

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

A REVIEW OF ECONOMIC ACTIVITY IN THE
STATE'S ENTERPRISE ZONES AND
EMPLOYMENT AND ECONOMIC INCENTIVE AREAS

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-754

A REVIEW OF ECONOMIC ACTIVITY
IN THE STATE'S ENTERPRISE ZONES
AND EMPLOYMENT AND ECONOMIC INCENTIVE AREAS

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P-754

Honorable Bruce Bronzan, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 448
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning changes in several categories of economic activity in the State's enterprise zones and employment and economic incentive areas between October 1986 and December 1987. We conducted this audit to comply with Chapter 1428, Statutes of 1987.

Respectfully submitted,

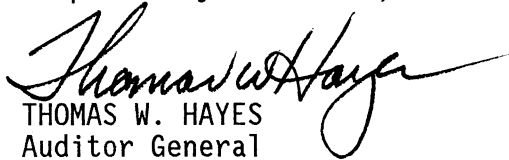

THOMAS W. HAYES
Auditor General

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SUMMARY

RESULTS IN BRIEF

To stimulate business and industrial growth in certain economically depressed areas in the State, Chapters 45 and 44, Statutes of 1984, established enterprise zones through the Enterprise Zone Act (EZA) and employment and economic incentive areas through the Employment and Economic Incentive Act (EEIA). While there are some differences in approach, both the EZA and the EEIA attempt to attract investment to depressed areas through various benefits offered by the state and local governments. These benefits include tax credits and special consideration for state loans and contracts for qualified businesses.

Some aspects of economic activity have shown improvement in the ten enterprise zones and the three incentive areas that the Department of Commerce (department) designated by December 31, 1986. However, it is not yet possible to draw conclusions on the long-term success of the enterprise zone and the employment and economic incentive programs because they are so new. Furthermore, other factors, including changes in the general economy and the efforts of local redevelopment agencies, may have contributed to these improvements. Moreover, the data presented in this report are affected by numerous limitations that are discussed in the Introduction and in Appendix A.

Our analysis of the programs has identified the following specific changes since October 1986 for our samples of businesses in the zones and for the 33 certified businesses in the incentive areas:

- Increases in the number of people employed for the businesses that we sampled in all ten zones and for certified businesses in two of the three incentive areas. Also, businesses

in the zones hired 1,151 economically disadvantaged individuals, and certified businesses and ones that applied for certification in all three incentive areas hired 181 individuals from high density unemployment areas;

- Changes in the public assistance caseloads that have been more favorable in most of the zones and incentive areas than they have been in the counties in which the zones and incentive areas are located;
- Increases in assessed values for sample businesses in most of the zones and for certified businesses in all three incentive areas;
- Increases in values listed on commercial building permits in most zones and incentive areas; and
- Increases in sales tax paid by sample businesses in seven of nine zones and by certified businesses in two of three incentive areas.

Also, we estimate that a net increase of 79 businesses occurred throughout the ten zones, and a net increase of 18 businesses occurred throughout the three incentive areas. However, few businesses located in the zones and the incentive areas have taken advantage of the benefits available to them.

RECOMMENDATION

To enhance the effectiveness of the enterprise zone and employment and economic incentive programs, the Department of Commerce should determine whether any factors are limiting businesses' use of the benefits available through the two programs. If the department identifies any barriers that limit businesses' ability to use these benefits, the department should then develop and implement corrective action no later than December 31, 1988, to stimulate the businesses' use of these benefits.

AGENCY COMMENTS

The Department of Commerce does not take exception to the information that we present in this report and intends to implement our recommendation.

INTRODUCTION

The Enterprise Zone Act and the Employment and Economic Incentive Act, Chapters 45 and 44 of the Statutes of 1984, were enacted by the Legislature and approved by the governor on March 20, 1984. The purpose of the enterprise zone program is to "stimulate business and industrial growth in the depressed areas of the state" and the purpose of the employment and economic incentive program is to "encourage and facilitate job maintenance and business and job development in distressed and declining areas of cities, counties, and towns in the state." Both of these programs use a combination of benefits, including tax credits, to encourage businesses to relocate to or expand within designated zones and incentive areas.

As originally enacted, these benefits were to remain available within both programs for a period of 15 years. However, the Tax Conformity Act (Chapters 1138 and 1139, Statutes of 1987), which significantly altered California's income tax laws in response to revised federal income tax laws, shortened to just 5 years the period during which some of these benefits are available. More recently, the Legislature has considered Assembly Bill 2785, which, if passed, would restore the original 15-year provision to both programs.

The Department of Commerce (department) administers the two programs. The department's primary responsibilities are to develop regulations, designate zones and incentive areas, market the programs, and provide technical assistance to communities and businesses in using the programs. The department received \$318,000, including money for two full-time positions, for carrying out these responsibilities during fiscal year 1987-88. The governor's budget for fiscal year 1988-89 proposes \$354,000, including money for two full-time positions, for continuing the administration of these programs.

Sections 7078 and 7086(b) of the Government Code require the department to conduct periodic evaluations of the two programs and to report the results to the Legislature. To date, the department has issued three reports on the status of these programs, the first two in March 1987 and the third in February 1988. The department's next reports to the Legislature, evaluations of the two programs, are due by March 20, 1992.

The ten zones and six incentive areas that the department designated as of January 8, 1988, vary in size, location, and other characteristics. Photographs 1 through 6 on pages 49, 50, 74, and 75 show different aspects of the zones and incentive areas. All ten zones and three incentive areas that we reviewed are administered at the local level by various government agencies that are generally involved in economic development. The State does not provide any funds to these local agencies for administering these programs.

Fifteen of the 16 zones and incentive areas that the department has designated are also served by redevelopment agencies. Established in 1963 by Section 33000 et seq. of the state Health and Safety Code, these agencies encourage economic development in various ways. Redevelopment agencies use funds from all levels of government for activities such as constructing facilities for new businesses, improving infrastructure such as roads and sewer systems, and arranging financial assistance for private businesses.

The two programs offer businesses income tax credits for hiring economically disadvantaged individuals, sales tax credits, faster depreciation rates for some types of property, and several other benefits to encourage economic development. Businesses qualify for the enterprise zone program's benefits simply by being located within one of the areas that the department has designated as a zone.

To qualify for tax benefits under the employment and economic incentive program, businesses must be located within a designated incentive area and be certified by the department as a qualified business. The department will only certify those businesses that meet one of three criteria. Either 50 percent of a business's workers must be residents of a high density unemployment area (HDUA) that the department has designated, or the business must be at least 30 percent owned and operated by residents of an HDUA, or at least 30 percent of the business's workers must be residents of an HDUA and the business must establish a community service program that is approved by a local

government agency. An HDUA is an area in which the number of unemployed and impoverished people exceeds specific thresholds established by the Government Code, Section 7082.

Under the enterprise zone program, businesses that hire qualified employees can claim a five-year credit, the amount of which is based on a formula that takes into account the minimum wage for each qualified employee. This credit can be applied against the businesses' state income tax liability. A qualified employee is someone who is receiving subsidized employment training or services through any of several government programs and is hired after the zone has been designated. Under the employment and economic incentive program, businesses can claim a similar credit per employee for two years, but employees must be residents of HDUAs and unemployed for at least three months at the time that they are hired.

Both programs also offer a sales tax credit when businesses purchase machinery for exclusive use within a zone or incentive area. This credit allows businesses to apply the sales tax that they pay on such purchases against their state income tax liability. This credit is limited to purchases of up to \$1 million for sole proprietorships and \$20 million for corporations. In addition, under the program, businesses can take an "accelerated business expense deduction," which is a tax deduction of up to \$10,000 during the year of purchase for some types of property rather than a depreciation of the value of the purchase over a longer period of time. Similarly, the employment and

economic incentive program offers a deduction of up to \$40,000 during the first year that the property is placed into service. Finally, investors who lend money to qualified businesses in either program are eligible for a tax deduction on the interest income that they earn from such investments.

Neither program requires businesses to use the full amount of a tax credit during the year that it is earned. Instead all qualified businesses are eligible for a "net operating loss carry-over" for the life of the zone or incentive area in which they are located. This provision allows businesses to carry all tax credits forward to succeeding years until they have earned enough profits to make full use of the tax credits for which they are eligible.

Several state agencies, in administering specific programs, are required by state law to give priority to businesses that qualify for enterprise zone or employment and economic incentive area benefits. These agencies include the California Industrial Development Financing Advisory Commission, which authorizes the issuance of bonds for businesses involved in manufacturing, and the State Department of Education, which oversees job-training programs.

Finally, the Government Code, Sections 7073(e) and 7085(f), requires local managers for zones and incentive areas to arrange for the provision of local benefits for qualified businesses. While these local benefits can vary, they generally include assistance in obtaining

local permits needed to conduct business, low-cost financing for businesses located in the zones or designated areas, and referrals of candidates for employment from job-training services.

SCOPE AND METHODOLOGY

Chapter 1428 of the Statutes of 1987 requires the Office of the Auditor General to submit a report to the Legislature on or before June 30, 1988, evaluating the effects of the enterprise zone program and the employment and economic incentive program. In response to this request, we included within the scope of our audit the nine enterprise zones and the three incentive areas that the department had designated by October 1986. We also included a tenth enterprise zone that was designated in December 1986. We visited each of these thirteen zones and incentive areas and met with the managers who administer these programs at the local level. We did not include or visit any of the three incentive areas that the department designated after December 1986.

We measured changes in economic activity between the time that the zones and incentive areas were designated and December 1987. We defined economic activity as changes in the number of employees, the number of public assistance recipients, the number of businesses operating, the amount of capital investment, the amount of sales tax paid, and the number of program benefits used. Whenever possible, we obtained countywide data for these categories and compared the zones and incentive areas with the counties in which they are located.

Using Pacific Bell's lists of business telephone numbers for each zone, we selected a random sample of between 100 and 300 businesses for each of the ten enterprise zones that we reviewed. In addition, we asked the department to request that the local managers of each of the ten zones send us a list of the 20 businesses in their zones with the highest number of employees. We received only eight such lists as two of the local managers stated that few, if any, businesses in their zones employed a significantly higher number of employees than any other businesses in the zones. Furthermore, during our visits to the zones, we asked each manager to provide us with a list of businesses that either moved to the zone or expanded within the zone because of the program. Then, for all ten zones, we collected economic data for all of the businesses in the random samples, the businesses that employed the highest number of employees, and those businesses that the local zone managers identified that we could verify through telephone interviews as having either moved to or expanded within the zones because of the program.

When we selected our random samples, we disqualified, whenever we could identify them, three types of entities from consideration. First, we disqualified any nonprofit entities, such as government agencies and charitable organizations, because such entities cannot use income tax credits. Second, we eliminated businesses that are parts of large chains because state data bases generally do not have employment or sales tax information specific to a single outlet that is a part of a chain. Third, to ensure that our sample was limited to businesses

that existed during the full period that we intended to review, we eliminated any business that we randomly selected from Pacific Bell's 1986 list if it did not also appear on the 1987 list. In addition, for each category of economic activity that we reviewed, we could not find data for all of the businesses in our samples. Consequently, the sizes of our samples may vary from one category to the next.

For each of the three employment and economic incentive areas, we requested that the department identify all businesses that were certified for participation in the employment and economic incentive program. For each measure of economic activity, we collected all available data for each of 33 businesses that the department identified. In addition, using the same selection criteria that we used for the enterprise zones, we collected data for a random sample of businesses and for the 61 businesses employing the highest number of employees in the five different jurisdictions that comprise the Los Angeles-Watts incentive area. Finally, during our visits to the incentive areas, we also asked each local area manager to provide us with a list of businesses that either moved to or expanded within the incentive areas because of the program. We then reviewed economic data for those businesses that we could verify through telephone interviews as having moved to or expanded within the incentive areas because of the program.

Because of the wide range of numerical data that we obtained for individual businesses and the small size of some of our samples, we did not use any of our samples to make statistical projections about changes in economic activity in the enterprise zones or incentive areas.

To measure changes in economic activity during the period that we reviewed, we collected and analyzed information maintained by various state and local governmental agencies and Pacific Bell. We used an automated data base at the Employment Development Department to determine the number of people employed. We also used an automated data base at the State Board of Equalization to measure sales tax paid. To identify information regarding public assistance recipients, we obtained data regarding recipients of Aid to Families With Dependent Children from the Department of Health Services' automated Medi-Cal Eligibility Data System and data regarding recipients of general assistance from the county welfare departments. To determine businesses' use of income tax credits, we used information from the Franchise Tax Board. We did not audit any of these automated systems and, therefore, do not express an opinion on the reliability of them.

To estimate the number of new businesses that opened in addition to the number that either closed or moved out of the enterprise zones and incentive areas, we used Pacific Bell's lists of business telephone numbers for December 1986 and December 1987. To obtain data regarding assessed values of businesses, we reviewed

records at the county assessors' offices. To ascertain the number of commercial building permits and the values listed on permits issued to businesses, we reviewed reports produced by city and county offices that issue the permits. To determine the extent to which several state agencies, in administering certain programs, have given priority to businesses associated with the programs, we obtained and reviewed documents provided by the agencies. Finally, to obtain information on the extent to which businesses are using locally provided benefits, we reviewed records provided by local managers of the programs. Appendices B through N describe the economic activity that we documented in each enterprise zone and incentive area and include a section on the use of local benefits.

The information that we report on economic activity in the enterprise zones and incentive areas is limited by several factors, the specifics of which are described in Appendix A, which presents a detailed description of our methodology and its limitations. The reader should consider the information in Appendix A before drawing conclusions concerning either program. In addition, other factors such as changes in the general economy and the efforts of local redevelopment agencies have influenced to an unknown degree the data that we obtained for the ten zones and three incentive areas that we reviewed. While changes in the general economy cannot explain the differences in economic activity that we found between the zones and incentive areas and their respective counties, the relatively few businesses that we found that had taken advantage of the income tax

benefits afforded by the programs prevented us from establishing a direct relationship between the two programs and the changes in economic activity that we documented.

Furthermore, a precise comparison of economic activity between either zones or incentive areas and the counties in which they are located is not possible for two reasons. First, we do not know whether the same types of commercial activity are conducted in the zones and incentive areas as are conducted in the counties in which the zones and incentive areas are located. Second, for each of our categories of economic activity for our samples of businesses, except for the category regarding the change in the number of businesses operating in a zone or incentive area, we did not include those businesses that either opened or closed within the period of our review. Instead, we included only those businesses that operated throughout the entire review period. However, in the countywide data that we gathered, we included in the categories of economic activity not only those businesses operating throughout the review period but also those businesses that opened and closed during the review period. This difference in data again makes a precise comparison impossible.

CHAPTER I
A REVIEW OF ECONOMIC ACTIVITY
IN THE ENTERPRISE ZONES

During the period that we reviewed, some aspects of economic activity have improved for the businesses that we sampled in the ten enterprise zones that the Department of Commerce (department) designated by December 1986. However, several different factors, including changes in the general economy and the efforts of redevelopment agencies, also may have contributed to these changes in economic activity. Moreover, the data presented in this chapter are affected by numerous limitations that are discussed in the Introduction and in Appendix A. Because of these limitations, we did not make statistical projections from our samples of businesses to the zones in which they are located. Also, because the enterprise zone program is so new, our review period was limited to approximately one year. Because of this short review period, we could not draw definite conclusions as to whether the program has contributed to the improvements.

For the samples of businesses that we reviewed in the ten zones, the number of people employed has increased. Also, an increase in public assistance caseloads has not been as great in most of the ten zones as it has been in the counties in which the zones are located. In addition, both assessed values and the values represented on commercial building permits increased in the zones as did the payment

of sales tax. In addition, the total number of businesses operating in the zones has increased slightly. Further, 25 businesses indicated that they moved to or expanded within these zones because of the program. However, relatively few businesses have used any of the state benefits available through the program.

EMPLOYMENT HAS INCREASED FOR OUR SAMPLES OF BUSINESSES

By comparing the average number of people employed in the three months that comprise the third quarter of 1986 with the same type of data for the third quarter of 1987, we found that the total number of people employed increased in our random samples of businesses for all ten zones. As Table 1 shows, the greatest absolute increase occurred in the Yuba-Sutter zone, where 430 (42.6 percent) additional people were employed. Further, as Table 1 also shows, the smallest absolute increase occurred in the Porterville zone, where 8 (19.5 percent) additional people were employed. The greatest percentage increase, 61.2 percent, occurred in the Eureka zone, where 414 additional people were employed. The smallest percentage increase, 4.7 percent, occurred in the Los Angeles-Central City zone, where an additional 177 people were employed.

TABLE 1

CHANGES IN THE NUMBER OF EMPLOYEES FOR SAMPLES OF ENTERPRISE ZONE
BUSINESSES AND THE RESPECTIVE COUNTIES
THIRD QUARTER 1986 COMPARED WITH THIRD QUARTER 1987

	<u>Third Quarter 1986</u>	<u>Third Quarter 1987</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
AGUA MANSANA ZONE				
Random Sample (50)	627	679	52	8.3
Large Businesses (7)	2,340	2,322	(18)	-0.8
Riverside and San Bernardino Counties	789,700	854,367	64,667	8.2
CALEXICO ZONE				
Random Sample (47)	470	540	70	14.9
Imperial County	29,850	30,233	383	1.3
EUREKA ZONE				
Random Sample (66)	676	1,090	414	61.2
Large Businesses (8)	912	923	11	1.2
Humboldt County	44,733	46,533	1,800	4.0
FRESNO ZONE				
Random Sample (51)	767	829	62	8.1
Large Businesses (14)	3,333	4,215	882	26.5
Fresno County	277,533	284,833	7,300	2.6
LA-CENTRAL CITY ZONE				
Random Sample (68)	3,723	3,900	177	4.7
Large Businesses (10)	2,408	2,713	305	12.7
Los Angeles County	3,823,667	3,993,000	169,333	4.4
LA-PACOIMA ZONE				
Random Sample (91)	2,256	2,511	255	11.3
Large Businesses (9)	2,115	2,166	51	2.4
Los Angeles County	3,823,667	3,993,000	169,333	4.4
PORTERVILLE ZONE				
Random Sample (2)	41	49	8	19.5
Tulare County	114,367	120,800	6,433	5.6
SAN DIEGO ZONE				
Random Sample (41)	1,578	1,711	133	8.4
Large Businesses (16)	1,139	1,672	533	46.8
San Diego County	965,533	1,021,067	55,534	5.8
SAN JOSE ZONE				
Random Sample (49)	722	767	45	6.2
Large Businesses (12)	2,469	2,648	179	7.2
Santa Clara County	755,767	769,633	13,866	1.8
YUBA-SUTTER ZONE				
Random Sample (56)	1,010	1,440	430	42.6
Large Businesses (7)	506	557	51	10.1
Yuba and Sutter Counties	40,900	42,292	1,392	3.4

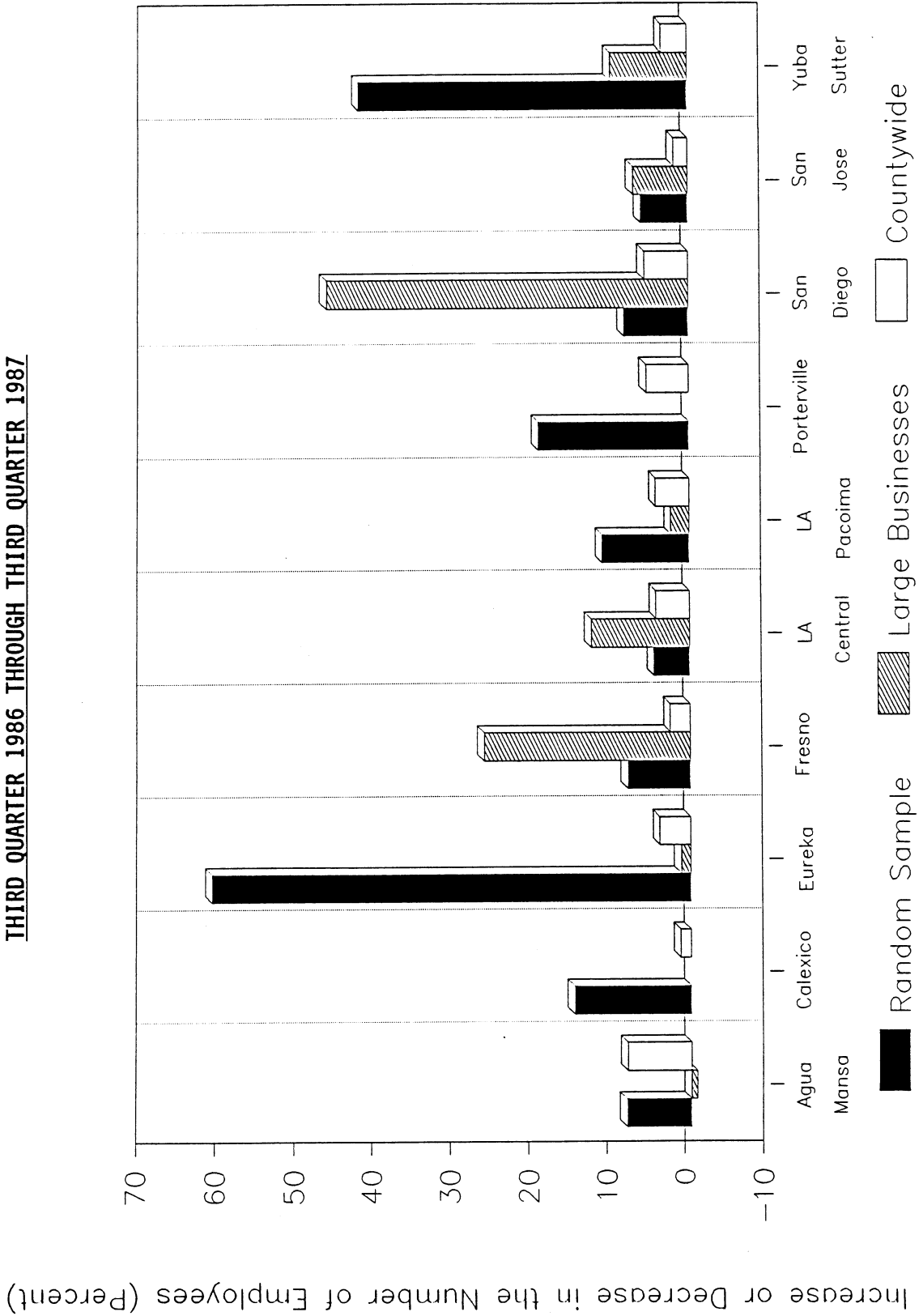
(The number of businesses in each sample is shown in parentheses.)

