The Agua Mansa enterprise zone: An empirical analysis

Paul E. Ogu

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THE AGUA MANSA ENTERPRISE ZONE:
AN EMPIRICAL ANALYSIS

A Project
Presented to the
Faculty of
California State University,
San Bernardino

In Partial Fulfillment
of the Requirements for the Degree
Master of Public Administration

by
Paul E. Ogu
September, 1995
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ABSTRACT

One of the few new economic development programs to emerge in the 1980s are the Enterprise Zones (EZs). This new economic development strategy provides incentives to businesses investing in designated distressed areas. The areas designated as EZs are within communities that are considered economically depressed with higher than average unemployment rates. By offering incentives and programs only available in an EZ, it is hoped these areas can attract and retain companies that would not locate, stay or expand there otherwise. Zone economic activity is measured by the number of jobs created. The proposed research constitutes a more definitive test of this hypothesis.

This research effort will entail the collection and analysis of secondary data to test the effectiveness of Enterprise Zones on job creation in general, operationalized by such indicators as building permits, new business licenses, capital improvements, employment activity and employment vouchers.

There is much to recommend the idea that engaging a community in securing its future through improved services, job training, beautification efforts, and business loans can create change. This is the recurring message from both the research literature and the local administrators. Although some important questions remain about the permanence of the jobs created, most empirical assessments have concluded that state EZ programs are effective in creating jobs at reasonable costs. Increased zone benefits will help economic development leaders achieve the ultimate goal of eliminating the financial disadvantages of urban sites, allowing business to focus on their
merits. Allowing such opportunities and trying to boost the local economic development ideas that are working the best, are the key objectives of the EZ plan.
ACKNOWLEDGEMENT

I owe special thanks to the following individuals: Ms. Lita Pezant, Economic Development Analyst II, San Bernardino County, CA, Ms. Wendy Jo Holland, Economic/Redevelopment Manager, City of Colton, CA. Without them, this Research Project could not have been possible. They graciously took time to discuss and answer my questions, and made the Agua Mansa Enterprise Zone Plan and current information available.

I also owe special thanks to my Advisor, Clifford O. Young, D.P.A., Chair, Department of Public Administration, and to David J. Bellis, Ph.D., MPA Graduate Director, CSUSB, CA, for their guidance and purposeful comments on the original document. I would also like to thank Ms. Janes Kes of The Claremont Research Institute, CA for proofreading the manuscript. Nevertheless, I take full credit for any shortcomings of this paper.

Paul Ogu, June 1995.
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CHAPTER I

INTRODUCTION

The Research Problem.

Plant closings and unemployment in basic industries have become painfully frequent occurrences in many regions of the United States. Although "deindustrialization" has recently emerged as a political and economic issue, (Green 1991) it is by no means a new phenomenon. The economic base of the United States has changed considerably throughout its history. Most states have thus witnessed a succession of declines in particular industries. The manufacturing base by 1970 was very different from that of 1920 or 1880 (Green 1991). This dynamic change places large demands on the evolving economic development arena - solving economic development problems. Economic development is a multifaceted issue, a compound-complex problem. Any economic development program is judged by its ability to create jobs, promote economic stability, increase property values and expand opportunities to achieve good "quality of life" (Lyons and Hamlin 1991).

One of the few new economic development programs to emerge in the 1980s are the Enterprise Zones (EZs). This new economic development strategy provides incentives to businesses investing in designated distressed areas. Originally conceived in Great Britain in the late 1970s by Peter Hall, (Lyons and Hamlin 1991) the EZ approach immigrated to the United States in the early 1980s, where it was extensively modified and adopted by state
governments (Reeder and Robinson 1992). Zone economic activity is measured by the number of jobs created. The proposed research constitutes a more definitive test of this hypothesis.

When the EZ concept was first unveiled in the United States in 1979, it was hardly surprising that the radical free market development strategy should appeal to conservatives like then-Congressman Jack Kemp, a New York Republican, and Bronx Democrat, Robert Garcia, willing to try another approach in areas where programs of the 1960s and 1970s fell short (Guskind 1990). To these politicians, the proposal was in effect, a supply-side program to save the inner cities: it was the urban complement to the general conservative strategy of cutting taxes and regulations to stimulate economic growth. The proposal was eagerly adopted and an enterprise zone bill was introduced in May 1980. Ronald Reagan adopted EZs as the centerpiece of his urban proposals during the 1980 election. Enterprise zones became official Reagan Administration policy in 1981 (Green 1991).

A federal enterprise zone plan actually became law in 1988, but it lacked teeth and was never carried out. Congress agreed on a more comprehensive plan in 1992 as part of a broad tax bill, only to have President George Bush veto it. In May 1993, President Bill Clinton announced a measure called the Economic Empowerment Act of 1993. On December 21, 1994, the President and Vice President Al Gore announced the designation of 104 urban and rural Empowerment Zones (EZs) and Enterprise Communities (ECs) across the country. Whatever they are called, these zones are economic development tools established in areas that need extra help to become well-developed and
prosperous. Taking a page from state efforts, President Clinton emphasized the coordination of government aid to distressed areas, rather than tax breaks for businesses that locate there. The EZ/EC initiative is designed to restore opportunity to distressed communities by providing the tools they need and the flexibility they desire, enabling them to rebuild and revitalize, create new jobs and opportunities, and empower residents to reach their fullest potential. At the same time, it demands responsibility from local governments, community organizations, the private sector, universities, and individuals to develop - and take advantage of - a comprehensive plan that meets local needs. When he did recommend tax incentives, the President stressed tax credits for education and training. Previous Republican proposals focused primarily on helping zone businesses raise capital. The ultimate goal of zone programs is to make urban business sites more competitive with those in the suburbs and more rural areas.

