June 13, 2013

The Honorable Jerry Brown
Governor
State Capitol Building
Sacramento, CA 95814

Re: <u>California Enterprise Zone Program</u>

Dear Governor Brown:

We, the undersigned organizations, businesses and individuals dedicated to promoting job growth, economic expansion, and preserving the overall global competitiveness of California applaud your willingness to explore new programs and offer new economic development tools – such as the California Tax Credit and your proposed statewide sales tax exemption for manufacturing, biotechnology and research and development equipment purchases – to create jobs, strengthen the economy and keep our state's fiscal house in order. **However, we respectfully urge you to exercise extra caution and prudence, to engage in a more public and transparent vetting process, and to not rush hastily during the truncated budget negotiation process to implement a plan that would effectively eliminate California's 30-year-old Enterprise Zone program** ("EZ Program") – a proven (see below) tool to promote much-needed job growth and reduce poverty in distressed areas of the state.

Understandably, the 30-year-old EZ Program can use some improvements to make it more accountable, effective and less costly. But this should not automatically mean having to make a rigid, binary choice between enterprise zones and your three new replacement proposals. Rather we must be more thoughtful and flexible in our choices, more deliberative in our process and more creative in our solutions; we are, after all, California – the most innovative, imaginative and inspired state in the nation. Simply rushing to eliminate and replace a program on which many underserved communities and disadvantaged populations have come to rely without the proper scrutiny, public examination and economic impact analysis is not the way for the world's 12th largest economy to go about such a critically important undertaking – that is, if we expect to get to right outcome once and for all and not have to go through this process on a seemingly annual basis, creating more uncertainty for businesses, municipalities and California's distressed populations.

<u>Enterprise Zones: a proven Economic Development tool that could be thoughtfully improved</u>

At the outset, it is important to note that while we believe the California EZ Program can stand to be improved, we do not agree with your underlying premise that, as currently structured, the [EZ] program fails to achieve its goals in reducing unemployment. Time and again, EZ Program opponents cite the study authored by Jed Kolko and David Neumark of the Public Policy Institute of California (PPIC), titled: *Do California's Enterprise Zones Create Jobs* ("PPIC study"), as unassailable evidence that there is no positive employment impact from enterprise zones.

Inexplicably, this single, isolated study continues to serve as the analytical basis for those policymakers intent on eliminating the EZ Program even though a number of highly-respected economists up and down the state have publicly questioned and expressed very serious reservations about the validity of the PPIC study. Most troubling to many of these economists is that the underlying non-government data source used in the PPIC study is not capable of detecting precise 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. This is because the PPIC study uses a privately-developed database of businesses based on Dun and Bradstreet data, which obtains self-reported data on employment levels. These employment levels are reported in intervals, which will mask improvements over time. For example, in one time period, a business with two employees selects “1 to 5 employees.” If the business later has 5 employees, it would still check “1 to 5 employees,” showing no employment increase. The intervals for larger companies range in hundreds of jobs, such as 500 to 750 employees.

Alternatively, 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:[1]
    - 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), which was funded by USC, the University of Maryland and the National Science Foundation (NSF) and has appeared in the Journal of Public Economics (a peer-reviewed, top-ten Economics journal), 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.[2]

Moreover, any honest budget analyst will tell you that it is somewhat misleading to claim only that “the [EZ] program costs the state $720 million in 2010.” This, of course, only tells part of the story. While it is true that the state would save approximately $5,000 per year for each tax credit, it would also *lose* on average $20,000 per year in unemployment insurance payments for those workers who would lose their jobs, and an additional $3,000 per lost job per year in personal income and sales tax revenue. Not to mention all the businesses that would have otherwise left or not located in the state *but for* the benefits offered in these zones and now might leave the state for more business friendly environments, and not return.

Still, like any program, the EZ Program can – and should – be improved. Whether it’s past regulatory proposals such as reducing retro-vouchering, expanding the “claw back” period for misapplied tax credits to incentivize employee retention, or excluding certain industry sectors from the definition of qualified taxpayer to incentivize jobs that provide pathways into the middle class, we believe there are a

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[1] 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.

[2] 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.

number of potential reform ideas that would allow us to more narrowly achieve the EZ Program's original intent, to reduce its costs *and* to use the cost savings to move forward with some of your other recent proposals, including the expanded sales tax exemption and California Competes Tax Credit.

And so, while we applaud your eagerness to explore new economic development tools and programs, we steadfastly maintain that radically hollowing the Enterprise Zone Program in such a sudden, hurried and improvident way during the budget process would be exactly the wrong prescription for what ails the California economy and would almost certainly make things worse in already stressed areas, which could suffer further job losses, economic decline and diminished quality of life. If anything, we must work together in a responsible, open and public fashion to improve the performance of the Enterprise Zone Program, reduce its costs and combine (*rather than replace*) the revamped program with new economic development tools, such as the California Competes Tax Credit, to revitalize economically-challenged areas by providing incentives that create high-wage jobs and investment in these communities.

We look forward to working with you and leadership from the California Legislature to ensure that critical economic development and job creation tools such as the California Enterprise Zone Program, the statewide sales tax exemption and the California Competes Tax Credit are improved in ways where they can be maximally targeted and ultimately effective.

Sincerely,

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Los Angeles County Economic Development Corporation

Gary Toebben
President & CEO
Los Angeles Area Chamber of Commerce

Randy Gordon
President & CEO
Long Beach Area Chamber of Commerce

Paul Granillo
President & CEO
Inland Empire Economic Partnership

Jerry Sanders
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Tim Rayl
Simple Business Solutions

Renee Young

Dave Jensen
Redding Distributing Company

cc: Honorable Members of the California State Senate
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Kish Rajan, Director – Governor's Office of Business and Economic Development
Randall Deems, Chief Deputy Director – Department of Housing and Community Development