Furthermore, as Chart 1 illustrates, greater percentage increases occurred in the number of people employed by sample businesses in all ten of the zones than occurred in the counties in which these zones are located.

During the same period, employment also increased in seven of our eight samples of those businesses that employed the most people in the zones. As Table 1 shows, the greatest absolute increase occurred in the Fresno zone, where large businesses hired an additional 882 workers or 26.5 percent more employees than were employed at the start of the review period. The greatest percentage increase, 46.8 percent, occurred in the San Diego zone, where an additional 533 people were employed. In contrast, the number of people employed decreased in our sample of large businesses in the Agua Mansa zone while the total number of people employed increased in the counties in which this zone is located. Further, as Chart 1 shows, in five of the eight zones, a greater percentage increase occurred in total employment for large businesses than occurred in the counties in which the zones are located.

CHART 1

PERCENTAGE CHANGES IN THE NUMBER OF EMPLOYEES FOR SAMPLES OF ENTERPRISE ZONE BUSINESSES AND THE RESPECTIVE COUNTIES THIRD QUARTER 1986 THROUGH THIRD QUARTER 1987



Finally, 1,151 economically disadvantaged persons were hired by businesses within nine of the ten zones as of December 1987.¹ Since tax credits can be claimed by businesses that hire employees who are considered economically disadvantaged, we reviewed hiring vouchers employers used to claim these credits. These vouchers are issued by several government programs that provide subsidized employment training or services to economically disadvantaged individuals. No vouchers were issued in the Calexico zone. As Table 2 shows, the greatest number of vouchers (288) was issued in the San Diego zone.

¹We have defined "economically disadvantaged persons" as those persons receiving subsidized employment, training, or services under the Job Training Partnership Act and those persons registered in the Greater Avenues for Independence, Work Incentive Demonstration, or Employment Preparation programs.

TABLE 2

THE NUMBER OF HIRING VOUCHERS ISSUED IN ENTERPRISE ZONES
OCTOBER 1986 THROUGH DECEMBER 1987

<u>Zone</u>	<u>Number of Vouchers</u>
Agua Mansa	15
Calexico	0
Eureka	108
Fresno	186
LA-Central City	131
LA-Pacoima	45
Porterville	36
San Diego	288
San Jose	201*
Yuba Sutter	<u>141</u>
Total	<u>1,151</u>

* The hiring vouchers for the San Jose zone were issued from April 1, 1987, to December 31, 1987.

CHANGES IN PUBLIC ASSISTANCE CASELOADS
HAVE BEEN MORE FAVORABLE IN THE
ENTERPRISE ZONES THAN IN THE COUNTIES

The Aid to Families With Dependent Children (AFDC) and general assistance programs provide financial assistance to California residents and their families who do not earn sufficient income to support themselves. Increases in economic activity, especially increases in the number of people employed, could have an impact on the public assistance caseloads in the zones if public assistance recipients are among the new hires. However, other factors, such as increases or decreases in population, can also influence changes in the public assistance caseload.

As Table 3 illustrates, from December 1986 through December 1987, the number of AFDC recipients decreased in only three of the zones that we reviewed: Agua Mansa, Los Angeles-Pacoima, and Los Angeles-Central City.

TABLE 3
CHANGES IN THE NUMBER OF AFDC RECIPIENTS
IN THE ENTERPRISE ZONES AND THEIR RESPECTIVE COUNTIES
DECEMBER 1986 THROUGH DECEMBER 1987

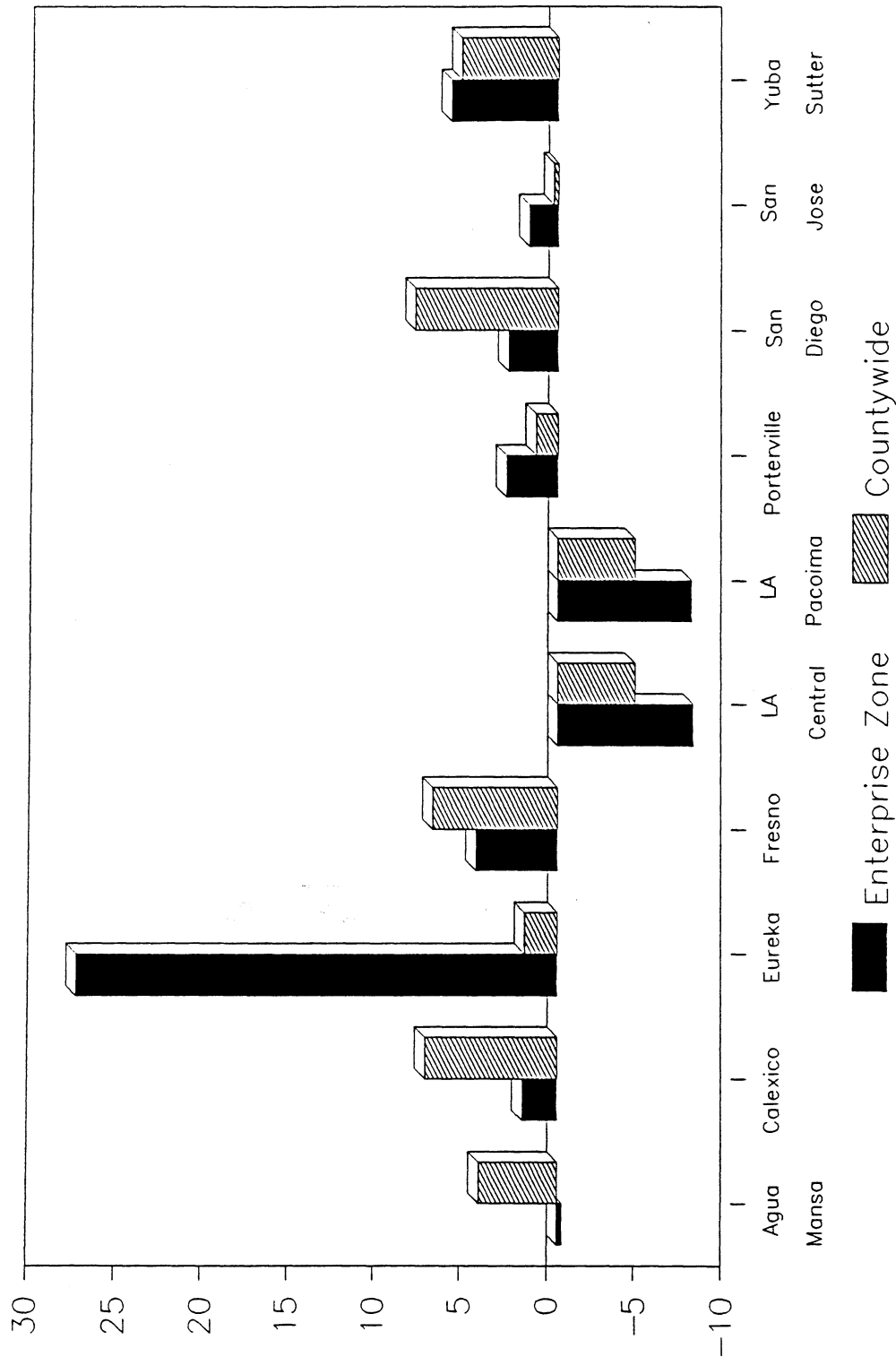
	<u>December 1986</u>	<u>December 1987</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
AGUA MANSÁ ZONE	15,901	15,856	(45)	-0.3
Riverside and San Bernardino Counties	154,111	161,083	6,972	4.5
CALEXICO ZONE	2,643	2,696	53	2.0
Imperial County	10,783	11,601	818	7.6
EUREKA ZONE	54	69	15	27.8
Humboldt County	10,940	11,150	210	1.9
FRESNO ZONE	31,966	33,468	1,502	4.7
Fresno County	80,489	86,278	5,789	7.2
LA-CENTRAL CITY ZONE	33,442	30,836	(2,606)	-7.8
Los Angeles County	586,965	560,361	(26,604)	-4.5
LA-PACOIMA ZONE	11,378	10,504	(874)	-7.7
Los Angeles County	586,965	560,361	(26,604)	-4.5
PORTERVILLE ZONE	7,745	7,974	229	3.0
Tulare County	37,701	38,184	483	1.3
SAN DIEGO ZONE	16,249	16,714	465	2.9
San Diego County	107,442	116,374	8,932	8.3
SAN JOSE ZONE	18,894	19,216	322	1.7
Santa Clara County	60,122	60,314	192	0.3
YUBA-SUTTER ZONE	11,665	12,393	728	6.2
Yuba and Sutter Counties	13,554	14,319	765	5.6

However, as Chart 2 shows, the rate of growth for the AFDC caseload in six of the ten zones was less than it was in the counties in which these zones are located. For example, while the number of recipients in San Diego County increased by 8.3 percent or 8,932 additional people, the number of AFDC recipients in the San Diego zone increased by only 2.9 percent or 465 additional people.

CHART 2

PERCENTAGE CHANGES IN THE NUMBER OF AFDC RECIPIENTS
 IN THE ENTERPRISE ZONES AND THEIR RESPECTIVE COUNTIES
 DECEMBER 1986 THROUGH DECEMBER 1987

Increase or Decrease in the Number of AFDC Recipients (Percent)



The greatest disparity in rates of change in favor of a zone occurred in the Calexico zone, where the number of AFDC recipients increased by 2.0 percent, or 53 additional people, while the total number of AFDC recipients in Imperial County, where Calexico is located, increased by 7.6 percent or 818 additional people. The greatest disparity in favor of a county occurred in the Eureka zone, where the number of AFDC recipients increased by 27.8 percent, or 15 additional people, while the total number of AFDC recipients in Humboldt County, where Eureka is located, increased by 1.9 percent or 210 additional people.

As shown in Table 4, the number of individuals receiving general assistance decreased in four of the zones from October 1986 through December 1987.

TABLE 4

**CHANGES IN THE NUMBER OF GENERAL ASSISTANCE RECIPIENTS
IN THE ENTERPRISE ZONES AND THEIR RESPECTIVE COUNTIES
OCTOBER 1986 THROUGH DECEMBER 1987**

	<u>October 1986</u>	<u>December 1987</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
AGUA MANSA ZONE	37	115	78	210.8
Riverside and San Bernardino Counties	745	611	(134)	-18.0
CALEXICO ZONE	0*	0	0	0
Imperial County	6*	9	3	50.0
EUREKA ZONE	199*	170	(29)	-14.6
Humboldt County	286*	248	(38)	-13.3
FRESNO ZONE	1,164	1,198	34	2.9
Fresno County	2,298	2,470	172	7.5
LA-CENTRAL CITY ZONE**	5,650	5,481	(169)	-3.0
Los Angeles County**	39,419	39,963	544	1.4
LA-PACOIMA ZONE**	394	499	105	26.6
Los Angeles County**	39,419	39,963	544	1.4
PORTERVILLE ZONE	64	47	(17)	-26.6
Tulare County	578	511	(67)	-11.6
SAN DIEGO ZONE***	1,335	1,633	298	22.3
San Diego County	3,026	4,756	1,730	57.2
SAN JOSE ZONE****	904	761	(143)	-15.8
Santa Clara County****	2,310	2,055	(255)	-11.0
YUBA-SUTTER ZONE	51	60	9	17.6
Yuba and Sutter Counties	62	79	17	27.4

* Eureka and Calexico data for 1986 are for September only.

** Los Angeles data are for the period from October 1987 through January 1988 only.

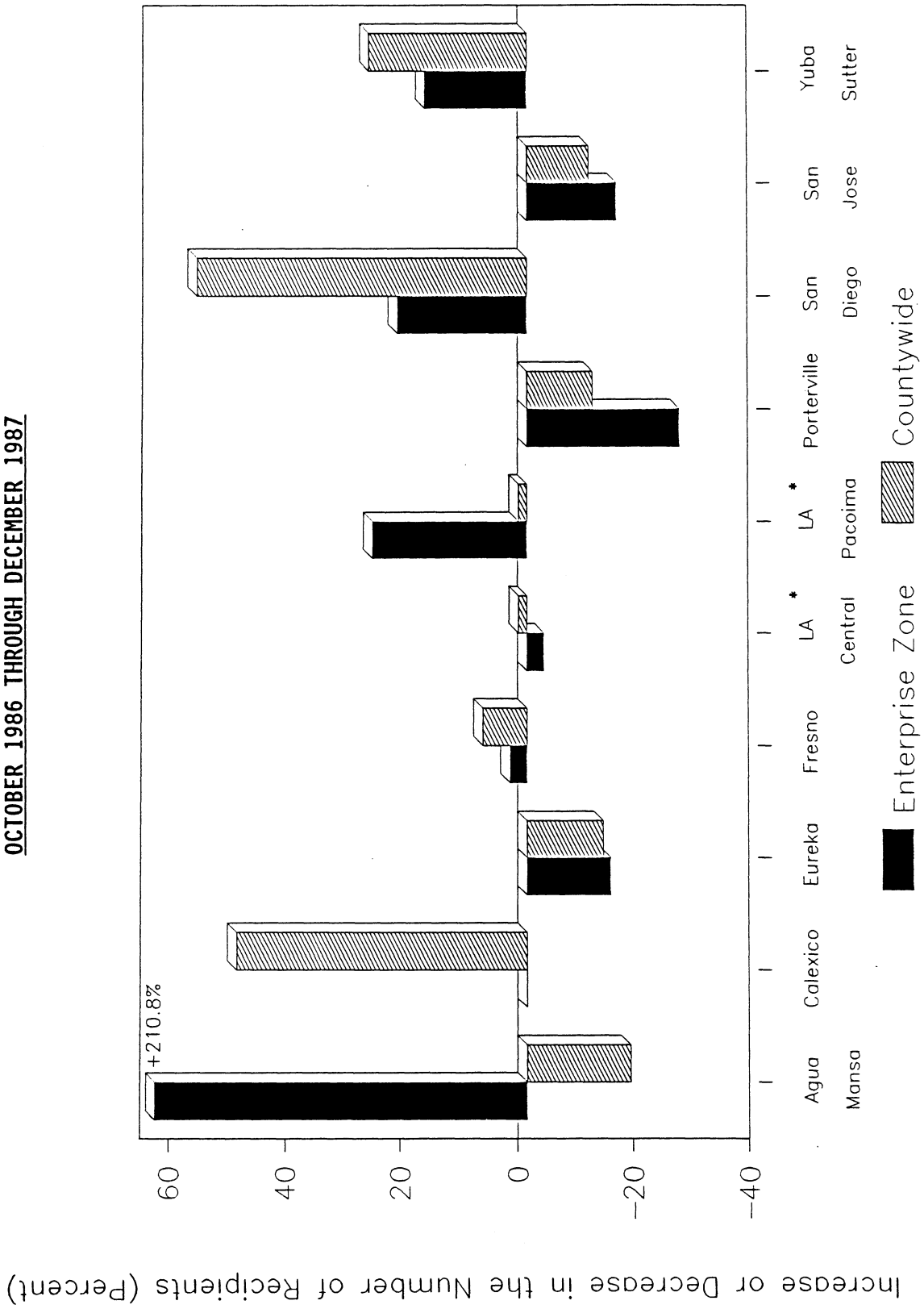
*** San Diego zone data are as of July 7, 1986, and November 2, 1987; however, San Diego County data are for October 1986 through December 1987.

**** San Jose data are as of January 1, 1987, and January 1, 1988.

Table 4 also shows that, for the zones for which we could obtain complete data, the greatest absolute decrease occurred in the Los Angeles-Central City zone, where 169 fewer individuals received general assistance, a decrease of 3.0 percent. The greatest percentage decrease, 26.6 percent, occurred in the Porterville zone, where 17 fewer people received general assistance. Moreover, as Chart 3 shows, eight of the ten zones experienced more favorable rates of change in their caseloads than the counties in which the zones are located. Only the Agua Mansa and the Los Angeles-Pacoima zones experienced a greater percentage increase than the counties in which they are located.

CHART 3

PERCENTAGE CHANGES IN THE NUMBER OF GENERAL ASSISTANCE RECIPIENTS
IN THE ENTERPRISE ZONES AND THEIR RESPECTIVE COUNTIES
OCTOBER 1986 THROUGH DECEMBER 1987



* Los Angeles data are for the period from October 1986 through January 1987 only.

THE NUMBER OF BUSINESSES OPERATING IN
THE ENTERPRISE ZONES HAS INCREASED SLIGHTLY

Between December 1986 and December 1987, we estimate that the number of businesses opening was slightly greater than the number of businesses closing or leaving in six of the ten zones that we reviewed. Collectively, the total number of businesses in all ten zones increased from 13,022 at the start of our review period to 13,101 at the end of the review period, a net increase of 0.6 percent or 79 businesses. In calculating the net increase of 79 additional businesses, we took into account 2,140 businesses that either moved away from the zones or went out of business and 2,219 businesses that opened between December 1986 and December 1987 and were still operating as of December 1987.

As Table 5 depicts, the greatest absolute increase occurred in the San Jose zone, where the number of businesses increased by 56 or 1.4 percent. The greatest percentage increases, 2.5 percent, occurred in both the Agua Mansa and Callexico zones, where the net number of businesses increased by 25 and 7, respectively.