This ideology (the EZ theory), rests squarely on the assumption that a mutually dependent and beneficial relationship is formed when, in turn businesses which locate or expand in the EZ, provide the community with a variety of long term benefits. For example, these businesses employ the area’s residents, thus decreasing the area’s unemployment rate, increase the community’s tax base, diversify and stabilize the economic base, increase the area’s per capita income, and encourage support industries to locate nearby.

By contrast, critics of the EZ theory, argue that the EZs reliance on business tax incentives amount to a giveaway to business. According to the “zero sum” theory, (Reeder and Robinson 1992) they argue that gains received
by EZs may come at the expense of other similarly situated places which do not have the advantage of EZ status. To them, EZs are a wasteful, expensive means of encouraging economic development. Another criticism is that it creates competition among cities and states that can ultimately damage the local tax structure and shift business costs to state and local governments or to existing local businesses. Such costs often outweigh the economic benefits gained from industry's relocation in a state or locality. But, it is difficult to argue that this kind of growth comes at the expense of other areas. Thus, this proposed study offers an empirical test of heretofore competing theories of Enterprise Zones.

Zone economic activity is measured by the number of jobs created. The proposed research will constitute a more definitive test of the Enterprise Zone hypothesis. The researcher collected 7 years (1986 - 1992) of AMIGA (the Agua Mansa Industrial Growth Association) data on Agua Mansa (a state designated) EZ community (cities of Riverside, Colton and Rialto, areas within counties of San Bernardino and Riverside), in order to conduct a longitudinal study, testing the effects over time of EZs as stipulated by dependent ("Y", "effect" or "then") variables, including building permits, new business licenses, capital improvements, employment activity and employment vouchers. This approach surveyed EZ firms (those receiving EZ benefits) about the effect of EZ policies on job creation. It compared successive zone employment growth prior to EZ designation.

Of course, the issue of EZs, however important to proponents and detractors alike, is not the only issue in the social, political, and economic life
of a community. Consequently, though significant in its own right (whether confirmed or not) as a source of important implications for the literature of economic development and community planning, the EZ concept is not a replacement for broader theories concerning local economic development.

In summary, this proposal sets forth some practical objectives. First, knowing about EZs' abilities to promote successful economic development can assist policy makers, consultants, citizen organizations and others in formulating policies to enhance the long-term benefits of their communities. Second, understanding the EZ concept can aid in devising ways to enhance inclusiveness (EZs as economic development tools) in local policy making, especially as more communities engage in strategic planning to cope with the economic and social changes of the 1970s, 1980s and 1990s. Third, statistical analysis of the relationship between economic development policies and EZs can assist local leaders in critically examining alternative strategies for local economic development. Finally, this research will provide a data base for continuous evaluation and monitoring of the relationships among EZs and community long-term benefits.
CHAPTER II

REVIEW AND CRITIQUE OF THE LITERATURE

Previous Research Studies On Enterprise Zones

Proponents of the EZ program (the EZ theory) assume a mutually dependent and beneficial relationship is formed when businesses which locate or expand in the EZ provide the community with a variety of long-term benefits. For example, these businesses employ the area’s residents thus decreasing the area’s unemployment rate, business growth increases the community’s tax base, diversifies and stabilizes the economic base, increases the area’s per capita income, and encourages support industries to locate nearby. Critics of the EZ programs argue that it is difficult if not impossible to use EZs to target assistance to blighted areas. At best, they claim that EZs are a zero-sum game, transferring investments from nonzone areas to zones. Further, they contend that an effective EZ program will require direct expenditures in human and physical infrastructures.

A review of EZ literature would not be complete without considering the works of Reeder and Robinson (1), Guskind (2), and Rubin and Wilder (3). These works present a generally positive picture of EZs. On the other hand, the anti-EZ thesis is taken up by Levitan and Miller (4), Osborne (5), and Stodghill II, Cole and McGuire (6).

Reeder & Robinson argue that recent empirical studies employing sophisticated methodologies raise questions about earlier studies of taxes and
economic development. They suggest that taxes may significantly affect business location decisions, at least under certain circumstances (qtd. in Newman & Sullivan 1988, Nelson 1989). They stipulate that in addition, most state EZ programs feature nontax provisions that improve local planning, public services (especially services for businesses), and infrastructure directed at removing barriers to local economic development (qtd. in Underhill 1989, Wolf 1990). These nontax provisions are thought to foster the growth and survival of indigenous small businesses. It is then difficult to argue that this kind of growth comes at the expense of other areas.

Even where EZs cause firms to relocate, this can result in both efficiency and equity gains if firms move from wealthy, congested, high-cost areas to less wealthy, low-cost areas that have excess capacity of public infrastructure, as is the situation with many distressed rural areas (qtd. in Rubin and Wilder 1989, U.S. General Accounting Office 1988). Thus, the zero sum argument has less validity in the case of EZs.

