Economic Development and Tourism. *Texas Enterprise Zone Program: Frequently Asked Questions*. See http://governor.state.tx.us/files/ecodev/ez_faq.doc.

⁹³ There are also 93 projects funded by the Texas Enterprise Fund. Office of the Governor. Economic Development and Tourism. *Texas Enterprise Zone Program*.

⁹⁴ Office of the Governor. Economic Development and Tourism. *Texas Enterprise Zone Program: Frequently Asked Questions*. See http://governor.state.tx.us/files/ecodev/ez_faq.doc.

⁹⁵ See Office of the Governor. Economic Development and Tourism. *Texas Enterprise Zone Program: Frequently Asked Questions*. See http://governor.state.tx.us/files/ecodev/ez_faq.doc.

⁹⁶ Texas Government Code. Title 10. General Government, Subtitle G. Economic Development Programs Involving Both State And Local Governments. Chapter 2303. Enterprise Zones. Subchapter A. General Provisions. Section 2303.205 Annual Report (a)(b)(c).

- The use of local incentives described by the nominating body in the ordinance or order nominating the enterprise project and the effect of those incentives on revenue;
- The number of businesses assisted, located, and retained in the jurisdiction of the governmental entity nominating the enterprise project due to the existence of the enterprise zone program; and
- A summary of all industrial revenue bonds issued to finance enterprise projects located in the jurisdiction of the governmental entity nominating the enterprise project.