TABLE 5

**THE NUMBER OF BUSINESSES THAT OPENED AND CLOSED
IN THE ENTERPRISE ZONES
FOR DECEMBER 1986 AND DECEMBER 1987**

<u>Zone</u>	<u>Total Businesses</u>		<u>Business Closures</u>	<u>New Businesses</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
	<u>December 1986</u>	<u>December 1987</u>				
Agua Mansa	989	1,014	168	193	25	2.5
Callexico	276	283	50	57	7	2.5
Eureka	1,065	1,078	111	124	13	1.2
Fresno	2,181	2,145	335	299	(36)	-1.7
LA-Central City	2,075	2,072	386	383	(3)	-0.1
LA-Pacoima	238	239	46	47	1	0.4
Porterville	6	6	0	0	0	0.0
San Diego	1,163	1,181	188	206	18	1.5
San Jose	4,104	4,160	757	813	56	1.4
Yuba Sutter	<u>925</u>	<u>923</u>	<u>99</u>	<u>97</u>	<u>(2)</u>	-0.2
Total	<u>13,022</u>	<u>13,101</u>	<u>2,140</u>	<u>2,219</u>	<u>79</u>	0.6

As Table 5 also shows, the net number of businesses operating in three of the ten zones decreased slightly between December 1986 and December 1987. The greatest decline, both in absolute numbers as well as percentages, occurred in the Fresno zone, where the number of businesses decreased by 36 or 1.7 percent.

ASSESSED VALUES FOR SAMPLE BUSINESSES
AND VALUES LISTED ON COMMERCIAL
BUILDING PERMITS HAVE INCREASED
IN MOST OF THE ENTERPRISE ZONES

To determine whether capital investment had increased in our samples, we looked at assessed values for taxable property and the values listed on commercial building permits for construction and renovation. For all businesses located within their counties, county assessors' offices determine the value of all taxable property and record the values on their secured or unsecured assessment rolls. The secured roll contains all property that the county could secure with a lien against the real estate if the owners failed to pay the property taxes. The unsecured roll contains all property that the county could not secure with a lien on the real estate, consisting largely of business property owned by tenants.

Assessed values can increase for several different reasons, including construction and renovation on a property and changes in ownership. Also, assessed values can decrease from year to year for several different reasons. For example, the value of fixtures can be depreciated by the county assessor in accordance with schedules used for tax purposes. In addition, property owners can sometimes have the assessed value of their property lowered by appealing assessors' decisions. Generally, when assessors determine that an assessed value has increased or decreased, they record the new value on the

supplemental assessment roll. For the businesses that we reviewed, we obtained and combined data from all three of these rolls located at the county assessors' offices.

As shown in Table 6, assessed values increased in eight of the ten zones for our random sample of businesses that operated from October 1986 through December 1987. Table 6 also shows that the greatest absolute increase occurred in the San Jose zone where assessed values increased by approximately \$30.1 million or 9 percent. The greatest percentage increase, 17.5 percent, occurred in the Los Angeles-Pacoima zone, where assessed values climbed by approximately \$9.9 million. Assessed values decreased in both the Callexico and Yuba-Sutter zones, as Table 6 illustrates. For the random samples in all ten zones, only \$134,000 of the increases in assessed values can be attributed to construction and renovation while a significant amount of the remainder of the increases is attributable to changes in ownership.

Since the adoption in 1978 of Article XIII A of the Constitution of the State of California, annual increases in assessed values are limited to a maximum of two percentage points each year. Greater increases, reflecting the true value of property, are recorded by assessors when a change in ownership or construction or renovation occurs. Therefore, one cannot assume that the increases in assessed values for our samples can be attributed to the 15-month period of our review.

TABLE 6
CHANGES IN ASSESSED VALUES FOR
SAMPLES OF ENTERPRISE ZONE BUSINESSES
OCTOBER 1986 THROUGH DECEMBER 1987

Zone	Total Assessed Value of Secured and Unsecured Accounts			
	October 1986	December 1987	Increase (Decrease)	Percent Change
AGUA MANSANA ZONE				
Random Sample (163)	\$ 45,116,117	\$ 47,467,244	\$ 2,351,127	5.2
Large Businesses (15)	202,596,429	196,749,926	(5,846,503)	-2.9
CALEXICO ZONE				
Random Sample (117)	27,141,888	26,722,007	(419,881)	-1.5
EUREKA ZONE				
Random Sample (175)	28,378,985	30,299,299	1,920,314	6.8
Large Businesses (20)	192,120,421	196,899,465	4,779,044	2.5
FRESNO ZONE				
Random Sample (151)	67,359,269	69,818,256	2,458,987	3.7
Large Businesses (31)	132,375,419	143,690,914	11,315,495	8.5
LA-CENTRAL CITY ZONE				
Random Sample (156)	94,595,171	104,038,674	9,443,503	10.0
Large Businesses (20)	47,378,493	49,728,742	2,350,249	5.0
LA-PACOIMA ZONE				
Random Sample (160)	56,349,796	66,222,743	9,872,947	17.5
Large Businesses (16)	47,982,521	46,324,789	(1,657,732)	-3.5
PORTERVILLE ZONE				
Random Sample (6)	13,204,911	14,924,426	1,719,515	13.0
SAN DIEGO ZONE				
Random Sample (147)	56,255,328	56,355,396	100,068	0.2
Large Businesses (21)	306,183,581	300,355,225	(5,828,356)	-1.9
SAN JOSE ZONE				
Random Sample (140)	333,366,784	363,466,794	30,100,010	9.0
Large Businesses (23)	90,737,965	95,596,479	4,858,514	5.4
YUBA-SUTTER ZONE				
Random Sample (155)	43,070,123	42,439,472	(630,651)	-1.5
Large Businesses (17)	50,027,976	67,086,794	17,058,818	34.1

(The number of businesses in each sample is shown in parentheses.)

As Table 6 also shows, assessed values increased in five of eight zones for our samples of large businesses. Both the greatest absolute increase in addition to the greatest percentage increase occurred in the Yuba-Sutter zone, where assessed values increased by approximately \$17.1 million or 34.1 percent. Finally, as depicted in Table 6, assessed values decreased in three of our samples of large businesses. Both the greatest absolute decrease, approximately \$5.8 million, and the greatest percentage decrease, a decline of 2.9 percent, occurred in the Agua Mansa zone. For all eight samples of large businesses, approximately only \$1.7 million of the increase in assessed values can be attributed to construction and renovation.

We could not obtain comparable countywide data for assessed values, and therefore, we do not make any comparisons in this section between the zones and the counties in which they are located.

People who wish to build new structures or renovate existing structures in California generally must obtain permits from local government agencies, including city or county offices of public works or building safety. When builders obtain permits from cities and counties to build or refurbish structures, they generally list on the permit the estimated value of the project. Therefore, an increase in the number of commercial building permits and the values listed on the permits can indicate an increase in economic activity. Conversely, a decrease in the number of building permits and the values listed on the permits can indicate a decrease in economic activity.

As Table 7 illustrates, the estimated values listed on building permits increased in six of the nine zones for which data were available for calendar years 1986 and 1987. The greatest absolute increase in addition to the greatest percentage increase occurred in the San Diego zone where these estimated values increased by approximately \$152.8 million or approximately 1,870 percent.

TABLE 7

**CHANGES IN THE DOLLAR VALUES LISTED ON COMMERCIAL
BUILDING PERMITS ISSUED WITHIN ENTERPRISE ZONES
CALENDAR YEARS 1986 AND 1987**

<u>Zone</u>	<u>1986</u>	<u>1987</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Agua Mansa	\$ 15,287,991*	\$ 36,429,035	--	--
Callexico	1,438,176	692,858	\$ (745,318)	-51.8
Eureka	11,857,476	19,711,439	7,853,963	66.2
Fresno	14,077,619	14,974,071	896,452	6.4
LA-Central City	15,463,984	29,637,044	14,173,060	91.7
LA-Pacoima	7,888,581	16,712,901	8,824,320	111.9
Porterville	57,450	177,500	120,050	209.0
San Diego	8,171,366	160,935,950	152,764,584	1,869.5
San Jose	120,057,271	71,333,734	(48,723,537)	-40.6
Yuba Sutter	11,753,094	3,733,215	(8,019,879)	-68.2

* Agua Mansa 1986 data are for the last six months of 1986 only.

As Table 7 also shows, the estimated values listed on building permits decreased in three of the nine zones for which complete data were available. The greatest absolute decrease, approximately \$48.7 million, occurred in the San Jose zone, where the values listed on building permits fell by 40.6 percent; however, the San Jose zone still had an estimated value of approximately \$71.3 million in permits for 1987, the second highest total of all ten zones. The greatest percentage decrease, 68.2 percent, occurred in the Yuba-Sutter zone, where the values listed on permits decreased by approximately \$8 million but still amounted to approximately \$3.7 million in 1987. Finally, Table 8 summarizes changes in the number of building permits issued in each zone.

TABLE 8

**CHANGES IN THE NUMBER OF COMMERCIAL BUILDING PERMITS
ISSUED WITHIN ENTERPRISE ZONES
CALENDAR YEARS 1986 AND 1987**

<u>Zone</u>	<u>1986</u>	<u>1987</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Agua Mansa	180*	280	--	--
Calexico	26	46	20	76.9
Eureka	602	643	41	6.8
Fresno	506	521	15	3.0
LA-Central City	150	162	12	8.0
LA-Pacoima	71	71	0	0.0
Porterville	4	4	0	0.0
San Diego	83	46	(37)	-44.6
San Jose	285	278	(7)	-2.5
Yuba Sutter	116	93	(23)	-19.8

* Agua Mansa 1986 data are for the last six months of 1986 only.

SALES TAX PAID HAS INCREASED
FOR SAMPLES OF BUSINESSES

With certain exceptions, including sales of food and medicine, state law calls for retail sales in California to be subject to a sales tax at the rate of 6 percent.² Therefore, the amount of sales tax paid by businesses located in the zones can be used as a measure of retail sales activity. Further, increases or decreases in retail sales activity from one year to another can indicate changes in economic activity.

As Table 9 illustrates, in seven of our nine random samples of businesses, more sales tax was paid in 1987 than in 1986. The greatest absolute increase, approximately \$45,000 or 5.1 percent, occurred in the Fresno zone. The greatest percentage increase, 15.1 percent, occurred in the San Diego zone, where businesses paid approximately \$23,000 more in sales tax. As Table 9 also shows, businesses in random samples for the Agua Mansa zone and the San Jose zone paid less sales tax in 1987 than they paid in 1986. The greater of these two decreases occurred in the San Jose zone, where sales tax payments fell by approximately \$377,000 or 32.1 percent.

²Locally approved sales tax measures can add to the 6 percent in sales tax collected by the State Board of Equalization. Only three zones had sales tax rates that exceeded 6 percent. In these cases, the sales tax rate was either 6.5 or 7 percent. Of these three zones, only Fresno experienced an increase during the period that we reviewed. Fresno County changed its sales tax rate to 6.5 percent on July 1, 1987. We do not adjust for this change in our data during the period that we reviewed.

TABLE 9

DOLLAR CHANGES IN SALES TAX PAID BY
BUSINESSES FROM SAMPLES WITHIN THE ENTERPRISE ZONES
AND BUSINESSES WITHIN THE RESPECTIVE COUNTIES
OCTOBER 1985 THROUGH SEPTEMBER 1987

	October 1985 Through September 1986	October 1986 Through September 1987	Increase (Decrease)	Percent Change
AGUA MANSANA ZONE				
Random Sample (36)	\$ 418,668	\$ 405,677	\$ (12,991)	-3.1
Large Businesses (5)	304,675	365,679	61,004	20.0
Riverside and San Bernardino Counties	794,165,000	889,688,000	95,523,000	12.0
CALEXICO ZONE				
Random Sample (21)	350,632	356,384	5,752	1.6
Imperial County	34,995,000	36,502,000	1,507,000	4.3
EUREKA ZONE				
Random Sample (38)	484,212	500,124	15,912	3.3
Large Businesses (5)	1,030,595	1,022,456	(8,139)	-0.8
Humboldt County	43,280,000	45,957,000	2,677,000	6.2
FRESNO ZONE				
Random Sample (30)	877,060	921,792	44,732	5.1
Large Businesses (9)	380,252	410,728	30,476	8.0
Fresno County	244,709,000	261,680,000	16,971,000	6.9
LA-CENTRAL CITY ZONE				
Random Sample (28)	515,317	529,525	14,208	2.8
Large Businesses*	148,981	139,781	(9,200)	-6.2
Los Angeles County	4,109,703,000	4,354,610,000	244,907,000	6.0
LA-PACOIMA ZONE				
Random Sample (36)	574,118	588,407	14,289	2.5
Large Businesses*	33,331	55,686	22,355	67.1
Los Angeles County	4,109,703,000	4,354,610,000	244,907,000	6.0
SAN DIEGO ZONE				
Random Sample (22)	153,795	176,949	23,154	15.1
Large Businesses*	154,348	163,621	9,273	6.0
San Diego County	965,721,000	1,053,974,000	88,253,000	9.1
SAN JOSE ZONE				
Random Sample (22)	1,175,479	798,278	(377,201)	-32.1
Large Businesses*	385,809	508,629	122,820	31.8
Santa Clara County	964,305,000	1,019,565,000	55,260,000	5.7
YUBA-SUTTER ZONE				
Random Sample (40)	534,243	544,617	10,374	1.9
Large Businesses*	138,342	151,213	12,871	9.3
Yuba and Sutter Counties	36,961,000	37,961,000	1,000,000	2.7

(The number of businesses in each sample is shown in parentheses.)

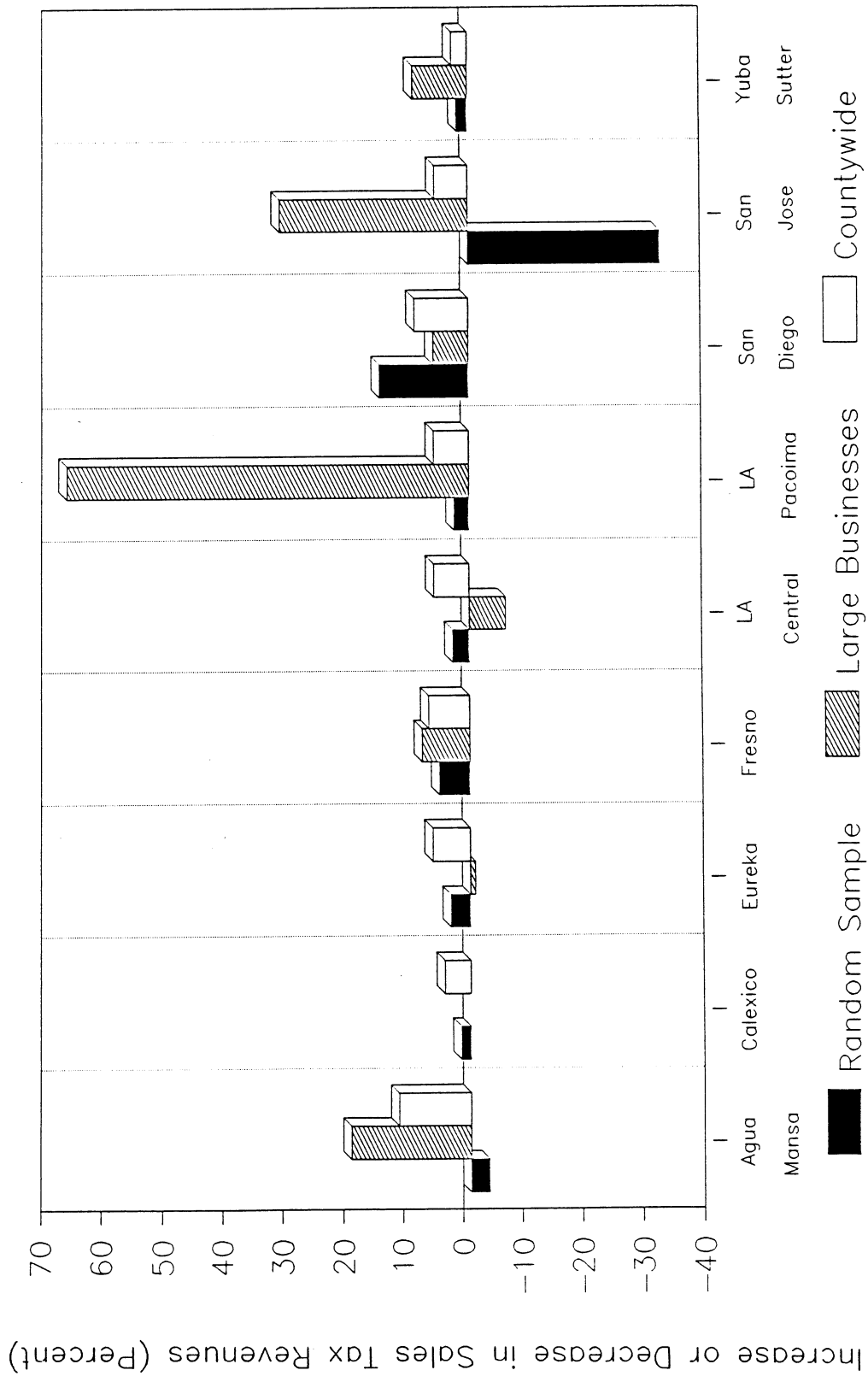
Note: Complete sales tax data for Porterville businesses are not available.

* Fewer than five businesses are in each of these groups. Therefore, to ensure that the identities of these businesses remain confidential, we do not present the specific number of businesses.

However, in eight of nine zones, less favorable rates of change occurred in the amount of sales tax paid by businesses that we sampled than occurred in the counties in which these zones are located. As Chart 4 illustrates, the greatest disparity in favor of a zone occurred in the San Diego zone, which experienced a 15.1 percent increase, 6 percent more than San Diego County. The greatest disparity in favor of a county occurred in Santa Clara, in which the San Jose zone is located. Santa Clara County experienced a 5.7 percent increase while the San Jose zone experienced a decrease of 32.1 percent.

CHART 4

PERCENTAGE CHANGES IN SALES TAX PAID BY BUSINESSES FROM SAMPLES WITHIN THE ENTERPRISE ZONES AND BUSINESSES WITHIN THE RESPECTIVE COUNTIES OCTOBER 1985 THROUGH SEPTEMBER 1987



We also found that six of our eight groups of those large businesses in the zones paid more sales tax in 1987 than they paid in 1986. Table 9 shows that the greatest absolute increase, approximately \$123,000 or 31.8 percent, occurred in the San Jose zone. The greatest percentage increase, 67.1 percent, occurred in the Los Angeles-Pacoima zone, where large businesses paid approximately \$22,355 more in sales tax in 1987 than they paid in 1986. Decreases for large businesses occurred in both the Eureka and Los Angeles-Central City zones.

FEW BUSINESSES HAVE USED
THE BENEFITS AVAILABLE THROUGH
THE ENTERPRISE ZONE PROGRAM

As of December 1987, few businesses located in enterprise zones had used any of the benefits available to them, including tax credits. The lack of use by businesses of the benefits available through the enterprise zone program may indicate that some businesses are not aware of the program, that the program has not been in effect long enough for businesses to fully capitalize on the benefits, or that some businesses filed their tax returns claiming these benefits after December 1987.