Reeder and Robinson further discuss the two approaches that are most often used to assess EZ policies. One approach surveys EZ firms (those receiving EZ benefits) or local EZ coordinators about the effect of EZ policies on job creation. Survey responses are then converted into gross and net job growth numbers (net of jobs unaffected by EZ); sometimes multipliers are used to estimate indirect job growth associated with EZs. The other approach compares total zone employment growth with either zone employment growth prior to EZ designation or contemporary growth in a non-EZ portion of county, state, nation. Of particular interest, they pointed to recent
assessments of EZ programs in seven states: California (qtd. in California Office of the Auditor General 1988), New Jersey (qtd. in Rubin and Armstrong 1989), Kansas (qtd. in Patterson and Ambrozier 1988), Illinois (qtd. in Elder and Cohen 1988), New York (qtd. in Hamilton, Rabinovitz, and Alschuler, Inc. 1990), Virginia (qtd. in Virginia Department of Housing and Community Development 1987), and Louisiana (qtd. in Louisiana Department of Economic Development 1990). They found that: (a) EZs have generally outperformed non-EZ portions of the state in employment growth, and (b) one-half or more of the new or expanding firms that substantially increased employment in EZs indicated that EZ policies contributed to their actions.

Reeder and Robinson also pointed to several of the state studies that produced estimates of cost per job. They figured that if all new jobs reported by EZ firms (gross jobs) are counted, the gross cost per job ranged from $437 in Virginia to $5,613 in New Jersey. Costs are higher after netting out those jobs that could not be attributed to EZ policy. Net job costs ranged from $4,117 in Evansville, Indiana to $13,070 in New Jersey. When indirect jobs are counted, costs per net job were significantly lower, $3171, in New Jersey. These costs appear quite reasonable when compared with other economic development and job creation programs. Thus, using varying methodologies, most assessments have concluded that EZs appear to be cost effective in creating jobs.

Examining few studies of other economic impacts of EZs, they found the results generally favorable. For example, substantial new investment is associated with EZs in most states. In California, EZs performed better than
non-EZs in trends in unemployment rates, assessed property values, and number of public assistance recipients (qtd. in California Office of the Auditor General 1988). In Illinois, EZs outperformed the rest of the state in reducing unemployment rates, but this was thought to be coincidental, since there was little correlation between individual EZ job growth and decline in EZ unemployment rates (qtd. in Elder and Cohen 1988). Other studies also have found that many of the jobs created have been by existing firms and small businesses and relatively few jobs have actually relocated from other areas; thus experts have concluded that there is little danger that EZs amount to a "zero sum game."

Reeder and Robinson concluded that although some important questions remain about the permanence of the jobs created, most empirical assessments have concluded that state enterprise zone programs are effective in creating jobs at a reasonable cost.

Guskind strongly supports the EZ theory of job creation. He cites versions of this theory being tested in more than 500 "active" state enterprise zones (more than 1,500 have been designated). Citing the states of Louisiana, Illinois, Connecticut, Ohio, New Jersey, Kentucky and Missouri, he underlined spectacular results of their programs. Based on state estimates, HUD (Housing & Urban Development), in 1987, reported that enterprise zones had saved or created about 180,000 jobs and attracted $8.8 billion in private capital. A more recent survey by Business Facilities magazine (February 1990) he continued, estimated that enterprise zones had created
184,600 new jobs, retained 169,100 jobs and attracted $18.1 billion in investment through 1988.

Guskind points to further evidence of the successes of EZ in creating jobs. Evansville, Indiana set up its two-and-half-square-mile enterprise zones in 1984 in a neighborhood that back in the 1950s, hosted 15,000 workers, mostly in factory jobs. By the time the zone opened, employment had plummeted to 4,400. Evansville and the state had invested about $4 million in public money in the zone to upgrade water mains, build a firehouse, set up a day-care center for employees and provide other amenities. The investment appeared to have paid off. There were 260 businesses in the zone when it opened. There are now more than 340. Total employment has jumped more than 50%.

Guskind concluded his argument with a quote by Alan Eric Jones, Executive Director of the Evansville Urban Enterprise Association “The enterprise zone is a targeted, focused program. It doesn’t just throw money around. And it creates high paying jobs, not hotel jobs” (51).

Rubin and Wilder analyze the effectiveness of EZ on creating jobs from a different perspective. According to them, there is little evidence demonstrating that the EZ concept is effective at generating new economic development at the local level. Further, they content that previous research on enterprise zones does not take into account external effects that may stimulate or deter economic growth within a zone. So, their study had sought to mitigate these problems by carrying out a disaggregated analysis of
new job development within an enterprise zone, and by presenting a method that enables external growth stimuli and industrial composition to be factored out of the enterprise zone evaluation process.

Their study also sought to add to the currently small body of empirical research that examines the effectiveness of enterprise zones as economic development tools. The study provided an analysis of the employment benefits and incentive costs of the aforementioned Evansville, Indiana, enterprise zone program from 1983 through 1986. Study findings suggested that the EZ in Evansville has been a relatively cost-effective job-generation tool. Results of a shift-share analysis reveal significant differences between the employment growth of the enterprise zone and that of the metropolitan area. Additional cost-per-job analysis revealed a more complex relationship between job creation, firm type, and firm size than is generally assumed in economic development literature.

Throughout the article, empirical evidence was presented regarding key issues raised in the debate over the effectiveness of enterprise zone programs. From the analysis, they concluded that the EZ concept can be a cost-effective local economic development tool.

