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## California's Enterprise Zones Miss the Mark

### New Report Calls for Significant Reform in Program Now in 42 Areas of the State

SACRAMENTO – California's Enterprise Zone Program provides tax breaks to economically distressed areas to promote business development and job creation. Since its inception, it has cost the state over \$1.5 billion in lost tax revenues. Yet a new report by the California Budget Project (CBP), *California's Enterprise Zones Miss the Mark*, concludes that the program is too large and fails to target the areas most in need of assistance. The report also finds that the program's largest tax break rewards businesses that don't create new jobs or hire workers with employment barriers and is prone to abuse.

The report finds that zones lack effective targeting: about one out of eight California employees works in an enterprise zone, and zones include some of the most prosperous areas of the state.

*California's Enterprise Zones Miss the Mark* calls for specific changes to the program, including substantially reducing the number of zones; reassessing zones every five years and terminating those that are no longer economically distressed; limiting zones to the most economically distressed areas; and reforming and improving the accountability of the hiring tax credit, a component of the program that provides tax breaks to businesses for hiring certain categories of workers. For example, the hiring credit should only be claimed by businesses that create new jobs and hire workers with barriers to employment. Also, businesses should not be able to claim hiring credits retroactively.

"This program has grown too large and unfocused, and isn't reaching the communities, businesses, and workers it was created to target," said Jean Ross, executive director of the California Budget Project, a nonpartisan public policy research group. "It's costing California. The state is losing a substantial amount of revenue which could instead be going to improve our schools, fix our roads and levees, or help with other state needs."

The report makes five key findings:

1. **The cost of the Enterprise Zone (EZ) Program has increased substantially.** The state's annual revenue loss due to the program grew nineteen-fold between 1993 and 2003, from \$15.6 million to \$299.3 million.

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2. **California's Enterprise Zone Program fails to effectively target areas most in need of assistance.** The number of zones prevents the program from effectively directing economic activity to the areas most in need. Corporations in urban areas, such as San Francisco and Los Angeles, claim a high proportion of zone tax breaks. In contrast, EZs in Calexico, Delano, and Shafter, which are in rural areas with very high unemployment rates, account for a relatively small share of the program's costs.
3. **The Enterprise Zone hiring tax credit rewards businesses that do not hire workers with barriers to employment or create new jobs.** Nearly two-thirds (64.8 percent) of hiring credit vouchers approved by EZs in 2004 were for workers who merely happened to live in the right neighborhood, not on the basis of a specific barrier to employment. In contrast, only 2.7 percent of approved hiring credits were for workers who were either participants in or eligible for income support programs.
4. **The Enterprise Zone hiring credit is prone to abuse.** EZ businesses can seek approval for hiring credit vouchers from the EZ most willing to approve them. A recent audit found that more than half (61 percent) of vouchers approved by the Oakland EZ were for companies located in other EZs.
5. **Enterprise Zone eligibility criteria are overly broad.** Areas can qualify as an EZ, for example, if they "have a history of gang-related activity," whether or not violent crimes have actually been committed. In addition, state law allows EZs to expand into areas that are not economically distressed.

The report also finds that numerous studies have failed to establish a link between enterprise zone tax incentives and increased employment, firm growth, or economic development.

David Carroll, research director of the California Budget Project, noted, "The state fails to collect the data needed to evaluate the Enterprise Zone Program. Researchers have not been able to identify which businesses claim zone tax breaks and whether these businesses are creating jobs. As a result, we can't assess what, if any, benefit, has resulted from the program."

NOTE: Copies of the report, *California's Enterprise Zones Miss the Mark*, are available for reporters who agree to honor the embargo at [www.cbp.org/2006/0604\\_ezreport.pdf](http://www.cbp.org/2006/0604_ezreport.pdf). Today at 1:00 p.m., the CBP will hold an audio press briefing for reporters, editors, and columnists to discuss this report. The teleconference will be open only to the media.