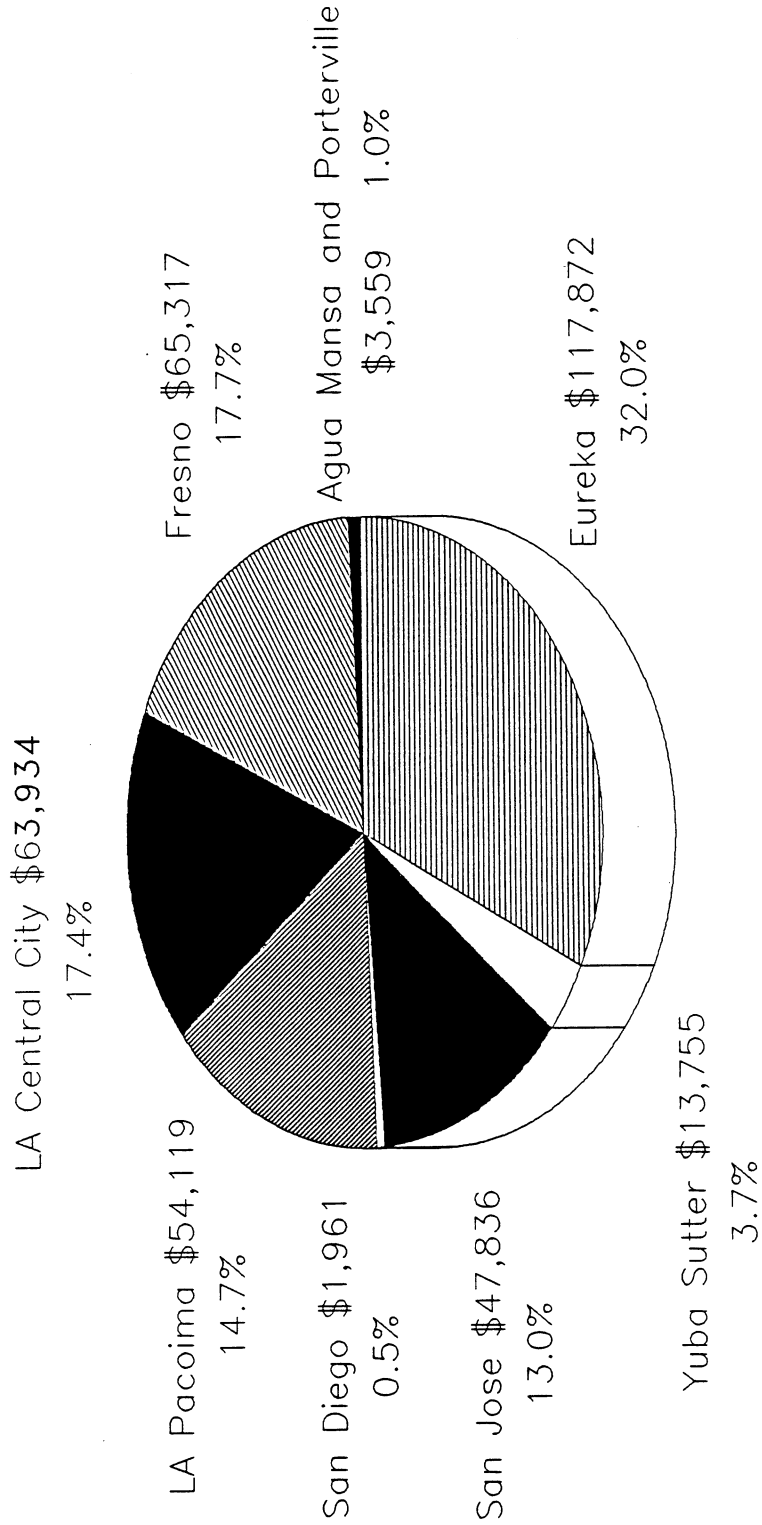
In all ten zones, only 45 of the 13,101 businesses used any of the tax benefits available through the program. Forty-two of the 45 businesses used either the hiring credits or sales tax credits. The tax credits that the 42 businesses claimed will result in a total expenditure for the State of approximately \$368,000 in foregone taxes.

However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the time that we had completed our fieldwork; therefore, it is possible that, during 1987, additional businesses used tax benefits available through the enterprise zone program.

None of the businesses located in the Callexico zone used either the hiring credits or the sales tax credits. As Chart 5 illustrates, businesses located in the Eureka zone claimed the most credits, worth approximately \$118,000, and nearly one-third of the total amount claimed in all ten zones. For all ten zones, \$355,710 (97 percent) of the tax credits used were sales tax credits and only \$12,641 (3 percent) of the tax credits used were hiring credits.

CHART 5

**DISTRIBUTION OF \$368,351 IN TAX CREDITS CLAIMED BY 42
BUSINESSES WITHIN NINE OF THE TEN ENTERPRISE ZONES
1986 AND 1987 TAX RETURNS FILED BY DECEMBER 31, 1987**



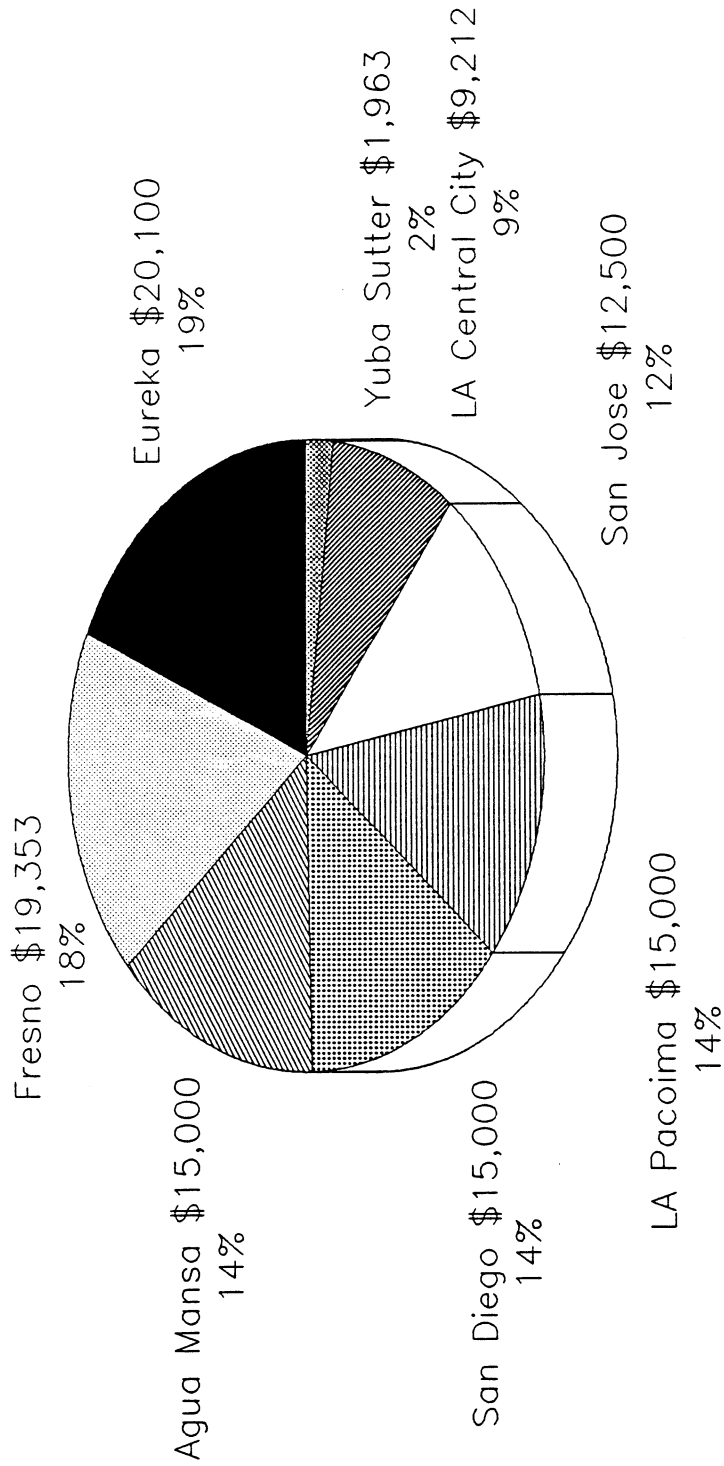
No credits were reported for the Calexico enterprise zone.

For eight zones, only 23 businesses (including 20 businesses that claimed either the hiring credits or the sales tax credits) claimed a total of approximately only \$108,000 in accelerated business expense deductions.³ Furthermore, none of the businesses located in the Calexico or Porterville zones claimed this deduction. Chart 6 illustrates businesses' use of this tax benefit.

³An accelerated business expense deduction is an annual tax deduction of up to \$10,000 during the year of purchase for some types of property rather than a depreciation of the value of the purchase over a longer period of time.

CHART 6

DISTRIBUTION OF \$108,128 IN ACCELERATED BUSINESS EXPENSE DEDUCTIONS CLAIMED BY 23 BUSINESSES WITHIN EIGHT OF THE TEN ENTERPRISE ZONES 1986 AND 1987 TAX RETURNS FILED BY DECEMBER 31, 1987



Businesses within the Calexico and Porterville enterprise zones have not claimed any accelerated business expense deductions.

Similarly, few businesses have used any of the other statewide benefits available through the enterprise zone program. The department's Office of Local Development received requests for loans from only 17 businesses located in zones and made only five loans totaling approximately \$1.05 million by December 1987. In its February 1988 report to the Legislature, the department states that these loans provided assistance for development projects worth more than \$9 million. The department has provided us with some documentation to support this statement.

In no instance did any business located in an enterprise zone use any of the other benefits provided for in the Enterprise Zone Act during the period that we reviewed. For example, the president of the State Assistance Fund for Energy, California Business and Industrial Development Corporation has acknowledged that state law appears to require his organization to give priority to businesses located in zones; however, his organization has never received any requests for loan funds from such businesses. Also, the executive director of the California Industrial Development Financing Advisory Commission has stated that the commission has not approved any applications from businesses located in enterprise zones.

Training programs that are for unemployed individuals and that are administered by the Employment Development Department and the State Department of Education are also required to give priority to individuals who reside in zones. In November 1986, the Employment

Development Department issued a directive to field staff informing them that a business that hires individuals who participate in the Job Training Partnership Act can claim these hirings as tax credits if the business is located in a zone. In addition, in March 1987, the department entered into an interagency agreement with the Chancellor's Office of California's Community Colleges to cooperate in developing services and programs related to job training. However, the California Community Colleges could not document the amount of job training that has been provided for residents of zones.

Further, because of technical inconsistencies in the Government Code, the Department of General Services has not yet given priority to businesses located in zones when awarding contracts for goods and services needed by state agencies. As of May 1, 1988, the Legislature was considering legislation (Assembly Bill 2785) that would amend the Government Code and rectify this situation.

Moreover, when it awards grants, the Office of Criminal Justice Planning is required to give priority to organizations that will target their services for zones. While the Office of Criminal Justice Planning has given "preference points" to organizations located in zones, it had not awarded any grants to such organizations by the end of our review period. However, since the end of our review, the

Office of Criminal Justice Planning has awarded at least three grants for a total of \$180,000 to organizations located in three zones.⁴

Finally, businesses' use of local benefits that are specific to each zone have varied. These benefits are listed for each zone in appendices B through K. While local zone managers have stated that businesses have used many of these benefits, only some of these instances of use could be documented. We could not document the use of any local benefits in the Agua Mansa, Calexico, or Porterville zones.

SOME BUSINESSES HAVE MOVED TO OR
EXPANDED WITHIN ZONES BECAUSE OF THE PROGRAM

During our visits to each of the ten enterprise zones, we requested the names of businesses that either moved to or expanded within the zones because of the benefits that are available through the program. A total of 57 businesses in all ten zones were identified. We then conducted telephone interviews with the managers of 50 of the businesses to confirm that their businesses had moved to or expanded within a zone because of the program. (We were unable to contact the remaining 7 of the 57 business managers.) Of the 50 business managers, 25 indicated that their businesses' decisions to either move to or

⁴One of these grants was awarded to an organization that also serves an economic incentive area. We have included this \$40,000 grant in our discussion of both programs.

expand within a zone were influenced by the benefits that are available through the program. Table 10 summarizes the economic activity of these 25 businesses for eight of the ten zones.

TABLE 10

**SUMMARY OF ECONOMIC ACTIVITY FOR 25 BUSINESSES
THAT WERE INFLUENCED BY PROGRAM BENEFITS
TO EITHER MOVE TO OR EXPAND WITHIN
EIGHT OF THE TEN ENTERPRISE ZONES**

<u>Zone*</u>	<u>Third Quarter 1986 Through Third Quarter 1987</u>	<u>October 1986 Through December 1987</u>	<u>Calendar Year 1986 Through Calendar Year 1987</u>
	<u>Number of New Employees</u>	<u>Increased Assessed Values</u>	<u>Increased Sales Tax Paid</u>
Agua Mansa			\$ 27,769
Eureka	129	\$ 683,179	783,595
Fresno	2	1,572,300	
LA-Central City	16		411
LA-Pacoima			
San Diego	2		
San Jose	7	207,559	7,439
Yuba Sutter	43		27,859

* The number of businesses in each zone for each category of economic activity is no greater than six.

The following photographs show different aspects of the enterprise zones.

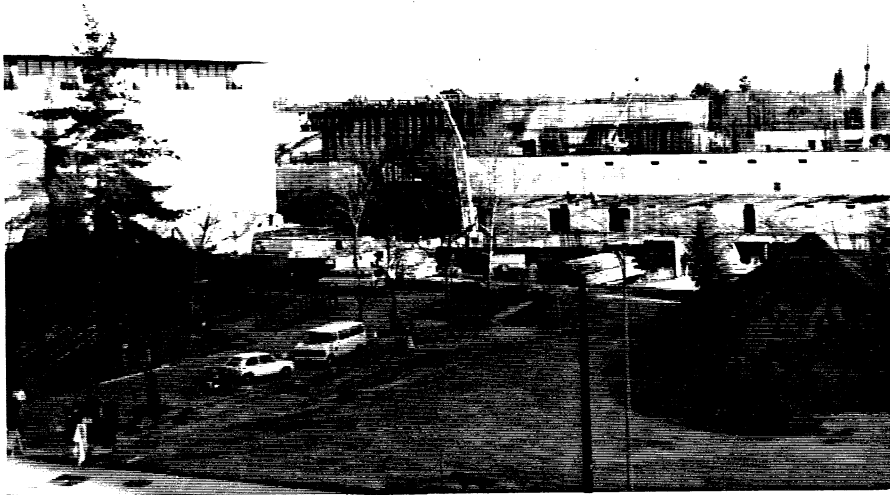


Photo 1: Construction in the San Jose Enterprise Zone



Photo 2: Advertisement of Available Office Space Within the San Jose Enterprise Zone



Photo 3: Los Angeles-Central City Zone With Downtown Skyline in Background

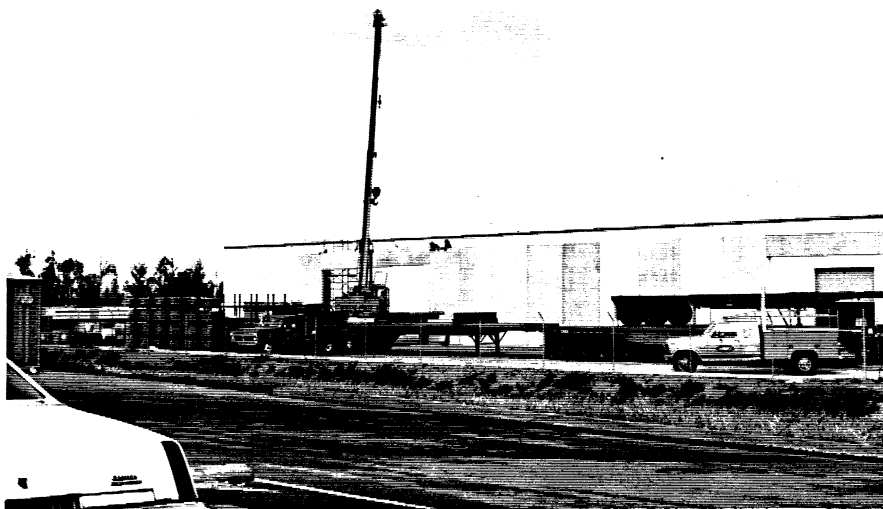


Photo 4: Construction in the Agua Mansa Enterprise Zone

CHAPTER II

A REVIEW OF ECONOMIC ACTIVITY IN THE EMPLOYMENT AND ECONOMIC INCENTIVE AREAS

During our review period, some aspects of economic activity have improved for the 33 certified businesses in Bakersfield, Sacramento, and Los Angeles-Watts, the three employment and economic incentive areas that the Department of Commerce (department) designated in October 1986. However, several different factors, including changes in the general economy and the efforts of redevelopment agencies, may have also contributed to these changes in economic activity. Moreover, the data in this chapter are affected by numerous limitations that are discussed in the Introduction and Appendix A. Because of these limitations, we did not make statistical projections from the certified businesses to the incentive areas in which they are located. Furthermore, because the employment and economic incentive program is so new, our review period was limited to approximately one year. Because of this short review period, we could not draw conclusions as to whether the program has contributed to the improvements.

For the certified businesses in two of the three incentive areas, the number of people employed has increased, and changes in the public assistance caseload have been more favorable in some of the incentive areas than they have been in the counties in which the incentive areas are located. In addition, the total number of businesses operating in the incentive areas has increased slightly, and both assessed values and values represented on commercial building

permits in the incentive areas have also increased. Further, sales tax paid has also increased in two of the incentive areas. However, relatively few businesses have used any of the state benefits available through the program, and only two businesses indicated that they moved to or expanded within these incentive areas because of the program.

EMPLOYMENT HAS INCREASED FOR CERTIFIED
BUSINESSES IN TWO OF THREE INCENTIVE AREAS

By comparing the average number of people employed in the three months that comprise the third quarter of 1986 with the same type of data for the third quarter of 1987, we found that the number of people employed by certified businesses increased in two of the three incentive areas that we reviewed. As Table 11 shows, the greatest absolute increase in addition to the greatest percentage increase occurred in the Sacramento incentive area, where 55 (13.4 percent) additional people were employed.

TABLE 11
CHANGES IN NUMBER OF EMPLOYEES
FOR SAMPLES OF INCENTIVE AREA BUSINESSES
AND THE RESPECTIVE COUNTIES
THIRD QUARTER 1986 COMPARED WITH THIRD QUARTER 1987

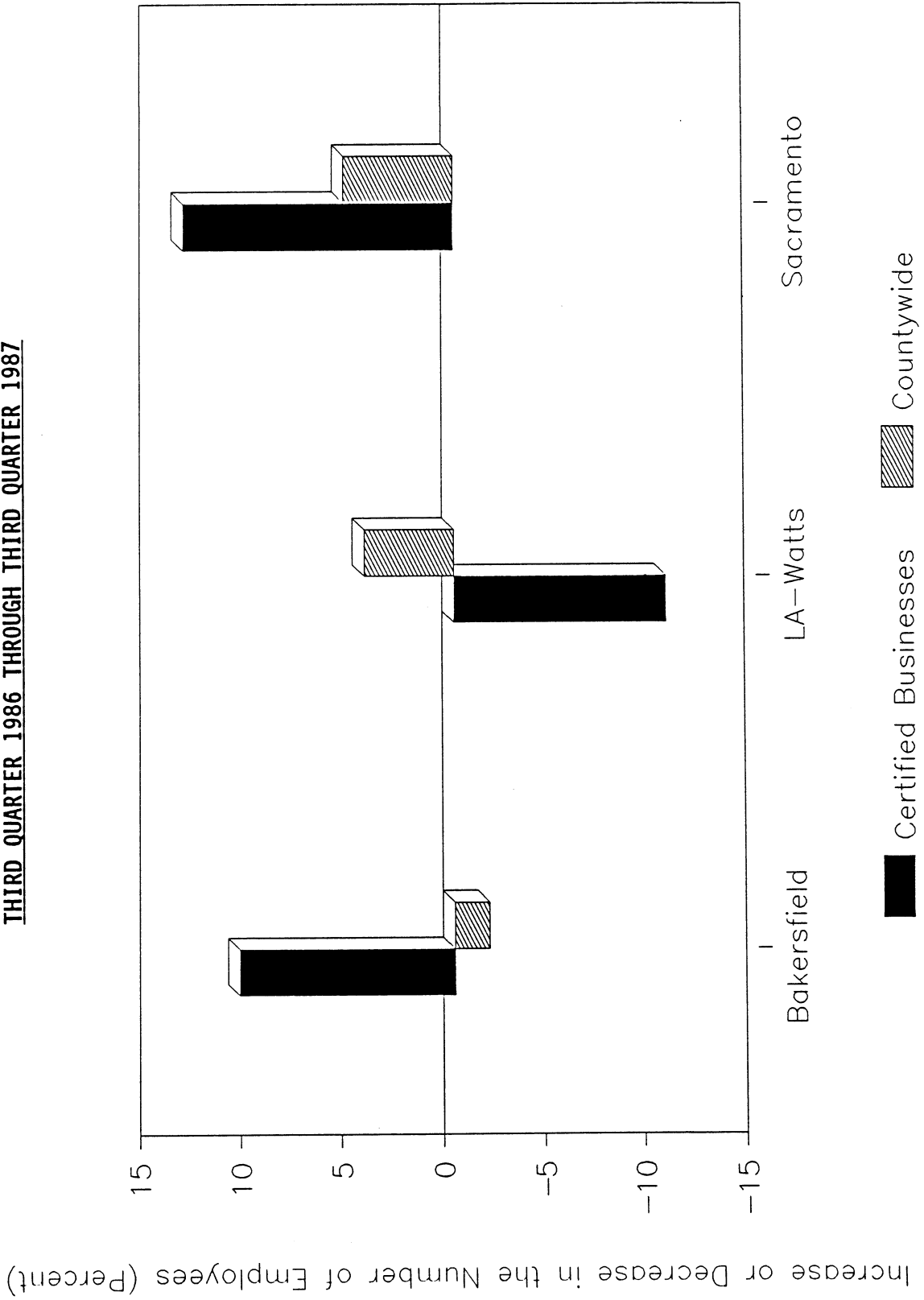
	<u>Third Quarter 1986</u>	<u>Third Quarter 1987</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
BAKERSFIELD INCENTIVE AREA				
Certified Businesses (5)	66	73	7	10.6
Kern County	210,200	206,700	(3,500)	-1.7
LA-WATTS INCENTIVE AREA				
Random Sample (58)	919	912	(7)	-0.8
Large Businesses (37)	2,750	2,595	(155)	-5.6
Certified Businesses (6)	179	160	(19)	-10.6
Los Angeles County	3,823,667	3,993,000	169,333	4.4
SACRAMENTO INCENTIVE AREA				
Certified Businesses (15)	411	466	55	13.4
Sacramento County	436,133	459,733	23,600	5.4

(The number of businesses in each sample is shown in parentheses.)