Levitan and Miller from the other side of the fence, contend that even in the best of times, poverty and high unemployment remain the rule for blighted areas. Empirical evidence is lacking that reducing federal taxes and relaxing regulations will alleviate the problems of inner cities. Taxes play at best a secondary role in business investment decisions. Other factors they
noted, (including the availability of a skilled labor force, proximity to transportation and markets, local amenities, and the physical security of the sites) play a far more important role when businesses consider expansion, relocation, or starting a new venture. High unemployment, poverty, and crime weigh against investing in blighted areas, as do dilapidated infrastructures and inferior services and amenities. Modest tax incentives and deregulation alone do not provide adequate inducements to offset the deterrents of locating in a blighted area. Tax incentives and deregulation, however, would have at best a nominal impact in increasing the number of startup businesses. Entrepreneurs, they contend, do not decide to start businesses because of marginal tax relief. In addition, most small firms would be unable to utilize the tax credits offered in EZ legislation, because few businesses in their early years have the tax liabilities needed to take advantage of tax breaks.

Levitan and Miller analyze the two policy options for administering aid to designated areas. These are tax expenditures and direct subsidies. Advocates of unfettered free markets argue that policies based on direct assistance have failed because their reliance on subsidies fosters a dependence on government handouts. This, they assert, stifles free enterprise and interferes with market forces. They contend that tax breaks, in contrast, encourage free enterprise and business growth. The distinction free market advocates draw between direct subsidies and tax exemptions is not persuasive: both policies distort free-market operations. EZs are subsections of larger economic markets, yet tax breaks and deregulation apply only to the zones.
Enterprise zone theory is premised on government intervention in the market to favor a designated area. It follows that the subsidies accompanying designation may diminish the competitive capabilities of firms outside the boundaries of the zone, which may be equally depressed. Due to government intervention, these firms will have a distinct disadvantage compared to their zone competitors.

Compared with direct subsidies, revenue foregone through the tax code is normally an ineffective mechanism for revitalizing blighted areas. Tax expenditures in EZ legislation have few strings attached to their use. Therefore, there is no guarantee that the income produced by the tax expenditures will benefit the zones or its residents. A company can choose to pocket profits generated by the tax credits rather than reinvest in the zone or hire zone residents. Direct government grants or subsidized loans usually provide safeguards, requiring use for their intended purposes.

Levitan and Miller further analyzed the “empowerment” ideology of EZs. Empowerment it seems, will help the poor in the blighted areas and enable them to forge their destinies. The rhetoric surrounding EZs distorts reality and tends to obfuscate the needs of blighted area residents along with the real costs of their rehabilitation. Empowerment cannot be achieved on the cheap and is not a substitute for direct help. The overall effectiveness of the EZ program is problematic. Legislation does not address the principal cause of distress - the idleness or waste of blighted area residents. Empowering zone residents requires that they become economically self-sufficient. Tax expenditures will not accomplish this, nor will they provide
the mechanisms needed to "empower" zone residents. Many residents lack the basic skills needed for most jobs.

Assisting the residents entails improving their education and skill levels. Once the residents are able to compete effectively for employment, it will then not be necessary to bring job opportunities to their back yards. Equipped with the necessary skills, they will in addition, be able to travel outside the zone to earn a living. Improvements in amenities and infrastructure should address, at a minimum, transportation facilities, police protection, and the educational and training system. This, assert Levitan and Miller, is the most effective strategy to empower the residents of blighted communities. They concluded that it is difficult if not impossible to use enterprise zones to target assistance to blighted areas. They claim that at best, EZs are a zero-sum game, transferring investments from nonzone to zone areas. An effective enterprise zone program will require direct expenditures, direct investments in human and physical infrastructures.

Osborne contends that the Jack Kemp's tax-driven version of the Enterprise Zone does not work. He takes the conservative notion that creating a healthy market simply by cutting taxes and regulations is simplistic. The rhetoric question that would be asked is, "how much of a difference are low taxes going to make in areas that already have low rents and low wages?" Such communities also have sagging infrastructures, poor housing, and a shortage of educated, skilled workers - not to mention crime, drugs, illiteracy, and welfare dependency. To create a healthy market, this entire constellation
of social pathologies, unskilled labor, and inadequate services must be addressed and altered. And if that is to happen, government must then play a central role. The keys to success are active development strategies, involving business, government, and the local community.

To back up his argument, Osborne states that the idea of EZs is an import. This is true. Peter Hall, a socialist professor in Great Britain, proposed it after a look at the low-tax, low-wage vitality of Hong Kong. Hall suggested “freeports” in the worst areas of the inner city: small enclaves free of taxes, regulations, customs controls, duties and a minimum wage. Things looked bleak, nothing else had worked, so why not try something truly audacious? This was an attempt to re-create the Hong Kong of the 1950s and 1960s inside inner Liverpool or inner Glasgow. The British example, Osborne asserts is a classic exercise in steering investment to a place, rather than to people. This, he continues, is fine, albeit expensive, if the goal is to redevelop a place. He cites a similar strategy that has helped lure private investment back to Times Square in New York. It could also work to lure plants back to areas that have lost their manufacturing base but still have a skilled work force and an adequate infrastructure. He believes that in fact, the state zones that do work are in precisely these kinds of areas.

Underlining his argument, he cites several studies. Two studies each in Connecticut and Maryland found no impact. Studies in Illinois and Louisiana found little change. A study of Indiana’s “most successful” zone found genuine progress, but its authors attributed the success not to tax and regulatory incentives but to the aggressive recruitment work, backed by hefty
training and infrastructure grants, of the publicly funded organization that managed the zone. This finding according to Osborne was reinforced by an in-depth analysis of 90 enterprise zones conducted by Rodney Erickson of Penn State who concluded that "One of the key factors that bridged across all of the high-performance zones was a strong, pro-active development policy" (24).

