



May 31, 2011

Mac Taylor, Legislative Analyst  
California Legislative Analyst Office  
925 L Street, Suite 1000  
Sacramento, California 95814

**Re: Enterprise Zone Effectiveness**

Dear Mr. Taylor:

On behalf of the Los Angeles County Economic Development Corporation (LAEDC), an organization dedicated to promoting job growth, economic expansion, and preserving the overall global competitiveness of California and Los Angeles County, I am writing to express our concerns about the Legislative Analyst Office's (LAO) comments regarding the California's Enterprise Zone program ("EZ Program") – a proven tool to foster economic development and promote much-needed job growth.

The California Enterprise Zone Program remains one of the only dependable statewide economic development tools that local communities and economic developers can use to encourage businesses to stay or locate in-state. The EZ Program also plays a key role in revitalizing economically-challenged areas of the state, encourages development in blighted neighborhoods and creates economically-stable communities by embracing entrepreneurship and private sector market forces to stimulate local economies.

The LAO references a study authored by the Public Policy Institute of California (PPIC), *Do California's Enterprise Zones Create Jobs* by Jed Kolko and David Neumark, which claims to find no positive employment impact of enterprise zones. However, I have—and have offered in other correspondence—reservations about this PPIC study. Specifically, the underlying data used is not capable of detecting small changes in jobs over short intervals (i.e., year-over-year) and does not track business relocations or new businesses with any measure of confidence. In light of this deficiency, the study's failure to find a significant impact is not surprising, but this is likely due to flawed methodology not to a lack of evidentiary benefits of EZs.

In addition, several other studies by prominent institutions have, in fact, found that Enterprise Zones have a positive and significant impact on reducing unemployment rates, lowering poverty and increasing household incomes. Two of the more commonly referenced studies, using rigorous methods and Census data, found the following in regard to Enterprise Zones:



- The Department of Housing and Community Development (August 2006) found the following in EZs between 1990-2000:<sup>1</sup>
  - Poverty rates declined 7.35 percent more than the rest of the state.
  - Unemployment rates declined 1.2 percent more than the rest of the state.
  - Household incomes increased 7.1 percent more than the rest of the state.
  - Wage and salary income increased 3.5 percent more than the rest of the state.
- The University of Southern California (November 2008, revised October 2010) found that California EZs have positive, statistically significant, impacts on local labor markets in terms of the unemployment rate, the poverty rate, and the fraction of individuals with wage and salary income.<sup>2</sup>

In determining the effectiveness of spending taxpayer funds among competing and compelling needs, it is incumbent upon those of us who are asked to provide objective and professional analysis to be as rigorous and honest in our opinions as possible and to acknowledge academic work that supersedes earlier, but perhaps more popular, studies. In light of these newer findings, we ask that the LAO reconsider its public position regarding the effectiveness of the Enterprise Zone Program. We look forward to working with your office in the future, and please feel free to call me at 213-236-4842 if you have any questions.

Sincerely,



Christine Cooper, Ph.D.  
Director, LAEDC Economic and Policy Analysis Group

cc: Governor Jerry Brown  
Members of the California Assembly  
Members of the California Senate

---

<sup>1</sup> California Department of Housing and Community Development. Authored by Nonprofit Management Solutions and Tax Technology Research, LLC. "Report to the California Department of Housing and Community Development on Enterprise Zones." August 18, 2006.

<sup>2</sup> University of Southern California, John C. Ham, Charles Swenson, Ayse İmrohoroğlu, and Heonjae Song. "Government Programs Can Improve Local Labor Markets: Evidence from State Enterprise Zones, Federal Empowerment Zones and Federal Enterprise Communities." November 2008, Revised October 2010.