Furthermore, as Chart 7 shows, the groups of certified businesses in both the Bakersfield and Sacramento incentive areas experienced greater increases in employment than the counties in which the incentive areas are located.

CHART 7

**PERCENTAGE CHANGES IN THE NUMBER OF EMPLOYEES FOR CERTIFIED
BUSINESSES IN THE INCENTIVE AREAS AND THE RESPECTIVE COUNTIES
THIRD QUARTER 1986 THROUGH THIRD QUARTER 1987**



During the same period, 19 fewer people worked for certified businesses in the Los Angeles-Watts incentive area, a decrease of 10.6 percent. In addition, 155 fewer people were employed at the end of our review period for those businesses that employ the most people in the Los Angeles-Watts incentive area. This decrease represents a decline of 5.6 percent. Further, total employment decreased by 0.8 percent in our random sample of businesses in the Los Angeles-Watts incentive area since these businesses employed 7 fewer people in the third quarter of 1987 than they did one year earlier.

Finally, we reviewed the applications for certification that 41 businesses located in the three incentive areas submitted to the department. These applications indicate that these businesses employ a total of 388 individuals from high density unemployment areas (HDUAs) in all three incentive areas.⁵ Of these employees, 181 were hired after the three incentive areas were designated on October 15, 1986. Table 12 summarizes this information.

⁵An HDUA is an area in which the number of unemployed and impoverished people exceeds specific thresholds established by the Government Code, Section 7082.

TABLE 12

THE NUMBER OF INDIVIDUALS FROM HDUAs
WHOM BUSINESSES EMPLOYED BOTH BEFORE AND AFTER
DESIGNATION OF THE INCENTIVE AREAS

<u>Incentive Area</u>	<u>Number of Businesses</u>	<u>Employed Before Designation</u>	<u>Employed After Designation</u>	<u>Total Employed</u>
BAKERSFIELD				
Certified Businesses	8	15	23	38
Applications Denied	1	0	2	2
LA-WATTS				
Certified Businesses	16	122	125	247
Applications Denied	2	15	10	25
SACRAMENTO				
Certified Businesses	9	10	21	31
Applications Denied	<u>5</u>	<u>45</u>	<u>0</u>	<u>45</u>
Total	<u>41</u>	<u>207</u>	<u>181</u>	<u>388</u>

Note: All applications for certification were submitted to the department between October 15, 1986, and December 31, 1987. The applications from which we took our figures generally list the owners and employees when the business applying employs at least 30 percent of its workers from an HDUA and generally lists only the owners when the business applying is at least 30 percent owned and operated by HDUA residents. Applicants whose requests for certification are denied can reapply for certification.

CHANGES IN PUBLIC ASSISTANCE CASELOADS
HAVE GENERALLY BEEN MORE FAVORABLE IN THE
INCENTIVE AREAS THAN IN THE RESPECTIVE COUNTIES

Generally, either fewer people were added to or more people were removed from public assistance caseloads in the HDUAs for the three incentive areas than were added to the caseloads for the counties as a whole. As Table 13 illustrates, from December 1986 through December 1987, only one of the three HDUAs showed a decrease in the number of recipients of Aid to Families With Dependent Children (AFDC). Specifically, the number of AFDC recipients in the HDUA for the Los Angeles-Watts incentive area decreased by 5.7 percent, or 7,594 people; however, the number of AFDC recipients in Los Angeles County decreased by only 4.5 percent, or 26,604 people. Further, as Chart 8 shows, for the other two HDUAs, the rate of growth for the AFDC caseload was less than it was in the counties in which these incentive areas are located. For example, while the number of AFDC recipients in the HDUA for the Bakersfield incentive area increased by 10.2 percent, or 1,773 additional people, the number of AFDC recipients in Kern County, in which Bakersfield is located, increased by 10.9 percent, or 3,865 additional people.

CHART 8

**PERCENTAGE CHANGES IN THE NUMBER OF AFDC RECIPIENTS
IN THE HDJAS AND THE RESPECTIVE COUNTIES
DECEMBER 1986 THROUGH DECEMBER 1987**

Increase or Decrease in the Number of AFDC Recipients (Percent)

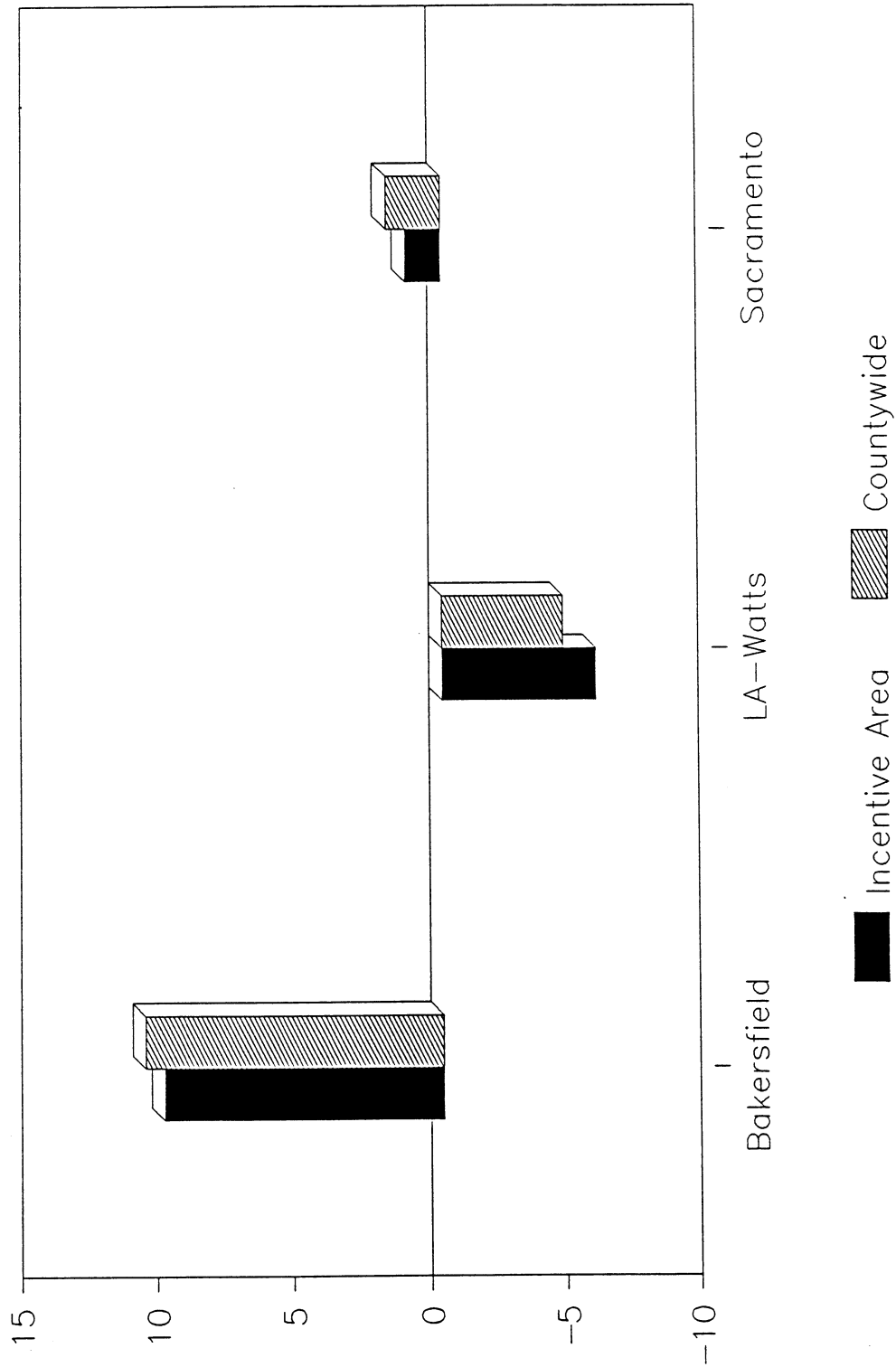


Table 13 summarizes the absolute changes in the number of AFDC recipients in the HDUAs for the three incentive areas and the counties in which these incentive areas are located.

TABLE 13
CHANGES IN THE NUMBER OF AFDC RECIPIENTS IN
HDUAs AND THE RESPECTIVE COUNTIES
DECEMBER 1986 THROUGH DECEMBER 1987

	<u>December</u> <u>1986</u>	<u>December</u> <u>1987</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Change</u>
BAKERSFIELD HDUA	17,437	19,210	1,773	10.2
Kern County	35,463	39,328	3,865	10.9
LA-WATTS HDUA	132,966	125,372	(7,594)	-5.7
Los Angeles County	586,965	560,361	(26,604)	-4.5
SACRAMENTO HDUA	40,159	40,694	535	1.3
Sacramento County	94,550	96,478	1,928	2.0

As Table 14 illustrates, fewer individuals received general assistance in both the HDUAs of the Bakersfield and Los Angeles-Watts incentive areas at the end of our review period than received general assistance at the start.

TABLE 14

**CHANGES IN THE NUMBER OF GENERAL ASSISTANCE
RECIPIENTS IN THE HDUAs AND
THE RESPECTIVE COUNTIES
OCTOBER 1986 THROUGH DECEMBER 1987**

	<u>October 1986</u>	<u>December 1987</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
BAKERSFIELD HDUA	261	162	(99)	-37.9
Kern County	494	286	(208)	-42.1
LA-WATTS HDUA*	11,594	11,469	(125)	-1.1
Los Angeles County	39,419	39,963	544	1.4
SACRAMENTO HDUA**	2,352	3,220	868	36.9
Sacramento County	3,699	4,752	1,053	28.5

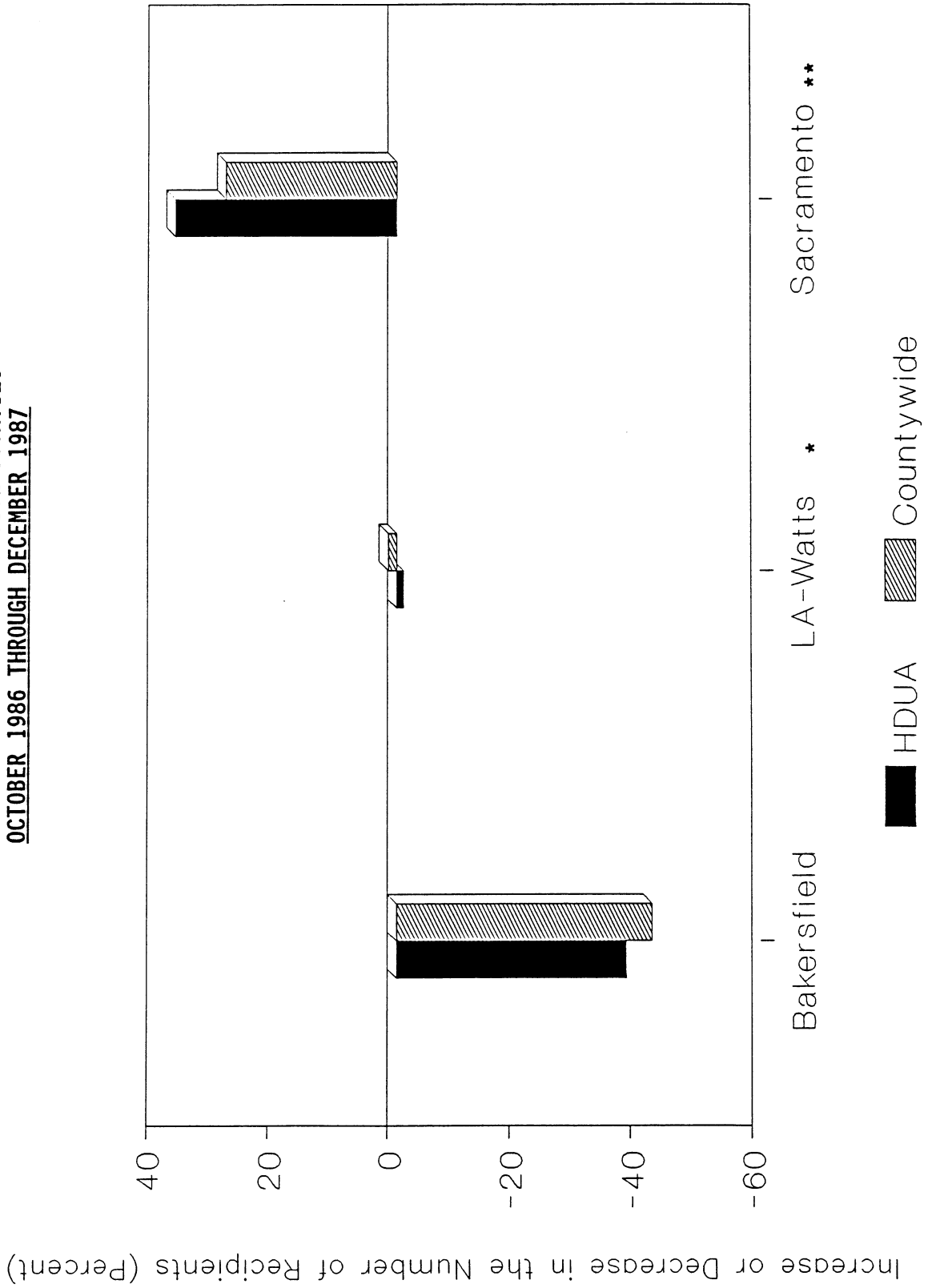
* Los Angeles-Watts data are for October 1987 and January 1988.

** Sacramento data are for October 1986 and January 1988.

Moreover, as Chart 9 depicts, the HDUA for the Los Angeles-Watts incentive area experienced a more favorable rate of change in its general assistance caseloads than Los Angeles County. In contrast, the HDUA for the Sacramento incentive area experienced a greater rate of increase in its general assistance caseload than Sacramento County. Finally, while the HDUA for the Bakersfield incentive area experienced a decrease in its general assistance caseload, this decrease was smaller than the decrease in Kern County.

CHART 9

PERCENTAGE CHANGES IN THE NUMBER OF GENERAL ASSISTANCE RECIPIENTS
IN THE HDUAs AND THE RESPECTIVE COUNTIES
OCTOBER 1986 THROUGH DECEMBER 1987



* Los Angeles-Watts data are for October 1987 and January 1988
 ** Sacramento data are for October 1986 and January 1988.

THE NUMBER OF BUSINESSES OPERATING
IN THE THREE INCENTIVE AREAS INCREASED SLIGHTLY

To determine the number of businesses operating in the three incentive areas, we estimated the total number of businesses operating within the incentive area boundaries, including businesses that are not certified. Between December 1986 and December 1987, the number of businesses opening in the three incentive areas was slightly greater than the number of businesses closing or leaving. For all three incentive areas, the total number of businesses increased from 2,277 at the start of our review period to 2,295 at the end of the review period, a net increase of 0.8 percent or 18 additional businesses. In calculating the net increase of 18 businesses, we took into account 340 businesses that either moved away from the incentive areas or went out of business and 358 businesses that opened during the period that we reviewed.

As Table 15 shows, including businesses that were not certified, the number of businesses operating in the Sacramento and Bakersfield incentive areas decreased slightly during the period that we reviewed. Only the Los Angeles-Watts incentive area experienced a net increase in the number of businesses operating.

TABLE 15

**THE NUMBER OF BUSINESSES THAT OPENED AND CLOSED
IN INCENTIVE AREAS
BETWEEN DECEMBER 1986 AND DECEMBER 1987**

<u>Incentive Area</u>	<u>December 1986</u>	<u>December 1987</u>	<u>Business Closures</u>	<u>New Businesses</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Bakersfield	592	584	78	70	(8)	-1.4
LA-Watts	1,421	1,450	202	231	29	2.0
Sacramento	<u>264</u>	<u>261</u>	<u>60</u>	<u>57</u>	<u>(3)</u>	-1.1
Total	<u>2,277</u>	<u>2,295</u>	<u>340</u>	<u>358</u>	<u>18</u>	0.8

**CAPITAL INVESTMENT HAS INCREASED
IN ALL THREE INCENTIVE AREAS**

Both the assessed values and building permits data that we obtained for the three incentive areas indicate that capital investment has increased in these areas between October 1986 and December 1987. Table 16 summarizes the absolute changes in assessed values for certified businesses in the three incentive areas. The greatest absolute increase in assessed values occurred in the Sacramento incentive area, where assessed values increased by approximately \$192,000, or 4.0 percent, for nine certified businesses. Six certified businesses in the Bakersfield incentive area experienced the greatest percentage gain in assessed values, with a 4.8 percent increase, or approximately \$121,000, in assessed values.

TABLE 16

**CHANGES IN ASSESSED VALUES FOR CERTIFIED BUSINESSES
AND SAMPLES OF BUSINESSES IN INCENTIVE AREAS
OCTOBER 1986 THROUGH DECEMBER 1987**

<u>Incentive Area</u>	<u>October 1986</u>	<u>December 1987</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
BAKERSFIELD Certified Businesses (6)	\$ 2,527,757	\$ 2,648,710	\$ 120,953	4.8
LA-WATTS Random Sample (152) Large Businesses (52)	21,511,009	22,377,156	866,147	4.0
Certified Businesses (15)	32,543,258	35,101,632	2,558,374	7.9
SACRAMENTO Certified Businesses (9)	3,444,080	3,504,280	60,200	1.7
	4,815,575	5,007,532	191,957	4.0

(The number of businesses in each sample is shown in parentheses).

For the certified businesses in all three incentive areas, none of the increases in assessed values can be attributed to construction and renovation. However, some of the increases are attributable to changes in ownership.

Since the adoption of Article XIII A of the Constitution of the State of California in 1978, annual increases in assessed values are limited to a maximum of two percentage points each year. Greater increases, reflecting the true value of property, are recorded by

assessors when a change in ownership or construction or renovation occurs. Therefore, one cannot assume that the increases in assessed values for certified and sample businesses can be attributed to the 15-month period of our review.