Osborne concluded by asserting that deep tax incentives may shift investment geographically, but that they cannot change the way the market works. In or out of zones, companies still need skilled, literate employees. No amount of tax incentives can entice firms to hire people who cannot reach at required levels of proficiency fairly quickly. The distinction here is between economic growth and economic development. Growth is simply an increase in output. Development is a process through which people, communities and firms increase their capacities to produce, creating an upward spiral that has its own momentum. And, if these incentives were crafted carefully (to help poor people rather than poor places, and to minimize the amount of money wasted on investments that would have been made otherwise), they could play a moderately constructive role in their own right, aside from their role in guiding state and local governments.

Stodghill II, Cole and McGuire emphasize with the notion that Ezs are a misguided idea for two reasons. First, government efforts to warp the market's investment decisions are usually inept and have perverse effects. Second, backdoor government sweeteners through the tax code increase the
budget deficit as much as government spending does, but do not attract the same scrutiny. They tend to be more wasteful as a result. Tax subsidies for investment which have both these flaws, often cost more than the new investment they generate.

Further, they contend that on occasion EZs have sparked costly tax-giveaway wars between states. To underline this, they cited some examples. Specific among these was the tax-giveaway war between Philadelphia, Washington and Maryland. Parks Sausage Company won out after Maryland offered $2.3 million in federal urban development action grants, a 10-year deferment on state property taxes, a new-equipment tax credit, and $200,000 in wage credits to 100 new employees.

They concluded that in the real world, the enterprise zones set up by cities and states have a decidedly mixed record. Businesses, it seems, usually base investment decisions on factors other than tax liability. They cited a study done in 1989 by the General Accounting Office, Congress' investigative arm which concluded that three Maryland zones did not stimulate local economic growth. The GAO found that infrastructure, low crime rates, and access to labor markets were more important in attracting business than were tax incentives. It will never be easy to persuade companies to move to rundown, crime-ridden, urban waste-lands. And with Congress worried about deficits, the many supporters of enterprise zones may find that cost, in the end, is an even bigger obstacle than the zones' uneven track record.
Summary & Conclusions

The Reagan and Bush administration brought a renaissance to the historic preference of Americans for the image of "laissez-faire" policies. The idea of the government stimulating competition and entrepreneurial talent has been a popular one for the past decade, and continues to receive support from the Clinton Administration. Yet, there is a growing body of literature that affirms the fact that business and industry today are less sensitive to the kinds of tax incentives and other financial incentives provided by these zones. Enterprise Zones cannot recreate for firms through tax expenditures the economic dynamics that brought them to specific urban/rural locations in the past.

Although some studies have been successful in detecting positive effects of tax incentives on firms' location decisions, especially through more careful model specification, (Newman and Sullivan 1988, Warner 1988 1989) published research overwhelmingly suggests skepticism over the possibility that "pure" enterprise zone incentives alone could generate enough investment and jobs to offset costs of administering the programs; rather, the increasing importance of other "quality of life" factors emerges, along with energy, market access, and labor, as key factors (Wasylenko 1981, Funkhouser and Lorenz 1987, Vaughan 1988, Warner 1989).

This proliferation of conflicting research conclusions regarding state incentives and economic growth simply underscores how tenuous the government's reliance on such policy approaches should be. In the absence of definitive proof that enterprise zones do not work, and with the support of a
few site-specific examples of enterprise zones that seem to have worked, it is understandable that state and local governments and other interested parties will continue to favor enterprise zones as one instrument for pursuing economic development. In fact, Green and Brintnall (168-169), concluded that enterprise zones should be viewed as economic and political concepts, as well as "a tool for achieving other state objectives," and stress the importance of examining the relationship of enterprise zones to the broader process of economic development and to what particular forms and combinations of policies are most effective. State-by-state comparisons continue to support the conclusion that states such as Indiana and New Jersey, which emphasize neighborhood or community involvement in solving a range of problems, have successful zones, while states such as Connecticut, which rely on tax incentives, do not (Enos, 1993).

In short, while there is scant evidence to support the ideologically-oriented enterprise zone policies promoted by Stuart Butler and Jack Kemp, there is much to recommend the idea that engaging a community in securing its future through economic opportunity, sustainable community development, community-based partnerships (true grass roots support), strategic vision for change and innovation and creativity can create change. This is the recurring message from both the research literature and the local administrators.

So, although some important questions remain about the permanence of the jobs created, most empirical assessments have concluded that state EZ programs are effective in creating jobs at reasonable costs. Increased zone
benefits will help economic development leaders achieve the ultimate goal of eliminating the financial disadvantages of urban sites, allowing businesses to focus on their merits. Allowing such opportunities and trying to boost the local economic development ideas that are working the best, are the key objectives of the EZ plan.
CHAPTER III

RESEARCH DESIGN

Secondary Data

This research effort will treat Enterprise Zone as the key independent variable.

Various dependent variables of interest are: building permits, business licenses, capital improvements, employment activity and employment vouchers.

Operational Definitions of variables

Enterprise Zone(s): a multidimensional variable, which will measure the rate of job creation in terms of building permits, new business licenses, capital improvements, employment activity and employment vouchers.