We could not obtain comparable countywide data for assessed values, and therefore, we do not make any comparisons in this section between the incentive areas and the counties in which they are located.

An increase in the number of commercial building permits and the values listed on the permits can indicate an increase in economic activity. Conversely, a decrease in the number of building permits and the values listed on the permits can indicate a decrease in economic activity. As tables 17 and 18 illustrate, the Sacramento incentive area and the Los Angeles-Watts incentive area experienced increases in both the number of building permits issued and also the total values listed on the permits. We were unable to obtain comparable information for the Bakersfield incentive area because complete data concerning building permits for 1986 are no longer available.

TABLE 17

**INCREASES IN THE DOLLAR VALUES LISTED ON COMMERCIAL
BUILDING PERMITS ISSUED WITHIN INCENTIVE AREAS
CALENDAR YEARS 1986 AND 1987**

<u>Incentive Area</u>	<u>1986</u>	<u>1987</u>	<u>Increase</u>	<u>Percent Change</u>
Bakersfield	\$ 1,646,286*	\$ 6,930,972**	--	--
LA-Watts	1,653,853	3,067,935	\$1,414,082	85.5
Sacramento	12,404,716	14,754,227	2,349,511	18.9

* Bakersfield 1986 data are for permits issued within the city of Bakersfield only: Bakersfield data are excluded from our increase and percent change columns.

** Bakersfield 1987 data are for permits issued within the city of Bakersfield and Kern County.

TABLE 18

**INCREASES IN THE NUMBER OF BUILDING PERMITS
ISSUED WITHIN INCENTIVE AREAS
CALENDAR YEARS 1986 AND 1987**

<u>Incentive Area</u>	<u>1986</u>	<u>1987</u>	<u>Increase</u>	<u>Percent Change</u>
Bakersfield	88*	67**	--	--
LA-Watts	38	39	1	5.3
Sacramento	95	104	9	9.5

* Bakersfield 1986 data are for permits issued within the city of Bakersfield only: Bakersfield data are excluded from our increase and percent change columns.

** Bakersfield 1987 data are for permits issued within both the city of Bakersfield and Kern County.

We also obtained assessed values for both a random sample of businesses and a sample of the businesses that employ the most people in the Los Angeles-Watts incentive area. The assessed values for our random sample increased by \$866,000 or 4.0 percent. The assessed values for our sample of large businesses increased by \$2.56 million or 7.9 percent. None of the increases in assessed values for either of these samples can be attributed to construction and renovation.

SALES TAX PAYMENTS HAVE
INCREASED IN TWO OF THREE AREAS

We could find sales tax data for only 8 of the 33 certified businesses in the three incentive areas.⁶ Table 19 compares the amount of sales tax these businesses paid from October 1985 through September 1986 with the period from October 1986 through September 1987 and shows that certified businesses in Bakersfield paid \$9,456 or 10.3 percent more in sales tax. Certified businesses in the Sacramento incentive area paid \$846 or 18.7 percent more in sales tax. However, certified businesses in the Los Angeles-Watts incentive area paid \$1,017 or 4.3 percent less in sales tax.

⁶Locally approved sales tax measures can add to the 6 percent in sales tax collected by the State Board of Equalization. Only one incentive area, Los Angeles-Watts, with a sales tax rate of 6.5 percent, had a sales tax rate that exceeded 6 percent. This increase, adopted in 1982, was in effect during the entire period of our review.

TABLE 19

**DOLLAR CHANGES IN SALES TAX PAID
BY EIGHT CERTIFIED BUSINESSES IN INCENTIVE AREAS
AND BUSINESSES WITHIN THE RESPECTIVE COUNTIES
OCTOBER 1985 THROUGH SEPTEMBER 1987**

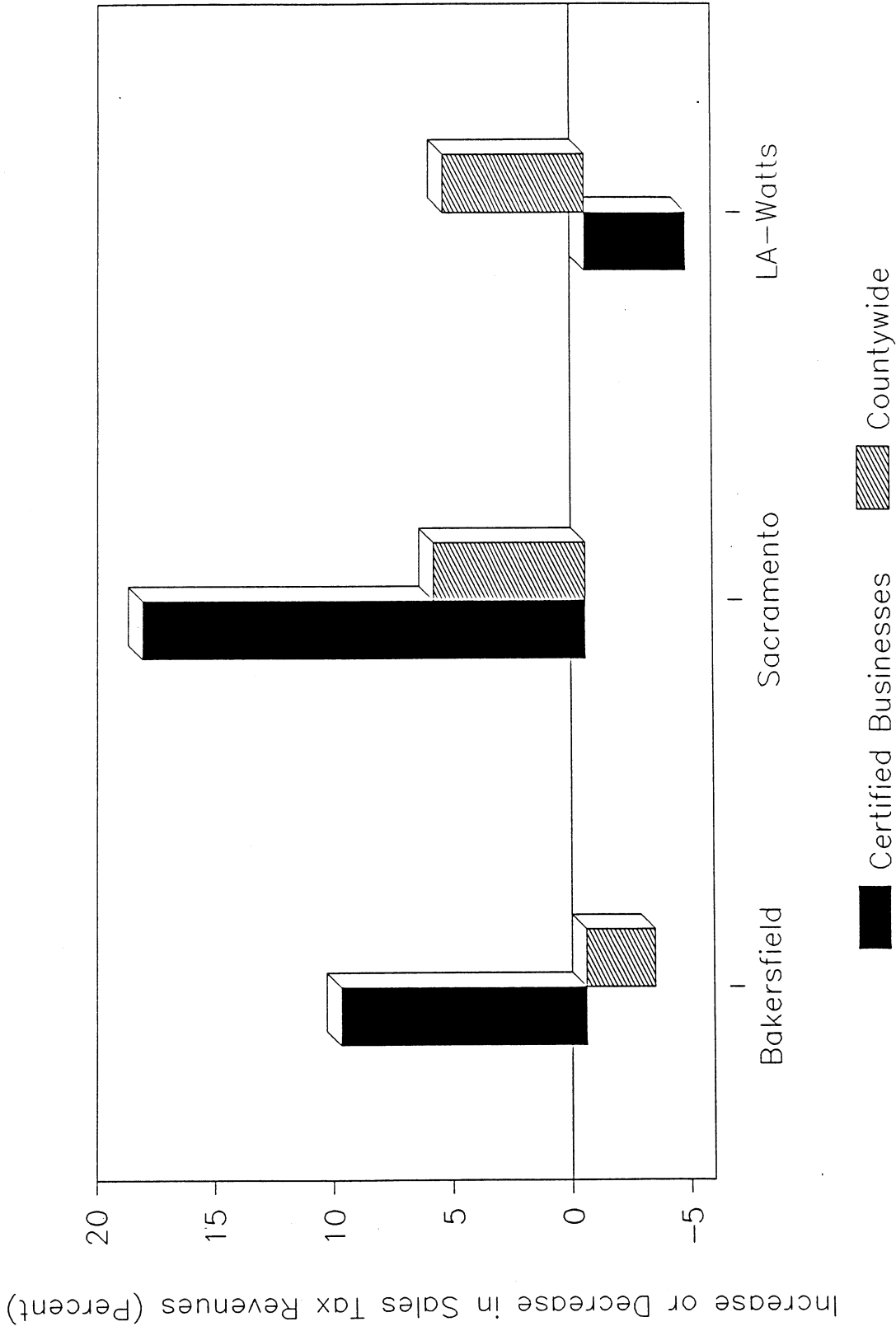
	<u>October 1985 Through September 1986</u>	<u>October 1986 Through September 1987</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
BAKERSFIELD INCENTIVE AREA				
Certified Businesses*	\$ 91,718	\$ 101,174	\$ 9,456	10.3
Kern County	225,278,000	218,817,000	(6,461,000)	-2.9
SACRAMENTO INCENTIVE AREA				
Certified Businesses*	4,527	5,373	846	18.7
Sacramento County	449,465,000	478,402,000	28,937,000	6.4
LA-WATTS INCENTIVE AREA				
Certified Businesses*	23,714	22,697	(1,017)	-4.3
Los Angeles County	4,109,703,000	4,354,610,000	244,907,000	6.0

* Fewer than five businesses are in each of these groups. Therefore, to ensure that the identities of these businesses remain confidential, we do not present the specific number of businesses.

As Chart 10 illustrates, for the certified businesses in the Bakersfield and Sacramento incentive areas, a more favorable rate of change occurred in the amount of sales tax paid than occurred in the counties in which these incentive areas are located.

CHART 10

**PERCENTAGE CHANGES IN SALES TAX PAID BY CERTIFIED BUSINESSES
WITHIN INCENTIVE AREAS AND BUSINESSES WITHIN THE RESPECTIVE COUNTIES
OCTOBER 1985 THROUGH SEPTEMBER 1987**



We also obtained sales tax data for both a random sample of businesses and a sample of those businesses that employ the most people in the Los Angeles-Watts incentive area. Businesses in the random sample paid \$121,000 or 23.2 percent more in sales tax in 1987 than they paid in 1986. The sample of large businesses, however, paid \$386,000 or 10.6 percent less sales tax in 1987 than they paid in 1986.

FEW BUSINESSES HAVE USED THE
BENEFITS AVAILABLE THROUGH THE
EMPLOYMENT AND ECONOMIC INCENTIVE PROGRAM

As of December 1987, few businesses located in the incentive areas had used any of the benefits available to them, including tax credits. The lack of use by businesses of the benefits available through the employment and economic incentive program may indicate that some businesses are not aware of the program or that the program has not been in effect long enough for businesses to fully capitalize on the benefits.

None of the 33 certified businesses used any of the tax credits or deductions available through the program. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that some businesses claimed tax credits available through the program during 1987.

Similarly, few businesses used any of the other statewide benefits available through the program. By December 1987, the department's Office of Local Development had received only one request for a loan from a business located in an incentive area. The department loaned this business \$70,000. In its February 1988 report to the Legislature, the department stated that this loan provided assistance for a project worth \$140,000. The department has provided us with some documentation to support this statement.

In no instance did any business located in an incentive area use any of the other benefits provided for in the Employment and Economic Incentive Act. For example, the president of the State Assistance Fund for Energy, California Business and Industrial Development Corporation has acknowledged that state law appears to require his organization to give high priority to businesses located in incentive areas; however, his organization has never received any requests for loan funds from such businesses. Also, the executive director of the California Industrial Development Financing Advisory Commission has stated that the commission has not approved any applications for assistance from businesses located in incentive areas.

Training programs that are for unemployed individuals and that are administered by the Employment Development Department and the State Department of Education are also required to give priority to individuals who reside in HDUAs. In November 1986, the Employment Development Department issued a directive to field staff informing them

that certified businesses that hire unemployed individuals who are residents of HDUAs can claim these hirings as tax credits. In addition, in March 1987, the department entered into an interagency agreement with the Chancellor's Office of California's Community Colleges to cooperate in developing services and programs related to job training. However, the dean of Employment Training at the California Community Colleges indicated that it is too early to provide any information on the amount of job training that has been provided for residents of incentive areas.

Further, according to the staff counsel for the Department of General Services, because of technical inconsistencies in the Government Code, the Department of General Services has not yet given priority to certified businesses located in incentive areas when awarding contracts for goods and services needed by state agencies. As of May 1, 1988, the Legislature was considering legislation (Assembly Bill 2785) that would amend the Government Code and rectify this situation.

Moreover, when it awards grants, the Office of Criminal Justice Planning is also required to give priority to applicant organizations that will target their services for incentive areas. While the Office of Criminal Justice Planning has given preference points to organizations located in these incentive areas, it had not awarded any grants to such organizations during the period that we

reviewed. However, the Office of Criminal Justice Planning has awarded at least two grants for a total of \$139,000 to organizations located in two incentive areas since the end of our review.⁷

Finally, businesses' use of local benefits that are particular to each incentive area have varied. These benefits are listed for each incentive area in appendices L through N. While local area managers have stated that businesses have used many of these benefits, we could document only some of their claims.

SOME BUSINESSES HAVE MOVED TO OR EXPANDED
WITHIN INCENTIVE AREAS BECAUSE OF THE PROGRAM

During our visits to the three incentive areas that we reviewed, we requested the names of businesses that either moved to or expanded within the incentive area because of the benefits that are available through the program. Seven such businesses were identified for the Los Angeles-Watts incentive area. We then conducted telephone interviews with the managers of the seven businesses to confirm that their businesses had moved to or expanded within the incentive area because of the program. Only two of these business managers indicated that their businesses' decisions to either move to or expand within an incentive area were influenced by the benefits that are available

⁷One of these grants was awarded to an organization that also serves an enterprise zone. We have included this \$40,000 grant in our discussion of both programs.

through the program. We were unable to obtain any data on economic activity for these two businesses.

Photographs 5 and 6 show different aspects of the incentive areas.



Photo 5: Industrial Park Located in the Bakersfield Incentive Area



Photo 6: Street in the Commercial Portion of the Bakersfield Incentive Area.

CHAPTER III

CONCLUSION AND RECOMMENDATION

CONCLUSION

Some aspects of economic activity have improved for the businesses that we sampled in the ten enterprise zones and for the 33 certified businesses that we reviewed in the three employment and economic incentive areas. However, because the enterprise zone program and the employment and economic incentive program are so new, our review period was limited to approximately one year. Because of this short review period, we could not draw definite conclusions as to whether the two programs have contributed to these improvements. Also, while 27 businesses have indicated that they moved to the zones or the incentive areas because of the programs, several other factors, including changes in the general economy and the efforts of redevelopment agencies, may have contributed to the other improvements in economic activity. Moreover, the data presented in this chapter are affected by numerous limitations that are discussed in the Introduction and in Appendix A. Because of these limitations, we did not make statistical projections from our samples of businesses to the zones in which the businesses are located and from the certified businesses to the incentive areas in which they are located. Furthermore, we cannot directly attribute the improvements in economic activity to the

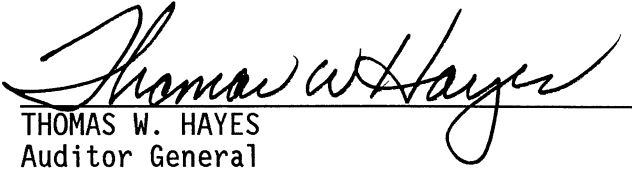
programs because relatively few businesses have used any of the benefits available through the two programs. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that, during 1987, additional businesses used the tax benefits that are available through the programs.

RECOMMENDATION

To enhance the effectiveness of the enterprise zone and employment and economic incentive programs, the Department of Commerce should determine whether state and local efforts to market these programs are deficient or whether any other factors are limiting businesses' use of the benefits available through the two programs. If the department identifies any barriers that limit a business's ability to use these benefits, it should develop and implement corrective action no later than December 31, 1988.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: June 27, 1988

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**A DETAILED DESCRIPTION OF THE METHODOLOGY
AND LIMITATIONS OF OUR REVIEW**

To estimate the number of new businesses that opened in addition to the number of businesses that either closed or moved out of the zones and incentive areas that we reviewed, we developed a computer program and used it to compare Pacific Bell's lists of business telephone numbers from December 1986 and December 1987. However, as these lists only contained businesses that are listed as businesses, we would not have detected any businesses that are listed as residences or any businesses that do not have listed telephone numbers. Also, after we selected our samples, we observed that the 1986 lists were incomplete for six of the enterprise zones. Because some streets were completely or partially omitted from the 1986 list, we manually matched the names of businesses on these streets from the 1987 list with information contained in 1986 Pacific Bell telephone directories to identify the number of new businesses and business closures. However, because these streets were missing from the 1986 lists, businesses located on these streets were not included when we selected our samples of businesses to review whether changes had occurred in the other categories of economic activity.

To measure any increases or decreases in the number of people employed by the businesses that we reviewed in the enterprise zone and employment and economic incentive programs, we obtained data regarding employment from the ES 202 Program Master File of the Employment Development Department. To measure changes in sales tax payments, we acquired data from the Cash Receipts System Payment History File of the State Board of Equalization. (We did not adjust the figures for inflation.) However, for cases in which a single business has more than one outlet within a county, neither of these agencies can ensure that the data they provide are specific to a single outlet. Although we attempted to limit our sample to single-outlet businesses, we could not ensure that, in all instances, our sample consisted of only these businesses. Furthermore, for both employment and sales tax data, we limited our review to only those businesses that employed people or paid sales tax during the entire review period.

To determine any changes in the number of public assistance recipients in the enterprise zones, incentive areas, and the counties, we obtained data regarding public assistance payments through the Department of Social Services' use of the Department of Health Services' Medi-Cal Eligibility Data System and from county welfare departments. The data that we received are for the zip codes that cover the zones and high density unemployment areas for the incentive areas that we reviewed. Because the boundaries of some of these zip codes extend beyond the boundaries of the zones and high density

unemployment areas in the incentive areas, our public assistance data also include some recipients who do not live in either the zones or the high density unemployment areas. In addition, a state district court of appeal decision in 1987 could have significantly increased the counties' general assistance caseload during the period that we reviewed and, thus, could have influenced the data in our analysis. This court decision prohibited county welfare departments from denying general assistance payments to individuals who do not have a permanent address.

To measure changes in assessed values for the sample businesses in the enterprise zones and for the certified businesses in the incentive areas, we obtained data regarding assessed values from the secured, unsecured, and supplemental assessment rolls for tax years 1986 and 1987 at the county assessors' offices. However, we could not always ensure that the assessed values that we obtained were both complete for, and limited to, the businesses in our samples because we could not always determine whether the businesses in our samples owned the properties listed on the rolls and because some personal property is not required to be reported to the county assessors. In addition, we cannot ensure the accuracy of the data that we obtained from the Los Angeles County assessor's office because the assessor did not provide us with the dates that correspond to the activities that resulted in entries on the 1987 supplemental assessment roll. Therefore, we had to rely on information that was forwarded to us by the assessor's staff that we could not verify. Furthermore, we did not attempt to adjust any of the data that we obtained from assessors' offices for the maximum 2 percent annual increase in assessed values allowed for in the Constitution of the State of California. In addition, we did not attempt to compare the data that we collected with countywide assessed values because intrinsic differences between our sample data and countywide data would cause countywide data to appear inflated relative to sample data.

To determine whether any increases or decreases occurred in the values listed on building permits for commercial construction in the enterprise zones, incentive areas, and counties, we reviewed data on building permits from county and city offices that issue these permits. While we reviewed the methodologies these city and county agencies used to compile this data, we did not reconstruct the calculations these agencies used to determine the values listed on building permits issued in their jurisdictions.

To learn the extent to which businesses used the tax credits available through the two programs, we obtained tax return data from the Franchise Tax Board (board). However, the board estimated that it had received only 38 percent of the tax returns that it expects to process in 1988 by the completion of our fieldwork. The board does intend to continue to collect data on the use of these tax credits and to report this information to the Department of Commerce.

To determine whether state agencies are giving priority to businesses located in enterprise zones and incentive areas, we obtained documentation from the agencies on the extent of their involvement with the programs. These agencies include the following: the Department of Commerce's Office of Local Development, which administers a small business loan program; the State Assistance Fund for Energy, California Business and Industrial Development Corporation, which administers a loan program for businesses involved in energy-related projects, minority-owned businesses, and businesses engaged in foreign trade; the California Industrial Development Financing Advisory Commission, which authorizes the issuance of bonds for industry; the Employment Development Department and the State Department of Education, which administer job training programs; the Department of General Services, which administers the procurement process for state agencies, including the awarding of contracts to private businesses for specific goods or services; and the Office of Criminal Justice Planning, which provides funding for a variety of activities, all of which are intended to improve the criminal justice system in California.

We also obtained information from zone and area managers regarding businesses' use of local incentives. However, we have only included data on the use of these incentives in the report when we could document such use. Appendices B through N describe the economic activity that we documented in each enterprise zone and incentive area and include a section on the use of local incentives.