Agua Mansa: an EZ locality, 9,760 acres strategically located in the western portion of Riverside and San Bernardino Counties and within the cities of Colton, Rialto and Riverside. It is less than 16 miles from Ontario International Airport, served by three transcontinental railroads (Union Pacific, Southern Pacific and Atchison Topeka & Santa Fe), and three major freeways (10, 60, and 215). These are essential components of the need and concerns of firms (Lyons and Hamlin 1991). (See Appendix I, Page 28).

Community long-term benefits: employment of area’s residents leading to decrease in area’s unemployment rate, increase in community’s tax base, diversification and stabilization of the economic base and increase in the
area’s per capita income.

*Building permits & new business licenses:* measured by total number issued in the EZ area.

*Job creation:* measured by new and expanding businesses in zone area resulting in 10 or more jobs being directly created.

*Capital improvements:* measured by new and existing infrastructure projects like monument sign projects, waste water treatment plant, electrical improvements and water line upgrades.

*Employment Vouchers:* hiring of disadvantaged individuals (employees who are participants in programs funded or operated under the Employee placement and job training). Such programs include job training programs like GAIN (Greater Avenue for Independence), PICJT/JTPA/JESD (Private Industry Council Job Training/Job Training Partnership Act/Jobs and Employment Services Department).

**Secondary Data Hypotheses**

Leaders from Riverside and San Bernardino counties as well as representatives from the cities of Colton, Rialto and Riverside formed a joint powers agency - The Agua Mansa Industrial Growth Association (AMIGA) partnership, providing businesses a variety of incentives that include state income tax credits and/or deductions as well as various financing and technical assistance programs offered by individual localities.

Seven years (1986 - 1992) of AMIGA data on Agua Mansa EZ community will be analyzed to test the following Hypotheses:
*H1 Enterprise Zones create a significant (compared with existing #s) increase in jobs.
*H2 Enterprise Zones create a marked increase in value of building permits issued.
*H3 Enterprise Zones create a marked increase in number of building permits issued.
*H4 Enterprise Zones create a marked increase in number of new business licenses issued.
*H5 Enterprise Zones create a marked increase in value of capital improvements.
*H6 Enterprise Zones create a marked increase in employment activity.
*H7 Enterprise Zones create a marked increase in employment vouchers.

**Secondary Data Sources.**

Seven years (1986 - 1992) of AMIGA data will provide the data base. This research will also provide a data base for continuous evaluation and monitoring of the relationships among EZs (job creation) and community long term benefits.

**Statistical Procedures for Secondary Data.**

The researcher will use several statistical procedures to evaluate the aforementioned hypotheses. First, a principal components analysis will be performed to determine the relative contribution of building permits, business licenses, capital improvements and employment activities to EZ and
to provide a single variable score for those combined variables. Next, the researcher will derive a series of regression models to investigate the relationships between the independent variable - EZ - and the various dependent variables of interests, such as building permits, business licenses, capital improvements and employment activities. Further, the researcher will develop regression models to focus on the change over time in each of the variables. This procedure will lead to interpretations of how EZ will effect changes in the various dependent variables, reflecting the possibility that EZ may produce different effects than no job creation.
CHAPTER IV

Findings & Interpretations of Secondary Data.

Zone economic activity is measured in several ways: the number of firms qualifying for EZ benefits as a result of investing in a zone, the total amount of such investments, the number of jobs created, and the number of jobs retained. So, within this parameter, this research focused on one empirical question: How effective are Enterprise Zones in general?

The major deterrent to development in the Agua Mansa EZ has been the lack of developable land, that is, land that can be made available to a business or developer with the necessary utilities and services in place. This means infrastructure completed, ready for use, and adequate for future growth - a major attraction to a firm(s) looking for a new location (Lyons & Hamlin, 1991). To alleviate this, several projects were and are still in progress. Examples of these projects include:

A. Agua Mansa Industrial Center (Erin Madison Project). This is a public/private development partnership of Martin Kanselbaum, Erin Madison & AMIGA. Late in 1988, staff began work on the establishment of Community Facilities District (CDF) #89-1, the Agua Mansa Industrial Center. This Mello Roos District will provide financing for services and facilities necessary to meet projected demands from commercial and industrial users locating in the area. Examples are: monument sign projects, waste water treatment plant, electrical improvements, water line upgrades, signal improvements and fire protection facilities. The estimated cost for proposed
facilities and services to be financed under the Mello Roos bond program is $16 million. This project will bring 300 to 500 acres of prime industrial property on line for industrial development.

B. The City of Rialto created a Mello Roos district for the improvement of roads, sewers and flood control within its jurisdictionary boundaries of the EZ.

Since its inception, the Agua Mansa EZ has created marked increases compared with existing #s in various types of business activities (value and number of building permits, new business licenses, capital improvement values and employment activity). For example, the total value of building permits went from approximately $36.5 million in 1987 to $92.6 million in 1989. While number of building permits totaled 280 in 1987, in 1989 3,128 were issued. Total number of new business licenses went from 18 in 1986 to 107 in 1989 and 134 in 1992, with a cumulative total of 558 by 1992 (272% increase since 1986). In 1987, capital improvement values totaled $1.7 million. In 1989, the total was well over $12 million and more than $27 million in 1992. In 1987, number of low/moderate income new hires totaled 15 while the number increased to 76 in 1989 and 297 in 1992. See Appendices II p 29, and III p 30; Tables I p 31, and II & III p 32. The Agua Mansa EZ shows a good mix of businesses, but lean more towards manufacturing and industrial. This may be attributed to the fact that since the 1930s, creating new jobs by industrial recruitment has enjoyed considerable favor as a way to stimulate economic development. Interest in attracting new industrial manufacturing firms has continued because they provide goods that are
largely exported outside a region and they therefore can have a dramatic, sometimes immediate, impact on employment and income levels (Luke et al. 1988). Many retail service firms on the other hand, do not export, but rather recirculate local wealth. These retail services tend to be local in nature and therefore are seen as having less influence on local economic conditions. The sharp decrease in business activity between 1989 and 1990, can be attributed to the beginning of the recession in California (defense budget cuts, end of cold war, etc.).

The Agua Mansa case research can argue that the EZ approach can achieve dramatic results where EZs are accompanied by aggressive local economic development policies. This demonstrates how EZs have helped to bring the business community, neighborhood groups and the local governments together to work on projects having economic benefits.

In discussions with Ms. Wendy Holland, Economic/Redevelopment Project Manager for the city of Colton, the researcher had expressed some concerns. Were these businesses “brandnew”, that is new start-up businesses, or businesses from other places moving into the area and taking advantage of EZ incentives? The response was that no data exists locally or from the state, and as such it is hard to tell if these businesses moved from some other locations. Also there was no activity to report business retentions. Within this period, some businesses closed and some were created. So, the conclusion is that questions of EZ program development and evaluation go hand in hand. There is a need to learn more.
Conclusion

Although some important questions remain about the permanence of the jobs created, most empirical assessments have concluded that state EZ programs are effective in creating jobs at reasonable costs. The government, here, is showing great foresight in challenging businesses, local governments and citizens to work together to create local solutions. Increased zone benefits will help economic development leaders achieve the ultimate goal of eliminating the financial disadvantages of urban sites, allowing businesses to focus on their merits. Allowing such opportunities and trying to boost the local economic development ideas that are working the best, are the key objectives of the EZ plan.

Federal research guidance on how researchers can develop study designs for state programs which maximize the possibilities for aggregating results across studies, would be very valuable. A carefully constructed and limited federal demonstration program, coordinated with existing state programs, is also needed. So, we need to learn more. We need more knowledge about impacts, about goals, and about process. According to Reed, President Clinton’s deputy assistant for economic policy (qtd. in Stackhouse 47), “Economic growth is the most important urban policy, the most important rural policy, and the most important development policy.” Some of this can come from better and more extensive evaluations, especially those designed with attention to external validity.
## APPENDIX II: AGUA MANSA EZ NEW BUSINESS LISTING 1986 - 1992

<table>
<thead>
<tr>
<th>MANUFACTURING</th>
<th>DISTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cupples Plastic Bags</td>
<td>Pool Water Products</td>
</tr>
<tr>
<td>Beall Trans Liner</td>
<td>MBM Corporation</td>
</tr>
<tr>
<td>Stackhouse</td>
<td>Niagara Water</td>
</tr>
<tr>
<td>Lehigh Portland Cement</td>
<td>J. R. Higgins Lumber</td>
</tr>
<tr>
<td>National PAX</td>
<td>Layton Water Service</td>
</tr>
<tr>
<td>Riverside General Manufacturing Co.</td>
<td>Berlin Tire Center, Inc.</td>
</tr>
<tr>
<td>Hallcraft Industries</td>
<td>International Multi-food</td>
</tr>
<tr>
<td>Benchmark Clock</td>
<td>ABG Service Corporation</td>
</tr>
<tr>
<td>Norsea Marine</td>
<td>Technical Metal Service</td>
</tr>
<tr>
<td>Atlas Pacific</td>
<td>Mortan Industries</td>
</tr>
<tr>
<td>Doc's Hi-Tech Game Products, Inc.</td>
<td>Digi Tec - Konica Corp.</td>
</tr>
<tr>
<td>Astro Seal, Inc.</td>
<td></td>
</tr>
<tr>
<td>Zephr Systems, Inc.</td>
<td></td>
</tr>
<tr>
<td>H &amp; H Industries, Inc.</td>
<td></td>
</tr>
<tr>
<td>Mark Franzen, Inc.</td>
<td></td>
</tr>
<tr>
<td>Blaine Baker Overhead Doors</td>
<td></td>
</tr>
<tr>
<td>Wojtaszek American Creative</td>
<td></td>
</tr>
<tr>
<td>Paper Converter</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIGHT INDUSTRIAL</th>
<th>INDUSTRIAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>GTR/Western Athletics</td>
<td>West Coast Wire &amp; Steel</td>
</tr>
<tr>
<td>So. Pacific Pipeline Partnership</td>
<td>CWP</td>
</tr>
<tr>
<td>Western Landscaping Construction</td>
<td>Calfon Construction</td>
</tr>
<tr>
<td>Master Printing</td>
<td>Lonigro Castings</td>
</tr>
<tr>
<td>AAA Quality Service</td>
<td>Recat, Inc.</td>
</tr>
<tr>
<td>Ruby Metals</td>
<td>Tigon Industries</td>
</tr>
<tr>
<td>Bauer Building Materials</td>
<td></td>
</tr>
<tr>
<td>Kretaschmar Steel</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMMERCIAL/RETAIL</th>
<th>REAL ESTATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plaza Las Glorias Market</td>
<td>Garner Properties</td>
</tr>
<tr>
<td>Little Caesars Pizza</td>
<td></td>
</tr>
<tr>
<td>Thrifty Drug Store</td>
<td></td>
</tr>
<tr>
<td>Al's Garden Art</td>
<td>Trammel Crow</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ADMINISTRATIVE OFFICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bird Products</td>
</tr>
<tr>
<td>Regional Health Care Co.</td>
</tr>
<tr>
<td>Continental Land Title</td>
</tr>
<tr>
<td>International Revenue Service</td>
</tr>
<tr>
<td>Riverside County Sheriff Dept</td>
</tr>
<tr>
<td>Riverside County Materials Recover Facility</td>
</tr>
</tbody>
</table>

SOURCE: AMIGA, 1994
# APPENDIX III: AGUA MANSA EZ BUSINESS EXPANSION LISTING 1986-1992

<table>
<thead>
<tr>
<th>LIGHT INDUSTRIAL</th>
<th>COMMERCIAL/RETAIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sierra Aluminum</td>
<td>Busy Bee</td>
</tr>
<tr>
<td>Kaylin Center</td>
<td>Jimmy D. Nichols</td>
</tr>
<tr>
<td>Jake Sisko</td>
<td>Jamie, Omar, Shaheen</td>
</tr>
<tr>
<td>Ron Dobson Builders</td>
<td>Magnone Co.</td>
</tr>
<tr>
<td>Hawkins/Robertson</td>
<td>Cal Correct Craft</td>
</tr>
<tr>
<td>Jensen Contractors</td>
<td></td>
</tr>
<tr>
<td>Peter's Auto Body</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INDUSTRIAL</th>
<th>ADMINISTRATIVE OFFICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brithinee Electric</td>
<td>Riverside Radiology</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MANUFACTURING</th>
<th>DISTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bourns</td>
<td>Arrowhead Water Company</td>
</tr>
<tr>
<td>A-1 Aluminum</td>
<td></td>
</tr>
<tr>
<td>Case Power Equipment</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>REAL ESTATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Koll Business Center</td>
</tr>
</tbody>
</table>
**TABLE I:**
SUMMARY AGUA MANSA ENTERPRISE ZONE BUSINESS ACTIVITY 1986 - 1992

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Value of Building Permits</td>
<td>$15,287,991</td>
<td>$36,429,035</td>
<td>$52,242,555</td>
<td>$92,604,110</td>
<td>$9,337,093</td>
</tr>
<tr>
<td>Total No. of Building Permits</td>
<td>177</td>
<td>280</td>
<td>270</td>
<td>3,128</td>
<td>159</td>
</tr>
<tr>
<td>Total No. of New Bus. Licenses</td>
<td>18</td>
<td>113</td>
<td>102</td>
<td>107</td>
<td>22</td>
</tr>
<tr>
<td>Capital Improvement Values</td>
<td>N/A</td>
<td>$1,714,000</td>
<td>$11,101,503</td>
<td>$12,295,632</td>
<td>$2,567,789</td>
</tr>
<tr>
<td>Employment Activity (No. of Low/Moderate Income New Hires)</td>
<td>N/A</td>
<td>15</td>
<td>22</td>
<td>76</td>
<td>145</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>1992</th>
<th>Cumulative Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Value of Building Permits</td>
<td>$23,688,960</td>
<td>$14,911,348</td>
<td>$244,501,092</td>
</tr>
<tr>
<td>Total No. of Building Permits</td>
<td>287</td>
<td>199</td>
<td>4500</td>
</tr>
<tr>
<td>Total No. of New Bus. Licenses</td>
<td>62</td>
<td>134</td>
<td>558</td>
</tr>
<tr>
<td>Capital Improvement Values</td>
<td>$18,840,000</td>
<td>$27,171,516</td>
<td>$73,690,440</td>
</tr>
<tr>
<td>Employment Activity (No. of Low/Moderate Income New Hires)</td>
<td>144</td>
<td>297</td>
<td>699</td>
</tr>
</tbody>
</table>

*272% INCREASE IN TOTAL NUMBER OF NEW BUSINESS LICENSES BETWEEN 1986 & 1992*
TABLE II:
AGUA MANSA EZ
NEW BUSINESS LISTING 1986 - 1992

<table>
<thead>
<tr>
<th>NEW BUSINESSES</th>
<th>NO.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANUFACTURING</td>
<td>18</td>
<td>33%</td>
</tr>
<tr>
<td>DISTRIBUTION</td>
<td>11</td>
<td>20%</td>
</tr>
<tr>
<td>L/INDUSTRIAL</td>
<td>8</td>
<td>15%</td>
</tr>
<tr>
<td>INDUSTRIAL</td>
<td>6</td>
<td>11%</td>
</tr>
<tr>
<td>COMM/RETAIL</td>
<td>4</td>
<td>7%</td>
</tr>
<tr>
<td>ADMIN/OFFICES</td>
<td>6</td>
<td>11%</td>
</tr>
<tr>
<td>REAL ESTATE</td>
<td>2</td>
<td>4%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>55</td>
<td>100%</td>
</tr>
</tbody>
</table>

TABLE III:
AGUA MANSA EZ
BUSINESS EXPANSION LISTING 1986 - 1992

<table>
<thead>
<tr>
<th>BUSINESSES</th>
<th>NO.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANUFACTURING</td>
<td>3</td>
<td>16%</td>
</tr>
<tr>
<td>DISTRIBUTION</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>L/INDUSTRIAL</td>
<td>7</td>
<td>37%</td>
</tr>
<tr>
<td>INDUSTRIAL</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>COMM/RETAIL</td>
<td>5</td>
<td>26%</td>
</tr>
<tr>
<td>ADMIN/OFFICES</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>REAL ESTATE</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>
REFERENCES