**SUMMARY OF ECONOMIC ACTIVITY IN
THE AGUA MANSA ENTERPRISE ZONE**

The Agua Mansa enterprise zone is located in both Riverside and San Bernardino counties. The zone covers 24.9 square miles, and its boundaries encompass parts of the cities of Riverside, Colton, and Rialto, in addition to unincorporated parts of both counties. The industries in the zone range from retail sales to aviation. The zone is 16 miles from Ontario Airport and has direct access to interstate highways and rail transportation.

At least three local benefits are available to businesses located within the zone. The benefits include loan programs, reductions in business-license fees, and expedited processing of permits required for operating a business. The zone manager stated that some of the businesses have used some of the local benefits. We found no documents to support the use of any of these benefits.

The number of businesses operating in the zone increased from 989 in December 1986 to 1,014 in December 1987. This is an increase of 25 businesses or 2.5 percent. Also, in our random sample of 50 businesses, the number of people employed increased by 8.3 percent (52 people). However, in our sample of 7 large businesses, the number of people employed decreased by 0.8 percent (18 people). The number of people employed in San Bernardino and Riverside counties, where the zone is located, increased by 8.2 percent. However, the countywide data may include businesses that opened and businesses that closed while the zone data include only those businesses that remained open throughout the review period. Also, we do not know whether the same types of commercial activity are conducted in the zone as are conducted in the county. Therefore, the zone and the county may not be comparable. In the zone, 15 economically disadvantaged people secured jobs through job-training programs between October 1986 and December 1987.

The number of recipients of Aid to Families With Dependent Children (AFDC) within the zone decreased by 0.3 percent (45 recipients) while the number of AFDC recipients in San Bernardino and Riverside counties increased by 4.5 percent (6,972 recipients). In addition, between October 1986 and December 1987, the number of general assistance recipients in the zone increased by 210.8 percent (78 recipients) while the number of general assistance recipients in San Bernardino and Riverside counties decreased by 18 percent (134 recipients).

Capital investment, as measured by changes in assessed property values, the number of commercial building permits, and the values listed on the permits, generally increased in the zone. The assessed values for the 163 businesses in our random sample increased by 5.2 percent or \$2,351,127, of which \$10,329 was due to additions to or construction of buildings. However, the assessed values for our sample of 15 large businesses in the zone decreased by 2.9 percent (\$5,846,503). The assessed values for large businesses included \$320,800 for additions to or construction of buildings.

In the last six months of 1986, the only period in that year for which data were available, 180 building permits were issued to businesses in the zone. The total in values listed on these permits was \$15,287,991. In calendar year 1987, 280 permits, listing a total value of \$36,429,035, were issued to businesses in the zone.

The sales tax paid by the 36 businesses in our random sample decreased by 3.1 percent (\$12,991) while the sales tax paid by a group of 5 large businesses in the zone increased by 20.0 percent (\$61,004). In addition, the amount of sales tax paid throughout Riverside and San Bernardino counties increased by 12.0 percent (\$95,523,000).

Only 4 (0.4 percent) of the 1,014 businesses in the zone took advantage of the tax benefits available under the enterprise zone program. These businesses claimed a total of \$1,521 in sales and income tax credits, and \$15,000 in accelerated business expense deductions. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that more businesses claimed credits and deductions after the end of our review.

APPENDIX C

SUMMARY OF ECONOMIC ACTIVITY IN THE CALEXICO ENTERPRISE ZONE

The Calexico enterprise zone is located within the city of Calexico in Imperial County. The zone covers 3.3 square miles and is 15 miles from Imperial County Airport. The zone is within 7 miles of an interstate highway and is connected to Los Angeles by rail. The businesses in the zone range from retail sales to electronics.

At least two local benefits are available to businesses located within the zone. These benefits include waivers of fees for building permits and business licenses and assistance in procuring financing. We found no documents to support the use of any of these benefits for 1987.

The number of businesses operating in the zone increased from 276 in December 1986 to 283 in December 1987. This is an increase of 7 businesses or 2.5 percent. In our random sample of 47 businesses, the number of people employed increased by 14.9 percent (70 people). In contrast, the number of people employed throughout Imperial County, where the zone is located, increased by only 1.3 percent (383 people). However, the countywide data may include businesses that opened and businesses that closed while the zone data include only those businesses that remained open throughout the review period. Also, we do not know whether the same types of commercial activity are conducted in the zone as are conducted in the county. Therefore, the zone and the county may not be comparable. In the zone, no economically disadvantaged people secured jobs through job-training programs in 1987.

The number of recipients of Aid to Families With Dependent Children (AFDC) within the zone increased by 2.0 percent (53 recipients), and the number of AFDC recipients throughout Imperial County increased by 7.6 percent (818 recipients). The zone did not report any general assistance recipients in either 1986 or 1987. In Imperial County, the number of general assistance recipients increased by 50 percent (3 recipients) between 1986 and 1987.

Capital investment, as measured by changes in assessed property values, the number of commercial building permits, and the values listed on the permits, has decreased in the zone. The assessed values for the 117 businesses in our random sample of businesses in the zone decreased by 1.5 percent (\$419,881). In addition, none of the samples of businesses reported increased assessed values attributable to additions to or construction of buildings. Also, the values listed on building permits decreased by 51.8 percent (\$745,318) between 1986

and 1987. However, the number of building permits issued in the zone increased by 76.9 percent (20 permits) during the same period.

The sales tax paid by the 21 businesses in our random sample of businesses in the zone increased by 1.6 percent (\$5,752) while the sales tax paid throughout Imperial County increased by 4.3 percent (\$1,507,000). However, the countywide data may not be comparable with the zone data.

No businesses in the zone took advantage of the tax benefits available under the enterprise zone program. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that some businesses claimed tax credits and accelerated business expense deductions after the end of our review.

APPENDIX D

SUMMARY OF ECONOMIC ACTIVITY IN THE EUREKA ENTERPRISE ZONE

The Eureka enterprise zone encompasses part of the city of Eureka and part of Humboldt County. The zone covers 8.3 square miles and is located 15 miles from Arcata-Eureka Airport. The zone is served by a state highway, in addition to rail and bus lines. The businesses in the zone range from manufacturing to electronics.

At least two local benefits are available to businesses located within the zone. These benefits include waivers of fees for business licenses and revolving fund loans. The zone manager stated that some businesses have used some of the benefits: We found documents to support that seven waivers were issued and that a total of \$698,000 was loaned to six businesses.

The number of businesses operating in the zone increased from 1,065 in December 1986 to 1,078 in December 1987. This is an increase of 13 businesses or 1.2 percent. In our random sample of 66 businesses the number of people employed increased by 61.2 percent (414 people). In our sample of 8 large businesses, the number of people employed increased by 1.2 percent (11 people). In Humboldt County, where the zone is located, the number of people employed increased by 4 percent (1,800 people). However, the countywide data may include businesses that opened and businesses that closed while the zone data include only those businesses that remained open throughout the review period. Also, we not know whether the same types of commercial activity are conducted in the zone as are conducted in the county. Therefore, the zone and the county may not be comparable. In the zone, 108 economically disadvantaged people secured jobs through job-training programs between October 1986 and December 1987.

The number of recipients of Aid to Families With Dependent Children (AFDC) within the zone increased by 27.8 percent (15 recipients) while the number of AFDC recipients in Humboldt County increased by only 1.9 percent (210 recipients). In contrast, the number of general assistance recipients in the zone decreased by 14.6 percent (29 recipients), and the number of general assistance recipients throughout Humboldt County decreased by 13.3 percent (38 recipients).

Capital investment, as measured by changes in assessed property values, the number of commercial building permits, and the values listed on the permits, has increased in the zone. The assessed

values of the 175 businesses in our random sample increased by 6.8 percent (\$1,920,314), and the assessed values for our sample of 20 large businesses in the zone increased by 2.5 percent (\$4,779,044). However, none of the increases in assessed values for both samples are due to additions to or construction of buildings. The number of building permits increased from 602 permits with listed values of \$11,857,476 in 1986 to 643 permits with listed values of \$19,711,439 in 1987. These changes represent increases of 6.8 percent in the number of permits and 66.2 percent in the values listed on the permits.

The sales tax paid by 38 businesses in our random sample increased by 3.3 percent (\$15,912) while the sales tax paid by a group of 5 large businesses in the zone decreased by 0.8 percent (\$8,139). The amount of sales tax paid throughout Humboldt County increased by 6.2 percent (\$2,677,000). However, the countywide data may not be comparable with the zone data.

Only 8 (0.7 percent) of the 1,078 businesses in the zone took advantage of the tax benefits available under the enterprise zone program. These businesses claimed a total of \$113,870 in sales and income tax credits and \$20,100 in accelerated business expense deductions. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that more businesses claimed credits and deductions after the end of our review.

**SUMMARY OF ECONOMIC ACTIVITY IN
THE FRESNO ENTERPRISE ZONE**

The Fresno enterprise zone is located partially in the city of Fresno and partially in unincorporated areas of Fresno County. The zone covers 9.7 square miles and is 2 miles from the Fresno Air Terminal. The zone is located near three state highways and also served by rail. The businesses in the zone range from construction to farm management.

At least four local benefits are available to businesses located in the zone. These benefits include reduced building permit and inspection fees, expedited processing of building permits and plans, reduction of industrial bond fees, and waivers of fees for business licenses. The zone manager stated that some of the businesses have used some of the local benefits. We found documents to support the use of two of these benefits: Permit and inspection fees were reduced by a total of \$6,700 in 1987, and for ten businesses, permit and plan processing was expedited in 1987.

The number of businesses operating in the zone decreased from 2,181 in 1986 to 2,145 in 1987. This is a decrease of 36 businesses or 1.7 percent. However, in our random sample of 51 businesses, the number of people employed increased by 8.1 percent (62 people). Also, in our sample of 14 large businesses, the number of people employed increased by 26.5 percent (882 people). The number of people employed in Fresno County increased by 2.6 percent (7,300 people) during the same period. However, the countywide data may include businesses that opened and businesses that closed while the zone data include only those businesses that remained open throughout the review period. Also, we do not know whether the same types of commercial activity are conducted in the zone as are conducted in the county. Therefore, the zone and the county may not be comparable. In the zone, 186 economically disadvantaged people secured jobs through job-training programs between October 1986 and December 1987.

The number of recipients of Aid to Families With Dependent Children (AFDC) within the zone increased by 4.7 percent (1,502 recipients) while the number of AFDC recipients throughout Fresno County increased by 7.2 percent (5,789 recipients). Furthermore, the number of general assistance recipients in the zone increased by 2.9 percent (34 recipients) while the number of general assistance recipients throughout Fresno County increased by 7.5 percent (172 recipients).

Capital investment, as measured by changes in assessed property values, the number of commercial building permits, and the values listed on the permits, increased in the zone. Assessed values for the 151 businesses in our random sample increased by 3.7 percent (\$2,458,987), and the assessed values for our sample of 31 large businesses in the zone increased by 8.5 percent (\$11,315,495). However, none of the increases in assessed values for both our samples are due to additions to or construction of buildings. In addition, the number of building permits increased from 506 permits with listed values of \$14,077,619 to 521 permits with listed values of \$14,974,071. These changes represent increases of 3.0 percent in the number of permits and 6.4 percent in the values listed on the permits.

The sales tax paid by the 30 businesses in our random sample decreased by 5.1 percent (\$44,732); however, the sales tax paid by a group of 9 large businesses in the zone increased by 8.0 percent (\$30,476). Furthermore, the amount of sales tax paid throughout Fresno County increased by 6.9 percent (\$16,971,000). Nevertheless, the countywide data may not be comparable with the zone data.

Only 8 (0.4 percent) of the 2,145 businesses in the zone took advantage of the tax benefits available under the enterprise zone program. These businesses claimed a total of \$65,317 in sales and income tax credits and \$19,353 in accelerated business expense deductions. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that more businesses claimed credits and deductions after the end of our review.

SUMMARY OF ECONOMIC ACTIVITY IN THE
LOS ANGELES-CENTRAL CITY ENTERPRISE ZONE

The Los Angeles-Central City enterprise zone is located in the city of Los Angeles and covers 3.5 square miles. The zone is located 13 miles from Los Angeles International Airport and 15 miles from Burbank Airport. Two interstate highways serve the zone, and rail service reaches the zone. The Los Angeles-Long Beach Light Rail system will serve the zone when it is completed. The businesses in the zone range from apparel to manufacturing.

At least four local benefits are available to businesses located within the Los Angeles-Central City zone. These benefits include industrial development bonds, revolving fund loans, expedited processing of building permits, and site-location assistance. The zone manager stated that some businesses used some of the local benefits. We found documents to support that, in calendar year 1987, \$1.45 million in industrial development bonds was loaned to one business and that \$90,000 in revolving fund loans was loaned to another business.

The number of businesses operating in the zone decreased from 2,075 in December 1986 to 2,072 in December 1987. This is a decrease of 3 businesses or 0.1 percent. However, in our random sample of 68 businesses, the number of people employed increased by 4.7 percent (177 people). Further, in our sample of 10 large businesses, the number of people employed increased by 12.7 percent (305 people). The number of people employed throughout Los Angeles County increased by 4.4 percent (169,333 people). However, the countywide data may include businesses that opened and businesses that closed while the zone data include only those businesses that remained open throughout the review period. Also, we do not know whether the same types of commercial activity are conducted in the zone as are conducted in the county. Therefore, the zone and the county may not be comparable. In the zone, 131 economically disadvantaged people secured jobs through job-training programs between October 1986 and December 1987.

The number of recipients of Aid to Families With Dependent Children (AFDC) within the zone decreased by 7.8 percent (2,606 recipients) while the number of AFDC recipients throughout Los Angeles County decreased by 4.5 percent (26,604 recipients). Furthermore, for the four months of data available, the number of general assistance recipients in the zone decreased by 3.0 percent (169 recipients) while the number of general assistance cases throughout Los Angeles County increased by 1.4 percent (544 recipients).

Capital investment, as measured by changes in assessed property values, the number of commercial building permits, and values listed on the permits, has increased in the zone. Assessed values for the 156 businesses in our random sample increased by 10.0 percent (\$9,443,503), and the assessed values for our sample of 20 large businesses in the zone increased by 5.0 percent (\$2,350,249). However, none of the increases in assessed values for our samples are due to additions to or construction of buildings. In addition, the number of building permits increased from 150 permits with listed values of \$15,463,984 to 162 permits with listed values of \$29,637,044. These changes represent increases of 8.0 percent in the number of permits and 91.7 percent in the values listed on permits.

The sales tax paid by the 28 businesses in our random sample increased by 2.8 percent (\$14,208) while sales tax paid by a group of fewer than five large businesses in the zone decreased by 6.2 percent (\$9,200). The amount of sales tax paid throughout Los Angeles County increased by 6.0 percent (\$244,907,000). However, the countywide data may not be comparable with the zone data.

Only 5 (0.2 percent) of the 2,072 businesses in the zone took advantage of the tax benefits available under the enterprise zone program. These businesses claimed a total of \$63,934 in sales and income tax credits and \$9,212 in accelerated business expense deductions. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that more businesses claimed credits and deductions after the end of our review.

SUMMARY OF ECONOMIC ACTIVITY IN THE
LOS ANGELES-PACOIMA ENTERPRISE ZONE

The Los Angeles-Pacoima enterprise zone is located in the city of Los Angeles, covers 6.7 square miles, and is 10 miles from Burbank Airport. Two interstate highways are adjacent to the zone, and rail service reaches the zone. The businesses in the zone range from aviation to apparel.

At least three local benefits are available to businesses located within the zone. The zone manager stated that some businesses have used some of the benefits. These benefits include industrial development bonds, revolving fund loans, and expedited processing of building permits. We found documents to support the use of two of these benefits: In calendar year 1987, \$375,000 in industrial development bonds was loaned to two businesses, and \$200,000 in revolving fund loans was loaned to three businesses.

The number of businesses operating in the zone increased from 238 in December 1986 to 239 in December 1987. This is an increase of one business or 0.4 percent. In our random sample of 91 businesses, the number of people employed increased by 11.3 percent (255 people). Similarly, in our sample of 9 large businesses, the number of people employed increased by 2.4 percent (51 people). The number of people employed throughout Los Angeles County increased by 4.4 percent (169,333 people). However, the countywide data may include businesses that opened and businesses that closed while the zone data include only those businesses that remained open throughout the review period. Also, we do not know whether the same types of commercial activity are conducted in the zone as are conducted in the county. Therefore, the zone and the county may not be comparable. In the zone, 45 economically disadvantaged people secured jobs through job-training programs between October 1986 and December 1987.

The number of recipients of Aid to Families With Dependent Children (AFDC) within the zone decreased by 7.7 percent (874 recipients), and the number of AFDC recipients throughout Los Angeles County decreased by 4.5 percent (26,604 recipients). However, for the four months of data available, the number of general assistance recipients in the zone increased by 26.6 percent (105 recipients) while the number of general assistance recipients throughout Los Angeles County increased by 1.4 percent (544 recipients).

Capital investment, as measured by changes in assessed property values, the number of commercial building permits, and the values listed on the permits, has increased in the zone. Assessed

values for the 160 businesses in our random sample increased by 17.5 percent (\$9,872,947) while the assessed values for our sample of 16 large businesses in the zone decreased by 3.5 percent (\$1,675,732). However, none of the increases in assessed values are due to additions to existing structures or construction of new buildings. In addition, the values listed on building permits increased from 71 permits valued at \$7,888,581 to 71 permits valued at \$16,712,901. This change represents an increase of 111.9 percent in the values listed on permits.

The sales tax paid by the 36 businesses in our random sample increased by 2.5 percent (\$14,289), and the sales tax paid by a group of fewer than five large businesses in the zone increased by 67.1 percent (\$22,355). The amount of sales tax paid throughout Los Angeles County increased by 6.0 percent (\$244,907,000). However, the countywide data may not be comparable with the zone data.

Only 8 (3.3 percent) of the 239 businesses in the zone took advantage of the tax benefits available under the enterprize zone program. These businesses claimed a total of \$54,119 in sales and income tax credits and \$15,000 in accelerated business expense deductions. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that more businesses claimed credits and deductions after the end of our review.

APPENDIX H

SUMMARY OF ECONOMIC ACTIVITY IN THE PORTERVILLE ENTERPRISE ZONE

The Porterville enterprise zone is located in the city of Porterville in Tulare County. The zone covers 0.4 square miles and is adjacent to Porterville Community College. The zone is located approximately 35 miles from Bakersfield Airport and near three state highways. The zone is served by rail. The businesses in the zone range from electronics to textiles.

At least four local benefits are available to businesses located in the zone. These benefits include support and guidance from representatives of government and private industry, an infrastructure improvement plan, and waivers for application fees for industrial development bonds. The zone manager stated that some businesses have used some of the local benefits. However, we could not document such use.

The number of businesses operating in the zone remained at six during 1987. However, the number of people employed by two of these businesses increased by 19.5 percent (8 people). For the same period, employment increased by 5.6 percent (6,433 people) within Tulare County. However, the countywide data may include businesses that opened and businesses that closed while the zone data include only those businesses that remained open throughout the review period. Also, we do not know whether the same types of commercial activity are conducted in the zone as are conducted in the county. Therefore, the zone and the county may not be comparable. In the zone, 36 economically disadvantaged people secured jobs through job-training programs between October 1986 and December 1987.

The number of recipients of Aid to Families With Dependent Children (AFDC) within the zone increased by 3.0 percent (229 people) while the number of AFDC recipients throughout Tulare County increased by 1.3 percent (483 recipients). However, the number of general assistance recipients in the zone decreased by 26.6 percent (17 recipients) while the number of general assistance recipients throughout Tulare County decreased by 11.6 percent (67 recipients).

Capital investment, as measured by changes in assessed property values, the number of commercial building permits, and the values listed on the permits, has increased in the zone. Assessed values for the six businesses for which we found data increased by 13 percent (\$1,719,515). However, none of this increase is due to additions to or construction of buildings. In addition, the values listed on building permits increased from \$57,450 listed on four

permits in 1986 to \$177,500 listed on four permits in 1987. This represents an increase of 209 percent in the values listed on the permits.

Only one of the six businesses in the zone took advantage of the tax benefits available under the enterprise zone program. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that more businesses claimed credits and deductions after the end of our review.

APPENDIX I

SUMMARY OF ECONOMIC ACTIVITY IN THE SAN DIEGO ENTERPRISE ZONE

The San Diego enterprise zone is located in the city of San Diego and covers 6.8 square miles. It is located three miles from San Diego International Airport (Lindberg Field). The Interstate 5 freeway bisects the zone, and rail service reaches the zone. The San Diego Trolley System serves the zone. The businesses in the zone range from electronics to manufacturing.

At least three local benefits are available to businesses located within the zone. These benefits include site-location assistance, expedited processing of building permits, and waivers of some building, planning, and engineering fees. We found no documents to support the use of any of these benefits in 1987; however, the zone manager stated that businesses have used all of these local benefits.

The number of businesses operating in the zone increased from 1,163 in 1986 to 1,181 in 1987. This is an increase of 18 businesses or 1.5 percent. In our random sample of 41 businesses, the number of people employed increased by 8.4 percent (133 people). In our sample of 16 large businesses, the number of people employed increased by 46.8 percent (533 people). The number of people employed throughout San Diego County increased by 5.8 percent (55,534 people). However, the countywide data may include businesses that opened and businesses that closed while the zone data include only those businesses that remained open throughout the review period. Also, we do not know whether the same types of commercial activity are conducted in the zone as are conducted in the county. Therefore, the zone and the county may not be comparable. In the zone, 288 economically disadvantaged people secured jobs through job-training programs between October 1986 and December 1987.

The number of recipients of Aid to Families With Dependent Children (AFDC) within the zone increased by 2.9 percent (465 recipients) while the number of AFDC recipients throughout San Diego County increased by 8.3 percent (8,932 recipients). Furthermore, the number of general assistance recipients in the zone increased by 22.3 percent (298 recipients) while the number of general assistance recipients throughout San Diego County increased by 57.2 percent (1,730 recipients).

Capital investment, as measured by changes in assessed property values, the number of commercial building permits, and the values listed on the permits, has increased in the zone. For the businesses that we sampled, assessed values changed slightly; however,

the values listed on building permits issued for construction in the zone increased substantially. Assessed values for the 147 businesses in our random sample increased by 0.2 percent (\$100,068) while the assessed values for our sample of 21 large businesses in the zone decreased by 1.3 percent (\$5,828,356). For two businesses, a total of \$1,387,184 in assessed values was due to additions to or construction of buildings. In addition, the number of building permits decreased from 83 permits to 46 permits, a drop of 44.6 percent. However, the values listed on the permits increased from \$8,171,366 to \$160,935,950, an increase of 1,870 percent.

The sales tax paid by the 22 businesses in our random sample increased by 15.1 percent (\$23,154), and the sales tax paid by a group of fewer than five large businesses in the zone increased by 6.0 percent (\$9,273). The amount of sales tax paid throughout San Diego County increased by 9.1 percent (\$88,253,000). However, the countywide data may not be comparable with the zone data.

Only 5 (0.4 percent) of the 1,181 businesses in the zone took advantage of the tax benefits available under the enterprise zone program. These businesses claimed a total of \$1,961 in sales and income tax credits and \$15,000 in accelerated business expense deductions. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that more businesses claimed credits and deductions after the end of our review.

**SUMMARY OF ECONOMIC ACTIVITY IN
THE SAN JOSE ENTERPRISE ZONE**

The San Jose enterprise zone is located in the city of San Jose. The zone covers 15.7 square miles and is located 3 miles from San Jose International Airport. Two interstate highways and one state highway are located within the zone, which is also served by rail and by the nearby ports of Oakland and San Francisco. An additional feature of the zone is its proximity to the San Jose Light-Rail Line. The businesses in the zone range from construction to food processing.

At least two local benefits are available to businesses located in the zone. These benefits include revolving fund loans and suspension of construction taxes. The zone manager stated that some businesses have used some of the local benefits. We found documents to support the use of one of these benefits: Some businesses used a total of \$460,000 in revolving fund loans in calendar year 1987.

The number of businesses operating in the zone increased from 4,104 in 1986 to 4,160 in 1987. This is an increase of 56 businesses or 1.4 percent. Furthermore, in our random sample of 49 businesses, the number of people employed increased by 6.2 percent (45 people). Similarly, in our sample of 12 large businesses, the number of people employed increased by 7.2 percent (179 people). In contrast, the number of people employed in Santa Clara County increased by 1.8 percent (13,866 people). However, the countywide data may include businesses that opened and businesses that closed while the zone data include only those businesses that remained open throughout the review period. Also, we do not know whether the same types of commercial activity are conducted in the zone as are conducted in the county. Therefore, the zone and the county may not be comparable. In the zone, 201 economically disadvantaged people secured jobs through job-training programs in 1987.

The number of recipients of Aid to Families With Dependent Children (AFDC) within the zone increased by 1.7 percent (322 recipients) while the number of AFDC recipients throughout Santa Clara County increased by 0.3 percent (192 recipients). In contrast, the number of general assistance recipients in the zone decreased by 15.8 percent (143 recipients) while the number of general assistance recipients throughout Santa Clara County decreased by 11.0 percent (255 recipients).

Capital investment, as measured by changes in assessed property values, the number of commercial building permits, and the values listed on the permits, has increased in the San Jose zone.

Assessed values for the 140 businesses in our random sample increased by 9.0 percent (\$30,100,010), and the assessed values for the 23 businesses in our sample of large businesses in the zone increased by 5.4 percent (\$4,858,514). However, none of the increases in assessed values for our samples are due to additions to or construction of buildings. In contrast, the number of building permits decreased from 285 permits with listed values of \$120,057,271 to 278 permits with listed values of \$71,333,734. These changes represent decreases of 2.5 percent in the number of permits and 40.6 percent in the values listed on the permits.

The sales tax paid by the 22 businesses in our random sample decreased by 32.1 percent (\$377,201) while the sales tax paid by a group of fewer than five large businesses in the zone increased by 31.8 percent (\$122,820). Also, the amount of sales tax paid throughout Santa Clara County increased by 5.7 percent (\$55,260,000). However, the countywide data may not be comparable with the zone data.

Only 3 (.007 percent) of the 4,160 businesses in the zone took advantage of the tax benefits available under the enterprise zone program. These businesses claimed a total of \$47,836 in sales and income tax credits and \$12,500 in accelerated business expense deductions. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that more businesses claimed credits and deductions after the end of our review.

**SUMMARY OF ECONOMIC ACTIVITY IN
THE YUBA-SUTTER ENTERPRISE ZONE**

The Yuba-Sutter enterprise zone is located in both Yuba and Sutter counties. The zone covers 14.9 square miles and encompasses parts of the cities of Yuba City and Marysville. The zone is located 25 miles from Sacramento Metropolitan Airport and is served by rail and interstate and state highways. Businesses in the zone are involved in a variety of commercial activities that range from electronics to retail sales.

At least four local benefits are available to businesses located in the zone. These benefits include low and no-interest financing on industrial sites, guaranteed sewer and water reserves, loan and financing packages, and expedited processing of plans needed for building permits. The zone manager has stated that businesses have used all of these benefits. We found documents to support the use of two of these benefits: The processing of nine plans needed for building permits was expedited between October 1986 and December 1987, and one loan was made in 1987.

The number of businesses operating in the zone decreased from 925 in December 1986 to 923 in December 1987. This is a decrease of 2 businesses or 0.2 percent. However, in our random sample of 56 businesses, the number of people employed increased by 42.6 percent (430 people). In addition, in our sample of seven large businesses, the number of people employed increased by 10.1 percent (51 people). In contrast, the number of people employed throughout Yuba and Sutter counties increased by 3.4 percent (1,392 people). However, the countywide data may include businesses that opened and businesses that closed while the zone data include only those businesses that remained open throughout the review period. Also, we do not know whether the same types of commercial activity are conducted in the zone as are conducted in the county. Therefore, the zone and the county may not be comparable. In the zone, 141 economically disadvantaged people secured jobs through job-training programs between October 1986 and December 1987.

The number of recipients of Aid to Families With Dependent Children (AFDC) within the zone increased by 6.2 percent (728 recipients) while the number of AFDC recipients throughout Yuba and Sutter counties increased by 5.6 percent (765 recipients). Furthermore, the number of general assistance recipients in the zone increased by 17.6 percent (9 recipients) while the number of general assistance recipients throughout Yuba and Sutter counties increased by 27.4 percent (17 recipients).

Capital investment, as measured by changes in assessed property values, the number of commercial building permits, and the values listed on the permits, has changed in the zone. Assessed values for the 155 businesses in our random sample decreased by 1.5 percent (\$630,651) while the assessed values for the 17 large businesses in the zone increased by 34.1 percent (\$17,058,818). However, only \$124,373 in increased assessed values for the random sample was due to additions to or construction of buildings. In addition, the number of building permits decreased from 116 permits with listed values of \$11,753,094 to 93 permits with listed values of \$3,733,215. These changes represent decreases of 19.8 percent in the number of permits and 68.2 percent in the values listed on the permits.

The sales tax paid by the 39 businesses in our random sample increased by 1.9 percent (\$10,374), and the sales tax paid by a group of fewer than five large businesses increased by 9.3 percent (\$12,871). Similarly, the amount of sales tax paid throughout Yuba and Sutter counties increased by 2.7 percent (\$1,000,000). However, the countywide data may not be comparable with the zone data.

Only 3 (0.3 percent) of the 923 businesses in the zone took advantage of the tax benefits available under the enterprise zone program. These businesses claimed a total of \$13,755 in sales and income tax credits and \$1,963 in accelerated business expense deductions. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that more businesses claimed credits and deductions after the end of our review.

SUMMARY OF ECONOMIC ACTIVITY IN
THE BAKERSFIELD EMPLOYMENT AND ECONOMIC INCENTIVE AREA

The Bakersfield employment and economic incentive area is located partially in the city of Bakersfield and partially in an unincorporated section of Kern County. The incentive area covers four square miles and is located seven miles from Bakersfield Airport. The incentive area is served by rail and is accessible by two state highways. Businesses in the incentive area are involved in a variety of commercial activities that range from construction to aviation.

At least two local benefits are available to certified businesses located in the incentive area. These benefits include financing programs and expedited processing of building permits. The area manager has stated that some businesses have used these benefits; however, we could not document such use.

Eight certified businesses operated in the incentive area as of December 1987. The total number of businesses operating in the area decreased from 592 in December 1986 to 584 in December 1987. This is a decrease of 8 businesses or 1.4 percent. However, the five certified businesses for which we could find data increased their employment by 10.6 percent (7 people). In contrast, the number of people employed throughout Kern County decreased by 1.7 percent (3,500 people). During the review period, certified businesses and businesses that applied for certification in the area employed a total of 40 residents of high density unemployment areas (HDUAs).

Between December 1986 and December 1987, the number of recipients of Aid to Families With Dependent Children (AFDC) increased within the HDUA for the incentive area by 10.2 percent (1,773 recipients) while the number of AFDC recipients throughout Kern County increased by 10.9 percent (3,865 recipients). However, between October 1986 and December 1987, the number of general assistance recipients in the HDUA for the incentive area decreased by 37.9 percent (99 recipients) while the number of general assistance recipients throughout Kern County decreased by 42.1 percent (208 recipients).

Capital investment, as measured by changes in assessed property values, the number of commercial building permits, and the values listed on the permits, has increased in the incentive area. Assessed values for the six certified businesses for which we could obtain data increased by 4.8 percent (\$120,953). In addition, during 1987, 67 building permits were issued for the incentive area, and the permits listed a total of \$6.9 million for proposed construction. Complete building permit data for 1986 for the area is not available.

The sales tax paid by fewer than five certified firms for which we could obtain data increased by 10.3 percent (\$9,456). In contrast, the amount of sales tax paid throughout Kern County decreased by 2.9 percent (\$6,461,000).

None of the eight certified businesses in the incentive area took advantage of the tax benefits available under the employment and economic incentive program. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that some businesses claimed credits and deductions after the end of our review.

SUMMARY OF ECONOMIC ACTIVITY IN THE
SACRAMENTO EMPLOYMENT AND ECONOMIC INCENTIVE AREA

The Sacramento employment and economic incentive area is located partially in the city of Sacramento and partially in an unincorporated part of Sacramento County. The incentive area covers 2.8 square miles and is located 5 miles from Sacramento Metropolitan Airport. It is served by two interstate highways in addition to a branch railroad line. The incentive area contains a variety of businesses that range from electronics to health care.

At least three local benefits are available to businesses located in the incentive area. The area manager stated that some of the businesses have used some of the local benefits. These benefits include hiring assistance, waivers of fees for building permits and business licenses, and exemptions of application fees for industrial development bonds. We found documents to support that 22 businesses received hiring assistance. Not all of these businesses were certified.

The number of businesses operating in the incentive area decreased from 264 in 1986 to 261 in 1987. This is a decrease of three businesses or 1.1 percent. However, 15 certified businesses in the incentive area hired 55 additional employees. In addition, we identified 22 businesses in the incentive area that have hired new employees from the Job Bank.⁸

The number of recipients of Aid to Families With Dependent Children (AFDC) within the high density unemployment area (HDUA) for the incentive area increased by 1.3 percent (535 recipients) while the number of AFDC recipients throughout Sacramento County increased by 2 percent (1,928 recipients). In addition, the number of general assistance recipients within the HDUA for the incentive area increased by 36.9 percent (868 recipients) while the number of general assistance recipients throughout Sacramento County increased by 28.5 percent (1,053 recipients).

⁸The Job Bank is administered by the Sacramento Housing and Redevelopment Agency and assists businesses to become certified. One way businesses can become certified is by hiring employees from high density unemployment areas.

Capital investment, as measured by changes in assessed property values, the number of commercial building permits, and the values listed on the permits, has increased in the incentive area. Assessed values for nine of the certified businesses increased by 4.0 percent (\$191,957.) However, none of the increases in assessed values is due to additions to or construction of buildings. In addition, the number of building permits increased from 95 permits with listed values of \$12,404,716 to 104 permits with listed values of \$14,754,227. These changes represent increases of 9.5 percent in the number of permits and 18.9 percent in the values listed on the permits.

Sales taxes paid by fewer than five of the certified businesses in the incentive area increased by 18.7 percent (\$846). Similarly, sales taxes paid throughout Sacramento County increased by 6.4 percent (\$28,937,000).

No businesses in the incentive area took advantage of the tax benefits available under the employment and economic incentive program. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that more businesses claimed credits and deductions after the end of our review.

SUMMARY OF ECONOMIC ACTIVITY IN THE
LOS ANGELES-WATTS EMPLOYMENT AND ECONOMIC INCENTIVE AREA

The Los Angeles-Watts employment and economic incentive area is located in parts of the cities of Lynwood, Los Angeles, South Gate, and Huntington Park, in addition to an unincorporated part of Los Angeles County. The incentive area covers 7 square miles and is located 12 miles from Los Angeles International Airport and 10 miles from the Long Beach Airport. The incentive area is served by rail and two interstate highways. The incentive area will also be served by the Los Angeles-Long Beach Light-Rail System when it is completed. The incentive area contains a variety of businesses that range from engineering to lumber.

At least six local benefits are available to certified businesses located in the incentive area. The area manager stated that some of the businesses have used some of the local benefits. These benefits include revolving loan funds, industrial development bonds, financing programs, site-location assistance, expedited processing of building permits, and rebates for improvements. We found documents to support the use of two of these benefits in 1987: One \$25,000 loan from the revolving loan fund and six rebates for improvement were issued.

The number of businesses operating in the incentive area increased from 1,421 in 1986 to 1,450 in 1987. This is an increase of 29 businesses or 2.0 percent. Nevertheless, in our sample of six certified businesses, the number of people employed decreased by 10.6 percent (19 people). Similarly, in our random sample of 58 businesses, the number of people employed decreased by 0.8 percent (7 people). Finally, in our sample of 37 large businesses, the number of people employed decreased by 5.6 percent (155 people). In contrast, the number of people employed throughout Los Angeles County increased by 4.4 percent (169,333 people). However, the countywide data may include businesses that opened and businesses that closed while the incentive area data include only those businesses that operated throughout the review period. Also, we do not know whether the same types of commercial activity are conducted in the county as are conducted in the incentive area. Therefore, the incentive area and the county may not be comparable.

The number of recipients of Aid to Families With Dependent Children (AFDC) in the high density unemployment area (HDUA) for the incentive area decreased by 5.7 percent (7,594 recipients) while the number of AFDC recipients throughout Los Angeles County decreased by 4.5 percent (26,604 recipients). Furthermore, for the four months of data available, the number of general assistance recipients in the HDUA for the incentive area decreased by 1.1 percent (125 recipients) while the number of general assistance recipients throughout Los Angeles County increased by 1.4 percent (544 recipients).

Capital investment, as measured by changes in assessed property values, the number of commercial building permits, and the values listed on the permits, has increased in the incentive area. Assessed values for 15 of the certified businesses increased by 1.7 percent (\$60,200). In addition, assessed values for our random sample of 152 businesses and our sample of 52 large businesses within the incentive area increased by 4.0 percent (\$866,147) and 7.9 percent (\$2,558,374), respectively. However, none of the total increase of \$3,484,721 in assessed values for both samples is due to additions to or construction of buildings. In addition, the number of building permits increased from 38 permits with a listed value of \$1,653,853 to 39 permits with a listed value of \$3,067,935. These changes represent increases of 5.3 percent in the number of permits and 85.5 percent in the values listed on the permits.

The sales taxes paid by fewer than five of the certified businesses in the incentive area decreased by 4.3 percent (\$1,017). Conversely, the amount of sales taxes paid throughout Los Angeles County increased by 6.0 percent (\$244,907,000). However, the countywide data may not be comparable to the incentive area data.

None of the businesses in the incentive area took advantage of the tax benefits available under the employment and economic incentive program. However, the Franchise Tax Board estimated that only 38 percent of the tax returns that it expects to process during 1988 were available for our review by the completion of our fieldwork; therefore, it is possible that more businesses claimed credits and deductions after the end of our review.

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BUSINESS, TRANSPORTATION AND HOUSING AGENCY

June 20, 1988

Mr. Thomas W. Hayes
Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

Thank you for the opportunity to review and comment on the draft report "A Review of Economic Activity in the State's Enterprise Zones and Employment and Economic Incentive Areas". I would also like to thank your staff for their professionalism on this unique audit project.

We accept and agree with the recommendation advanced in the report. I have directed the Department of Commerce to take the appropriate action and to adhere to the recommended time line. They will keep your staff informed of their activities relating to this recommendation.

Because these comments will be included in the report, I want to take the opportunity to inform the readers of two concepts not emphasized in the report.

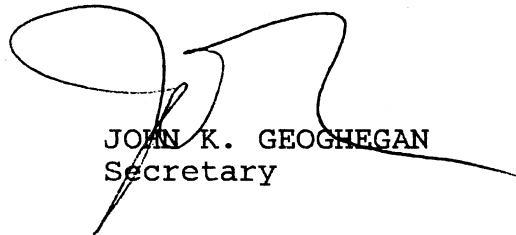
- A. In order to become an enterprise zone or employment incentive area, a community must be a disadvantaged area. The present zones and areas competed against 60 other applicants for designation. From an investment standpoint, they were "worst of the worst".

This is important to gain perspective on the results of the study. The increased economic activity in these areas, to the point of out-performing some of the counties, is stunning when you consider their condition during application.

- B. The report concentrates only on the economic incentives of the program. The reader should keep in mind that all zones and incentive areas were required to staff and fund local economic development programs, attend industrial trade shows and to promote and merchandise their areas. These "normal" local activities result in economic development. Although they are not state tax incentives, and have not been a part of the report, they are very much a part of the enterprise zone programs. It is possible that these activities have had a significant impact on the economic activity.

Again thank you for the opportunity to review and comment on this report. Your people have done an outstanding job of evaluating these programs.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Geoghegan', with a long horizontal flourish extending to the right.

JOHN K. GEOGHEGAN
Secretary

cc: Kenneth L. Gibson
Department of Commerce

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps