The Future of Enterprise Zone Policy in Indiana

Four Scenarios

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Prepared for:
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A Requirement for the Bachelor of Urban Planning and Development Degree

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But he was also an optimist. He knew the signs in the sky of this city were made only from gas and glass. He knew gas and glass could be broken, the gas set free, the glass bent into other shapes and that even the city itself was something imagined by men and women, and if it could be imagined into one form, it could be imagined into another.

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This thesis could not have been finished without the support of many people. As with all research projects, this project was built on a strong foundation of knowledge. Without the research of other people to build on, our society could never advance. I would like to thank the numerous authors that have contributed to this report. Specifically, I would like to express my thanks to Dr. James L. Pyle, Director of the Office of Research and Sponsored Programs for financing this project through the Internal Grants program. I am indebted to Dr. Francis H. Parker, AICP, my thesis committee chair. Without his patience and helpful criticisms, this project would never have been completed. I would also like to express my gratitude to my family; without their support over the last five years, I never could have made it this far.
The economic distress caused by the Great Depression forced the federal government to take a new role in urban policy. Roosevelt’s New Deal helped to curb the crippling unemployment of the Depression with programs like the Public Works Administration and the Federal Housing Administration. Politicians concerned with the condition of housing, particularly in urban areas, passed the Housing Act of 1937. These programs focused on physical development, such as infrastructure and public housing. This early set of urban policies helped to formalize a new relationship between Washington and American cities.

In 1965, the creation of the Department of Housing and Urban Development (HUD) helped spawn a new generation of urban policies such as the expanded grants-in-aid programs. Under Kennedy and Johnson, the grants-in-aid programs were generally categorical grants. Localities, bypassing the state, receive categorical grants-in-aid for specific purposes set by the federal bureaucracy. Kennedy and Johnson expanded the grants-in-aid program from $3.9 billion in 1960 to over $14 billion in 1968 (Kantor 1988).

Nixon’s New Federalism programs dropped many of these categorical grant programs. However, in 1972 Nixon began a new program of federal revenue sharing, which set aside over $30 billion to be spent over five years (Marshall 1989). In addition, Nixon collapsed many categorical grant programs into a single block grant for very broad or even general purposes, limiting federal oversight and increasing local discretion in determining the use of funds. (Kantor 1988)
The Community Development Block Grant provided urban aid specifically to communities larger than 50,000. According to Marshall (1989), increasing the number of communities eligible for federal aid diluted the moneys available to the most needy areas. However, under Nixon the grants-in-aid program expanded to $26.8 billion by 1974 (Kantor 1988).

During the Carter administration, the urban programs of the Sixties all but disappeared: “by mid-1978, it was clear that the United States did not have, and would not have, anything that could be termed a national urban policy” (So 1988). However, 1978 saw the creation of the Urban Development Action Grant, to be used only in the most distressed urban areas. Marshall (1989) states that, “The key concept with UDAGs...was to leverage local investment with federal ‘seed money’...Each application for UDAGs had to include binding letters of commitment from the private sector for development projects.” The continued effort of successive administrations to create a national urban policy was halted with Reagan.

Reagan campaigned against, and beat, Carter with the promise to “take government off the backs of the people” (Grantham 1987). According to Reagan, the economic and social problems in America were caused by unnecessary government regulation and controls on free enterprise. Reagan encouraged local and state governments to determine local urban policies and programs. By 1986, the administration discontinued revenue sharing and, “CDBGs were cut from over $4 billion in 1981 to under $3 billion in 1988” (Marshall 1989). The remaining funds in the grants-in-aid programs shifted from neighborhood and social service programs to downtown development schemes.

However, Reagan was attracted to a new urban development policy instituted by the conservative Thatcher in the United Kingdom. With a mix of eighteenth century liberalism and late-twentieth century conservatism, this era of decentralization incubated this new program based on laissez faire capitalism. The Enterprise Zone was developed to generate investment in the most depressed urban areas by removing regulatory and financial barriers
to free enterprise: such as wage and land use controls and providing tax incentives. Federal enterprise zone legislation never passed through Congress yet thirty-seven states (including Indiana) have passed some type of enterprise zone program.

**Purpose of this project**

Since enterprise zone legislation was passed by the Indiana General Assembly in 1983, fifteen zones have been designated. The legislation limits each zone to a ten year life span. The first six Indiana zones will reach their ten year limit at the end of next year, 1993. At that time, the General Assembly is to determine if zone designation will be renewed. However, the Assembly could decide to let the program expire under sunset laws. If the program sunsets, then the program would disappear when the last zone reaches its ten year limit in 2002.

Controversy has surrounded enterprise zone programs around the country. According to Rubin and Wilder (1989) the conceptual debate on enterprise zones “revolves around two central issues: the potential of zone incentives to generate new employment and investment activity and the direct and indirect costs of such incentives.” Indiana’s program has seen its share of criticism as well. Purdue economist Papke (1990), found the entire program “expensive, regressive, and ineffective.” Regardless of these criticisms, the fact remains that the enterprise zone is the state’s sole urban policy.

After ten years of enterprise zones, Indiana cities still have large pockets of unemployment and dis-investment. Before the fate of the Indiana enterprise zone is determined, the state must explore each available option. The purpose of this project is to do just that, explore the available options concerning the future of the Indiana enterprise zone program. The existing program has been examined, along with its criticisms and its praises. This
neutral look has developed four different scenarios. With this neutral information, Indiana lawmakers will be able to better determine the fate of the enterprise zone in Indiana.

**Research Process**

The first step was to determine the goals and objectives, or purpose of the program. Once the purpose was defined, the program’s assets and liabilities were examined. These assets and liabilities led to a list of needed changes in the program. Four scenarios were developed to provide four different alternatives for future programs. Each scenario is a “model” enterprise zone program, divided into two parts: administration and incentives.

The program’s purpose was primarily derived from a series of interviews conducted throughout the process. Assuming that those involved with the administration of the program know best, interviews were limited to local zone directors, state board members and academics. Twenty interviews were conducted to determine the professional and personal opinions of these experts. The controversial program generated a variety of attitudes and beliefs concerning the program. Some responses stated the need to completely abolish the program, while others found the program entirely successful.

The interviews also helped to generate assets and liabilities of the program. Again, the subjects provided a variety of opinions on what works and what does not. Most of the local directors had problems with specific investment packages, while others pointed out structural flaws. The interviews were supported by a collection of published and unpublished reports on the Indiana enterprise zone experience. A series of reports commissioned by the state enterprise zone board, and conducted by James Papke (1988, 1989, 1990) of Purdue, used various econometric models to determine the program’s effectiveness. The negative nature of these reports was disputed in a report by Marilyn Rubin (1991a) of the City University of New York. A report by Barry Rubin and Margaret Wilder (1989) of Indiana Univer-
sity used a shift/share analysis of the Evansville zone to show that enterprise zones are effective. The argument for and against enterprise zones is well fought on both sides. However, all of the arguments generate a clear picture of the assets and liability of the Indiana program.

An unclear purpose was noted as the program’s biggest liability. Purpose became the central argument for examining the four scenarios. With four separate purposes, the four scenarios were developed. One scenario is based on the existing purpose and provides the needed changes to the existing program. Another scenario promotes job creation, while another promotes long-term community viability. The final scenario looks at a completely different program to bring about economic revitalization.

**The Format**

The following chapter, *Origins of the Enterprise Zone*, will acquaint the reader with the history and the development of enterprise zone concepts and policies. Chapter 3, *Enterprise Zones in Indiana*, will detail the background of the enterprise zone program in Indiana and discuss the outcomes of recent evaluations of the Indiana program. In Chapter 4, *Determining Scenarios*, the results of the interviews will be detailed and the basis for each of the scenarios is discussed. Chapter 5, *Four Scenarios*, provides a detailed look at each of the scenarios. The final chapter, *Final Conclusions*, provides final findings and recommendations.
Works Cited


The central concept behind the *laissez faire* "free enterprise" zone, ironically stems from an article in England's socialist *New Society* magazine. Written in collaboration by Reyner Banham, Paul Barker, Peter Hall and Cedric Price (1969), the article criticizes the then current planning practices in Britain. The authors find planning as a kind of tangle we have got ourselves into. Somehow, everything must be watched; nothing must be allowed simply to 'happen.' No house can be allowed to be commonplace in a way that things just *are* commonplace: each project must be weighed, and planned, and approved, and only then built, and only after that discovered to be commonplace after all. (ibid.)

According to the article:

the whole concept of planning has gone cockeyed. What we have today represents a whole cumulation of good intentions. And what those good intentions are worth, we have almost no way of knowing.

Unlike the commonplace architecture of the nineteenth century, whose worth was judged purely by its ability to satisfy its occupants, twentieth century plans are judged as "fulfilled when it is merely completed." Banham, et. al., state that there is really no way of knowing if planning is actually doing what it is supposed to. Therefore, the authors proposed the Non-plan.

**An experiment in Non-planning**

Banham, Barker, Hall and Price (1969) proposed an experiment in Non-planning to test the validity of current planning practices. The experiment would set three Non-plan
zones where all physical planning controls would be thrown out. Only planning controls would be eliminated, no other regulatory requirements would be affected. Most planning decisions made by professional planners are value judgements, and "physical planners have no right to set their value judgement up against anyone else's." The authors feel that without planning controls, the experiment would at least allow "one to find out what people want; at the most, one might discover the hidden style of mid-twentieth century Britain."

According to Hall (1991), this article was met with "embarrassing silence" and was "undoubtedly premature." In 1977, in a speech to the annual conference of the Royal Town Planning Institute, Hall reintroduced the Non-plan concept as a radical experiment in urban revitalization.

**The Freeport Solution**

By 1977, the attitude among planners and politicians had changed. Concern for the decline of the inner city was paramount, both in England and the United States. Hall concluded that many of the conventional economic development strategies may not work for the most depressed urban areas. Hall (1977) then presented:

>a final possible remedy ...the Freeport solution. Small selected areas of inner cities would be simply thrown open to all kinds of initiative, with minimal control. In other words, we would aim to recreate the Hong Kong of the 1950s and 1960s inside inner Liverpool or inner Glasgow.

Based on experiences in Hong Kong, Hall felt that by removing the barriers to free enterprise, re-development in older manufacturing centers could occur.

Hall’s Freeport had three central concepts:

1. The areas would be outside British foreign exchange and customs controls, as an encouragement to entrepreneurship and overseas capital. Overseas companies and businessmen would be welcome, and all goods could be imported and sold free of tax within the Freeport area — or reexported. Areas of this type, known as free trade zones, already exist around the world — Hong Kong, Taiwan, and the Canary
Islands are well-known examples. The Freeport version would be "right in the heart of one of our cities."

2. The areas would be "based on fairly shameless free enterprise." Personal and corporate taxation, together with government regulation, would be reduced to the absolute minimum, and the normal range of social services would not be provided. Unions would be allowed within the Freeport, as in Hong Kong, but closed shops would not be permitted. Wage and price guidelines would not apply.

3. Residence in the areas "would be based on choice." Those who chose to live in the Freeport would have to accept the reduced level of benefits along with the reduced level of taxation. For all intents and purposes, the areas would be outside the normal boundaries of the host country, and administered as a Crown Colony or Protectorate—like the relationship of Hong Kong to Britain. (Butler 1981)

Hall believed that the only way to help the inner city is to abandon previous government programs which obviously do not work. Hall's Freeports would be set up in areas abandoned by both population and investment, allowing the Freeport to start with a clean slate. "Highly unorthodox methods" (Hall in Butler 1981) are necessary to make any change to the existing urban condition. However, Hall added a disclaimer reiterating the point that the Freeport represents only an "extremely last-ditch solution" (1991):

I do not expect the British Government to act on this solution immediately, and I want to emphasize that I am not recommending it as a solution for our urban ills. I am saying that it is a model, and an extreme one, for a possible solution. (ibid.)

When Hall, self-proclaimed social democrat (1991), presented the Freeport in 1977, the socialist Labour Party was in control. Not surprising, the socialists in charge did not favor Hall's laissez faire Freeports. However, the Conservative Sir Geoffrey Howe did push the concepts forward. In a 1978 speech, Howe first introduced his proposal for the enterprise zone (Butler 1981).

**Howe's Enterprise Zones**

Howe acknowledged the urban ills of Britain and offered two political philosophies for the future. The first, the "Socialist alternative" (Howe 1981), assumes that only the
government can guide the economy through the appropriate allocation of resources. The second choice, the “libertarian or Conservative approach” (ibid.), rejects the former and assumes that private initiative will provide the best allocation. The Conservative Howe argues that the libertarian approach will provide the best economic policies for the inner city:

...The original prosperity of our cities was founded on the pursuit of profit. Why should we not again seek a solution that is based on the view that those who help restore prosperity are entitled to expect financial reward — and on a substantial scale? (Howe in Butler 1981)

From this point, Howe introduced three alternative ideas to promote private enterprise in the inner city. The first alternative, the Freeport idea, simply provided free trade zone status for specific areas near transshipment points. The second alternative, Hall’s “Crown Colony” idea was not endorsed by Howe: “As I say, I should not at this stage support an experiment as dramatic as this; but the idea should be kept at the back of one’s mind — if only as a yardstick against which to judge more modest proposals” (1981). The third proposal, Howe’s personal proposal, was the enterprise zone.

Howe’s enterprise zone differed from Hall’s earlier proposal on many aspects. The enterprise zone was not as radical as the “Crown Colony” idea. However, like Hall, Howe “saw the zones as radical versions of a climate that should be created throughout the country” (Butler 1981). The zones would also a provide a laboratory setting to test a variety of social experiments: “my proposals are not intended to be a politically exclusive idea but an experiment that could fire the imagination of people of all parties or in none” (Howe in Butler 1981).

Howe suggested four or five places to designate enterprise zones. These first enterprise zones all included substantial amounts of urban land available for development. Howe’s enterprise zone included seven key elements:

1. Detailed planning controls would cease to apply. Providing a building was for a legal purpose, complied with the most basic antipollution, health, and safety
standards, and met stated height and similar restrictions, it would be allowed automatically.

2. Local and national governments would be required to dispose of any land they owned in the zone within a specified time, by auction to private bidders.

3. All new developments in the zone would be free of rent control.

4. Entrepreneurs who established enterprises in the zone would be exempt from Development Land Tax (capital gains). In addition, there would be a reduction, or even elimination of rates (property taxes) on all business premises.

5. Businesses would be given a guarantee that the tax laws would not be changed to their disadvantage for at least a stated period. On the other hand, no other government grants or subsidies would be available to any enterprise in the zone.

6. Certain other legal obligations would not apply, such as wage and price controls and certain provisions of the Employment Protection Act.

7. All the conditions would be guaranteed for stated “and substantial” number of years. (Butler 1981)

The bottom-line of Howe’s proposal was to provide the best environment for people to take risks. Risk is a fundamental aspect of investment. Without risk, people can not make money, without money, other people are not employed. The Enterprise Zone would not insure this risk, “but the obstacles to success would be removed (Howe 1981).

Howe realized that the implementation and administration of the zone would be difficult. To administer each zone, Howe suggested that a zone authority be set up. This authority could be financed by private capital, and that the residents of the zone might “be given a share in the action: a right to an equity stake in the new authority” (ibid.). Howe was concerned that the “grey men whose job it is to consider the ‘administrative difficulties’ of any new idea would be ready enough to start manufacturing the small print that could stop the initiative in its tracks.” However, Howe was even more concerned with providing a possible solution to urban problems: “No one can be sure whether my suggested approach would work or not (and I emphasis that it is a personal suggestion). But it is about time we were prepared to make some fresh start” (ibid.).
Enterprise zones as British policy

It was not until 1979, when Thatcher and the Conservatives took control of the government, that Howe’s enterprise zones became anything more than radical experiment. In 1980, as Thatcher’s new Chancellor of the Exchequer (Treasury Secretary), Howe announced the government’s plans to set up six zones around the country (Butler 1981). Enterprise zone legislation was passed by Parliament in late 1980.

This legislation had four major components: “designation and administration of the zones; tax changes; modifications of planning and zoning procedures within the zones; and a smaller number of special regulatory changes” (ibid.). Each local government was required to establish an Enterprise Zone Authority to administer the zone. Tax changes included total exemption from the Development Land Tax or capital gains tax and property tax, allowed for a 100% capital allowance for buildings and machinery against the corporate income tax. Local governments were reimbursed by the national treasury for all foregone tax revenue. Planning and zoning procedures were simplified across the board. Any development that met the broad planning requirements was given automatic clearance. General paperwork required by the government of all businesses, was minimized for zone businesses. (ibid.)

The British Enterprise Zone was much different than what Howe had envisioned in 1978. Firstly, Howe’s enterprise zone was to replace all former urban programs, yet the final enterprise zone was simply an “incremental addition” (Hardison 1981) to other programs. Howe also called for the abolition of all planning controls, including health and environmental regulation. However, the enterprise legislation not only suggested that each zone authority make a ‘plan,’ but also kept all health, safety, and pollution controls (ibid.). According to Butler (1981)

the provisions of the legislation make it clear that the primary aim of Britain’s Enterprise Zones is to encourage industrial and commercial redevelopment in derelict or cleared areas of cities. It is not the purpose of the zone to bring about the mixed use of the existing buildings, or to stimulate the housing market within the zones.
There are some very important elements of Sir Geoffrey’s first speech on the Enterprise Zone that are absent from the legislative package creating the zones. Some cynics might even argue that the “grey men” that the chancellor feared would put small print into the measure have actually succeeded in taking the large print out!

Hall (1991) found the enterprise legislation as a “particularly poignant example of the way that, especially in Britain, radical ideas are taken on board by the establishment, only to be sanitized into something completely harmless.” However, the legislation did carry forward two fundamental concepts of Howe’s enterprise zone: reduction of bureaucratic and financial barriers to free enterprise.

Lessons Learned

In 1987, the Conservative Thatcher government decided not to continue the enterprise zone experiment. Ironically, in 1981, Pirie, head of the Adam Smith Institute and former supporter of the enterprise zone stated

There never was a sudden point at which we knew the idea was doomed. It died slowly, by a process of attrition, between the original announcement of intent and the final wording incorporated into the budget in March... The final form of the proposal for enterprise zones is neither bold nor imaginative; and it certainly is not new. (Hardison 1981)

Various reasons point to the demise of the British Enterprise Zone; however, as Hall (1991) stated, one reason stands out; “the experiment in practice produced relatively small numbers of jobs, and at appreciable — but perhaps not excessive — cost.”

The experimental aspect of the British program provided for year-to-year monitoring of the program. Two successive teams of analysts formulated similar conclusions, that the enterprise zone did create jobs, but at a rather high cost. The first evaluation, studying the first two years of the program, found that nearly three-quarters of the 725 new firms (Hall 1991) locating in the zone would have located there without the enterprise zone. Assuming this, the eleven enterprise zones created 4,000 jobs between 1981 and 1986. However, at a
total cost of £180 million ($270 million), the cost per job was about £45,000 or $67,000 (Schwarz 1988). The second evaluation, reported in 1987, found that of 63,300 jobs in the twenty-three zones, only 35,000 of them were created by the enterprise zone program. The cost to the local public of these jobs ranged from £23,000 to £30,000 per job.

One important lesson learned from the British experiment is that the ability of the enterprise zone to stimulate new economic activity is questionable. A study by Schwarz and Volgy (1988), discovered that the tax incentives provided through the program had little effect on small business. An interview with one zone business illustrated this point:

Peter and his wife Angela set up a paint wholesaling business in the zone after Peter was laid off by a paint wholesaler in another part of Dudley. They have one employee. According to Peter, he and Angela would have opened their business in any case, with or without the zone, but since the zone was there they took advantage of it. No property tax meant lower rent, and the new building they occupied had lower heating costs than the old industrial premises available elsewhere... Had these savings, then, helped to hire their employee? "No," Peter responded... The total savings on their 900 sq.ft. came to just over £1 per square foot per year..., hardly enough to pay an additional worker. Peter and Angela hired an employee because they developed the necessary volume of business, which is exactly what they would have done outside the zone. (Schwarz 1988)

Butler was also concerned that enterprise zones may not create new investment, but rather guide investment that would happen elsewhere, to the enterprise zone (Butler 1981). If investment meant for other areas became the primary source of new investment for enterprise zones, than the net improvement of the entire economy would be nil.

The Americanized Enterprise Zone

By 1980, the American political climate had taken a drastic step to the right side of the political spectrum. Under a conservative administration and Congress, thinking on the problems of urban areas had also changed. Three major assertions illustrate this conservative philosophy (Butler 1980) on the city and economic development. On Government: major expenditures by the federal government to fund neighborhood and local projects could
actually do more harm than good. Those projects sponsored by local “inventiveness” were much more successful. On Business: small businesses are the best producers of jobs in the inner city. The slow birthrate of these small firms is the “greatest economic problem” of American cities. On Neighborhoods: residents are easily excited about projects which can successfully improve their neighborhood and community. Government should therefore, create an environment in which self-help projects are successful.

The Heritage Foundation, a conservative think-tank in Washington, quickly caught on to the enterprise zone idea. Butler, a British economist working for the Foundation, wrote a series of articles describing the concepts introduced by both Hall and Howe. Butler found the British enterprise zone to be “a bold departure from traditional—and failed—policies of the past” (Hardison 1981). However, the enterprise zone proposed by Butler was different than the British model.

Although Butler was a supporter of the central concepts driving the enterprise zone policy, Butler had three fundamental changes. Butler criticized the British focus on the notion of the enterprise zone as only a large scale, industrial development tool. The design of the British legislation accentuates these objectives. The program was “absent of social objectives” (Butler 1981) and zones were sited in areas with little or no population. Tax incentives under the British program provided large breaks for investment in industrial machinery, large scale developments and improvements on vacant land (Butler 1991). The British program provided for large industrial firms with resources to make large investments on unimproved land. The British program did not encourage neighborhood investment or job creation.

Butler’s (1991) first fundamental change shifted the focus of the program to community development, finding that “heavily blighted, crime-ridden inner city neighborhoods as the principle targets for enterprise zones.” Influenced by Jane Jacobs’ books on the urban plight in America, Butler (ibid.) felt that enterprise zones should be used to encourage
“growth on existing but unused or underused resources” and “improve neighborhoods without having to divert people and economic activity from elsewhere.” Butler included a variety of social objectives in his proposal, including housing rehabilitation and job creation for the structurally unemployed. Butler, and others, assume:

that there is enormous latent potential within even the most blighted neighborhoods... but, incentives are necessary to trigger growth... as a tool to revive a neighborhood, not one to destroy it in order to start again. (ibid.)

Butler also proposed that the enterprise zone be used to rebuild the social fabric of the neighborhood, another fundamental change. The new enterprise zone would encourage investment in existing structures and encourage employment of neighborhood residents. According to Butler (1991) Economic development activities which did not build on the existing resources of a community, such as urban renewal projects, could not achieve success:

...successful urban development depends on complex social relationships within a community. Ignore these relationships, and treat residents simply as individuals who happen to live in a certain geographic area—worse still, physically disrupt a neighborhood and its institutions—and development initiatives are virtually guaranteed to fail. (ibid.)

The third fundamental change proposed by Butler, included the notion that “small enterprises are the key to economic growth, particularly in depressed urban areas” (1991). Many studies have determined that small firms are the best job creators. One survey found that:

two thirds of all net new jobs are created by firms with less than 20 employees. In poor urban neighborhoods, small firms turn out to be the only net producer of jobs. The best job generators of all tend to be young small firms. ...very large firms tend to be net destroyers of jobs. (ibid.)

Assuming the need to build on the existing resources of a neighborhood, Butler argues that only small firms can fit into most older industrial buildings. Small businesses also tend to require the unskilled and semi-skilled labor readily available in the inner city (ibid.). According to Butler (1981), small firms can better integrate with the existing residents of the neighborhood.
The conceptual changes made by Butler and the Heritage Foundation were packaged as a model enterprise zone for the United States. This model, authored by Butler included new incentive packages designed to reach the broad objectives of community development. Specifically however, Butler (1981) listed the following as the specific objectives of his model:

—Job Creation in Depressed Neighborhoods
—Expanding the Economy
—Encouraging Local Enterprise
—Social Improvement
—Innovation and Experimentation

The first objective, job creation, is the primary objective of the program. Jobs will be created by enterprise zones, assuming that the program creates "a climate in which obstacles to business creation are removed and tax incentives are provided that improve the flow of capital in such new firms" (ibid.). Butler states that although small companies will create the greatest number of jobs, larger firms are necessary to create an "anchor" for the community. Economic expansion is another fundamental objective. The goal of the program is to add activity to the entire economy, not redistribute it. Butler (1981) states that redistribution would in fact, weaken the national economy as a whole.

The purpose of the third objective, encouraging local enterprise, is to help those living in the distressed areas of our cities to establish businesses and employ others. The fourth objective, social improvement, assumes that economic revitalization would not be possible without improvement in the non-economic aspects of the community. The program would help local groups to organize and create successful projects that in turn would promote additional business investment. Innovation and experimentation are also important aspects of the program. The enterprise zone would provide a laboratory setting for innovative urban and anti-poverty policies. Without this experimentation, many helpful proposals may never
reach legislation. As Butler (1981) states: “We would be testing radical, innovative approaches in locations where the residents had a great deal to gain if the experiment were a success, and very little to lose if it failed.”

Using these objectives, Butler created a series of policy recommendations which he felt would be included in a Federal Enterprise Zone package. The first recommendation was the suspension of minimum wage laws. Butler (1980) suggests that some type of adjustment must be made to lower the cost of labor within the city. He argues that the residents of the inner city tend to have lower skill levels, making employment of inner city residents unattractive at the market rate. Two alternatives are suggested: the creation of a youth minimum wage, which would allow more young people to enter the work force and a subsidy for hiring residents of the zone.

Another recommendation created a “turnover trigger point” (Butler 1980). The enterprise zone should be designed to offset start-up costs for businesses locating in the zones. To insure against any abuse of the tax incentives by mature firms, a trigger point would be established. Below the turnover point, the business would be eligible for the entire incentive package. However, once business activity surpassed the turnover point, the firm would be liable to an increasing tax burden. Butler (ibid.) saw this method as a “means of giving depressed areas an economic ‘shot in the arm.’”

Butler’s proposal also established Free Trade Zones status for enterprise zones. As Hall suggested, this type of status would encourage foreign investment, freeing additional capital to the area. Butler (1980) also states that new types of industries would be created in the area, adding additional economic vitality to the enterprise zone. Butler (ibid.) also called for increased and innovative action on housing within the zones. One alternative would be to abandon rent controls to make investment in rental property more profitable. To counter the increased housing cost to low-income tenants, Butler suggests to expand the Section 8 program of housing assistance. Butler also proposed to reduce residential property tax and to
lower capital gains tax on residential buildings. Each of these alternatives aimed toward lowering the bottom line cost of housing while encouraging investment in and improvement of, rental properties.

**The Enterprise Zone in Washington**

The enterprise zone proposed by Butler was well received by the conservatives in Washington. Representative Jack Kemp became the primary supporter of enterprise zones and introduced the first enterprise zone bill to Congress in 1980 (Hardison 1981). As a member of Reagan’s campaign policy committee, Kemp introduced the future president to the enterprise zone. Reagan then used the enterprise zone as the “centerpiece of [his] national urban policy” (Clarke 1982). Both Reagan and Kemp saw the proposal as:

in effect, a supply-side program to save the inner cities: It was the urban complement to the general conservative strategy of cutting taxes and regulation to stimulate economic growth. (Butler 1991)

Although originally adopted by the conservative camp, the enterprise zone quickly received bi-partisan support in Congress. The liberal Representative Garcia joined Kemp and became co-sponsor of the aptly named Kemp-Garcia bill.

Reasons for liberal and conservative support of the program are varied. Reasons for conservative support are obvious. However, the newly won liberal support was based on liberals’ “willingness to examine any new policy with an urban focus” (Hardison 1981). Liberals also disagreed with the conservatives on three major aspects of the program:

First, they [liberals] tend to view the tax concessions as equivalent to government subsidies to businesses locating in enterprise zones. Secondly, they are firmly opposed to the removal of wage, health, and safety regulations within enterprise zones. Third—and most importantly—they view the enterprise zone proposal as an addition to existing federal urban programs, not as a substitution. (ibid.)
While the two sides of the spectrum differed on many points concerning the enterprise zone, they did agree on others. Most importantly, both liberals and conservatives agree that a new and innovative program was necessary to help save the inner city.

The original federal enterprise zone bill, the Urban Jobs and Enterprise Zone Act or the Kemp-Garcia bill, attempted to apply federal tax incentives to targeted urban areas throughout the country. The bill provided various site selection criteria based on unemployment rates and geographic poverty levels. Tax incentives were varied and were targeted to homeowners, businesses, employees and investors. Homeowners were to receive an increase in capital-gains deductions. Businesses with over fifty percent of their employees zone residents received both income tax cuts as well as new methods of accounting (Sternlieb 1981). This and later enterprise zone bills failed to pass Congress, even with the wide bipartisan support. However, late in Reagan Administration, an enterprise zone bill creating federally designated zones was signed into law in 1988 (Butler 1991). This useless bill did not, however, attach any tax incentives or regulatory relief to the zones. While the debate over Federal enterprise zones raged in Washington for the past twelve years, “the enterprise zone concept slowly and almost imperceptibly underwent another state in its evolution” (ibid.).

New Federalism and the Enterprise Zone

The Kemp-Garcia bill, as well as many other enterprise zone bills, required state commitment to support the program. The bills asked the states to provide additional tax and regulatory relief to complement the federal concessions. Many states, anticipating the passage of the federal proposal, attempted to create their own enterprise zone program to increase the chances of federal designation in their respective cities. Since enterprise zones were introduced in Congress back in 1980, some thirty-seven states and the District of Columbia (Beaumont 1991) have enacted enterprise zone programs. As Butler (1991) states:
It [the enterprise zone] has changed from a federally inspired concept, in which state and local governments were to play very much a supporting role, into what is today a series of state programs in search of supporting federal tax incentives.

The reasons for this evolution from federal to state administered enterprise zones are argued by many policy analysts. The expectation of the passage of the federal program seems to be the most viable reason behind this transition. Regardless of the reasons, the transition itself is an important indicator of the success of New Federalism. After the drastic program cuts of the Reagan Administration, the states were forced to experiment with new policy tools:

Enterprise zones at the state level are indeed a set of laboratories in which a wide variety of economic development strategies are being tested, and where successes and failures will serve as a guide to better policies in the future. (Butler 1991)

The scope of the enterprise zone experimentation sets a precedent: “It is difficult to find another example of such an idea that has been adopted so extensively so quickly without direct federal impetus” (Beaumont 1991).

State enterprise zone programs are varied on all aspects of the program. Most state programs use tax breaks as the primary incentives. Most of the tax incentives are in the form of reduced property and state income taxes. Other financial incentives include direct assistance for capital and infrastructure improvements. Non-financial assistance is also available in some states, including regulatory relief, job-training programs and technical assistance. Through all the differences between the thirty-seven state enterprise zone programs, one thing remains common:

States generally are not implementing a zone program that attempts to achieve an "open" environment that some say is conducive if not necessary to the flourishing of entrepreneurship. They are generally not pursuing alternative public service delivery systems, or substantial neighborhood participation. They generally are not attempting to induce more intensive use of unused land or underutilized land.

They are pursuing, it seems, a strategy that may sustain or increase business activity, that may lead to creation of some new jobs where some of the employment opportunities would be grasped by poorer or disadvantaged zone residents, and that
may bring about some degree of structural improvement, rehabilitation or new
construction. (Sidor 1983)

It seems that the states, tired of the political debate over the ideologies of enterprise zones,
have used enterprise zones to create a new, locally controlled urban policy.
Works Cited


Chapter III — Enterprise Zones in Indiana

Throughout the debate over enterprise zones in Washington, state lawmakers patiently waited for the passage of this new urban policy. In state capitals across the country, the promised budget cuts from the Reagan White House quickly became reality, causing a flurry of activity to support any new federal urban program. To encourage Congress to enact this new policy, many states began their own enterprise zone program, complete with tax incentives from the state and local coffers.

While Congress never did enact an enterprise zone policy, thirty-seven states did. The enterprise zone in the United States is now a state-initiated policy with very little support from the federal government. Some states abandoned their enterprise zone program once it became apparent that Washington would not provide federal tax incentives anytime soon. Other states, however, have continued to pursue the enterprise zone as a state and local urban policy. Indiana is one state that chose to continue the enterprise zone experiment without federal support.

The Indiana Program

In 1983, House bill 1629 was approved by the Indiana General Assembly, creating enterprise zones in Indiana. According to Papke (1988), the Indiana program had a dual purpose: "first to revitalize targeted economically distressed areas; and second to create jobs for inner-city zone residents." The program uses a variety of state tax incentives to reach this dual purpose. The Indiana program is administered by a state board made up of various
representatives of different groups from around the state. Locally, the program is adminis-
tered by another board, made up of community members and local officials. From its begin-
ning, the program was “viewed as an experiment on a modest scale in inter-city economic
revitalization” (Papke 1988).

The legislation originally called for designation of six enterprise zones across the
state. Fifteen cities now have enterprise zones: Anderson, Bloomington, East Chicago,
Elkhart, Evansville, Fort Wayne, Gary, Hammond, Indianapolis, Kokomo, Madison, Michi-
gan City, Muncie, Richmond, South Bend. Because each zone designation only lasts ten
years, the first six zones (Anderson, Evansville, Fort Wayne, Michigan City, Richmond, and
South Bend) which began January 1, 1984, will expire December 31, 1993. The second
group of zones (Elkhart, Gary, Hammond, and Madison) began in 1985. In 1989 the East
Chicago and Muncie zones began operations. A year later, 1990, zones in Indianapolis and
Kokomo started. The most recent addition to the enterprise zone list, Bloomington, began in
January of this year, 1992.

The Indiana Enterprise Zone Board

Public Law 23 of the 1983 General Assembly set up the enabling legislation for the
Indiana Enterprise Zone program. The legislation calls for a thirteen-member board to
administer the program at the state level. The Indiana Enterprise Zone Board is responsible
for approving or rejecting applications for enterprise zone designation. The Board is also
charged with monitoring the program on an annual basis. The Board may also recommend
that any state rule or regulation be waived on a case by case basis. This recommendation
must be approved by the governor. The Board has the authority to disqualify any zone
business for improper use of zone benefits.
All thirteen members of the Board are appointed by the governor to serve four year terms. Only nine of the thirteen members are voting members; the other four serve as advisory members. The nine voting members are representatives of the following interests:

1. Business  
2. Labor  
3. Fire Prevention and Building Safety Commission  
4. Minority Business  
5. Small Business  
6. Neighborhood Associations  
7. Municipal Government  
8. State Board of Health  
9. Lieutenant Governor or his designee

The other four, non-voting, members are representatives of the General Assembly, two senators and two representatives. The state Department of Commerce provides staff support to the Board.

Urban Enterprise Associations

To encourage and provide a means for local control of the program, the legislation requires each designated enterprise zone to create an Urban Enterprise Association (UEA). According to PL 23 - 1983, the UEA is responsible for the following activities:

1. Coordinate zone development activities.  
2. Serve as a catalyst for zone development  
3. Promote the zone to outside groups and individuals.  
4. Establish a formal line of communication with residents and businesses in the zone  
5. Act as a liaison between residents, businesses, the municipality and the Board for any development activity that may affect the zone or zone residents.

The UEA is established as a not-for-profit corporation and is a legal entity, separate from both local and state governments. The legislation permits each UEA to act in any community development activity that may “aid in the employment of zone residents, improve the physi-
cal environment, or encourage the turnover or retention of capital in the zone.” Each UEA may also ask for waivers of local ordinances and state regulations from the respective authority. Waivers are granted only when health, safety, employment and civil rights are not jeopardized.

Like members of the Board, the eleven members of the UEA serve a four year term. UEA members are appointed by the governor, the executive of the municipality, and the legislative body of the municipality. The governor appoints a state legislator whose district includes at least part of the enterprise zone. The governor also appoints a representative from the Department of Commerce. Both of the governor’s appointments are non-voting. From the local government, the municipal executive appoints a representative of the local plan commission (if one exists) and a representative from the local planning or economic development department. The executive also appoints two representatives from zone businesses, one of which must be manufacturing, and one zone resident to the UEA. The local legislative body appoints one member of the legislative body whose district includes all or part of the zone. The local legislature also appoints one representative of business and two zone residents.

**Selection Criteria**

The application process for enterprise zone designation is, by law, left up to the Indiana Enterprise Zone Board to determine. However, each application must meet a set of selection criteria as stated in the enabling legislation. Each zone must meet the following threshold criteria before the Board can evaluate the application:

1. Twenty-five percent of the households in the zone must be below the poverty level as established by the most recent US census or the unemployment rate within the zone must be one and one-half times the average statewide unemployment rate for the same period.
2. Resident population must be more than 2,000 but less than 8,000.
3. The zone must be at least three-fourths square miles but no more than three square miles. The zone must have a continuous boundary.

4. Land-uses within the zone must be an equal mix of residential, commercial and industrial.

5. The locality must create a local Urban Enterprise Association.

6. The municipality must be willing to provide certain specific economic development incentives.

If each of the above six threshold criteria are met the Board then may review the application to either accept or deny the application.

The legislation requires the Board to review the applications on the basis of another set of criteria. The first factor requires a comparison of the applicant’s level of poverty and unemployment with other municipalities. The residents, businesses and private organizations within the zone must provide evidence of support for the program and must commit to participate in zone revitalization activities. The municipality applying must also reduce the “impediments to development” within the zone. The application must also state a desire to preserve the existing neighborhood by encouraging reuse of existing buildings. A plan is also required, showing the applicant’s capacity to achieve the goals and objectives of the program.

**Tax Incentives**

The Indiana program provides a variety of financial incentives to promote investment in zone areas. A majority of these incentives are in the form of tax credits. The following is a list of the credits available to zone businesses:

**Inventory Tax Credit** — Each zone business is eligible for a credit equal to 100% of its inventory tax liability on inventory within the zone.

**Gross Income Tax Exemption** — New businesses are totally exempt from the Indiana Gross Income Tax on earnings in the zone. Existing businesses are exempt from the Gross Income Tax on any increase income from a base year.
Employment Expense Credit — Zone employers receive a tax credit for expenses related to hiring zone residents. The employer may claim 10% of any increase in wages paid to a zone resident employee over a base year, or the employer can claim $1500 for each zone resident employee on payroll.

If a business’s total tax liability is less than the total amount of credits it can receive, the excess credits can be carried over to the next tax year (up to ten years). Excess tax credits are not refundable.

Businesses receiving enterprise zone tax credits are required to participate in the program in two ways. First, all the tax savings a business receives must either be invested in the company or used to support UEA programs. Tax savings may be invested either to improve the physical condition of the building or to hire a new employee. Second, each business must register with the Board. The registration form asks each firm to provide information on new zone and regular employees and how tax savings were spent. UEAs can require a mandatory contribution equal to 24% of a business’s tax savings. Businesses failing to support the UEA or failing to invest all the tax savings may be disqualified from the program.

Another business incentive offered to lending institutions is the Loan Interest Credit. This credit is available to any institution lending to a zone business or homeowner for property improvement. The credit is equal to 5% of the interest earned on such loans. Unlike other business credits, lending institutions that receive this credit are not required to contribute to the UEA or participate in the program. The program also provides tax incentives to individuals. The following list describes these credits:

**Investment Cost Credit** — Any individual who invests in a zone business is eligible for up to a 30% credit on income made from these investments. The actual percentage credit is determined by a number of factors, including job creation and type of business operation.

**Employee Wage Credit** — Qualified employees who work and live within an enterprise zone are eligible for a tax credit. The employee may deduct one half of his adjusted gross income or $7500 (whichever is less) to determine total taxable income.
All of these incentives attempt to promote investment within the zone areas.

**Non-tax incentives**

The enterprise zone legislation also provides incentives other than tax credits. Enterprise zones and businesses located in enterprise zones are given priority status when the state distributes federal funds for job training and other economic development activities. Loans from the Indiana industrial development funds are also targeted to firms within enterprise zones. As mentioned previously, zone businesses may be exempt from most local ordinances and state regulations. UEAs are responsible for representing the zone business when seeking a waiver of a local ordinance from the local legislative body, and when seeking a waiver of a state regulation from the Indiana Enterprise Zone Board.

**Monitoring the Indiana Program**

The enterprise zone enabling legislation requires the Indiana Enterprise Zone Board to monitor and evaluate the program on an annual basis. The required registration forms submitted by zone businesses are used to collect the needed data to monitor and evaluate each zone and the entire program. To comply with this requirement of the legislation, the Indiana Enterprise Zone Program contracted the Center for Tax Policy Studies at Purdue University to conduct a three-year report on the “impact of Indiana’s enterprise zone program on economic development and revitalization” (Papke 1988).

Monitoring Indiana Enterprise Zones: Analysis and Appraisal, continued the first report and added three other important factors:

"first, it examines the question of tax incidence... second, it provides a measure of the indirect or multiplier effects of enterprise zone economic activity... third, it assesses the effectiveness of the inventory exemption in increasing the level of inventory investment." (1989)

The final report, The Role of Market Based Public Policy in Economic Development and Urban Revitalization: A Retrospective Analysis and Appraisal of the Indiana Enterprise Zone Program, tried to answer these questions: "What is the effect on employment and investment of the enterprise zone program’s tax incentives? What are the program’s costs, how are they distributed, and who pays for them?" (1990).

The Papke reports provided a summary of the survey data collected from all the registration forms of all the participating zone businesses. The table in Appendix A shows the data on new wages, employment as well as incentives from the 1988 tax year. The reports found very disturbing evidence that the program was not working. For example, it found that the Fort Wayne zone lost over 1700 jobs between 1987 and 1988. The report also found that the targeted group, the zone residents, still lacked opportunities. The average annual wage of zone resident employees was just under $12,000, while the average annual wage of all zone employees was nearly $20,500. Specifically, in Gary, the average annual wage for all zone employees was 132% higher than the annual average wage for zone resident employees. New job opportunities for zone residents decreased nearly 15%. Likewise, only 15% of the new jobs created were given to zone residents. This was evident in Gary, where only 8 of 319 new jobs were filled by zone residents.

The Inventory Tax Credit was by far the most important credit given to zone businesses. This credit accounted for 87% of the total tax savings of all zone businesses, or $11.5 million. The Loan Interest Credit was the second most important tax savings incentive; each lending institution claimed an average $40,500 in subsidies. The only credit aimed at hiring
or retaining zone residents, the Employment Expense Credit, only accounted for nearly $390,000. The report also points out that the cap of $1500 credit per employee has not changed since 1983. Inflation has taken 20% of the tax saving value from this credit. The Gross Income Tax exemption was only claimed by 42 of the 949 firms participating. Papke suggests that the filing procedure for this credit is too complicated.

Due to the type of tax credits, the State of Indiana subsidized $2.2 million or 16% of the total financial cost of the program. Due to the importance of the Inventory Tax Credit, a form of property tax, local taxing units subsidized the remaining 84%, or $11.5 million. The nature of the tax credits shifts a majority of the cost of the program on to local governments and local tax payers. For example, the state paid nearly $850 for each new zone resident job in the Gary zone. However, the residents of Lake County paid the additional $184,000 per new zone resident job. In South Bend, the St. Joseph County residents paid $11.37 for every dollar paid to a zone resident employee in wages.

The final Papke report also looked at the program’s effect on employment and investment. The report compared changes in employment between zone cities and similar cities without zones and found no evidence that the program “stimulated an expansion in employment opportunities” (Papke 1990). Papke also studied the levels of inventories and equipment investment between areas with zones and areas without. The analysis found no evidence that investments were higher in zone cities. The entire report is summed up by Papke: “The current market-based enterprise zone system of tax preferences is expensive, regressive, and ineffective. It is poorly designed and wastes taxpayer dollars” (1990).

**Conflicting Reports**

The outcome of Papke’s reports was obviously grim. However, many professionals across the state disagreed with the report’s findings. Before accepting Papke’s conclusions,
another report was prepared for the Indiana Enterprise Zone Educational Forum in 1991. The report, written by Dr. Marilyn M. Rubin (1991a) of the City University of New York, suggested numerous areas for future study before accepting Papke’s reports.

Rubin first questions Papke’s data base. The data Papke used for his analysis was gathered from the registration forms submitted to the Board. However, Rubin argues that not all firms receiving tax credits through the program registered with the state. Papke’s final report was based on 949 registration forms returned to the state: “a total of 949 firms were participating in the program” (Papke 1990). However, according to Rubin, there were 1,443 firms participating in the program that year. Rubin also points to a disparity in Papke’s report. In one table of data, Papke shows the total number of zone businesses to be 949. However, in a later chapter, the total number of firms claiming inventory tax credit was 1,443. Rubin states that the missing firms could have accounted for up to 20,000 additional jobs. This additional data would dramatically alter the job-to-cost ratio Papke reported.

Another part of Papke’s report that was questioned by Rubin, was his use of “control” cities in an attempt to isolate the program’s impact. Papke selected cities with complementary economic structures, when matching zone cities with a control city. Rubin believes that the assumption that cities with like economic structures will experience the same rates of growth is flawed. The report suggests that cities with the same amount of financial and economic distress should have been compared. Rubin also criticized Papke’s use of an input/output model in his report and his analysis on inventory investment. According to the report, capital investment needed to be studied as well.

**Shift-Share in Evansville**

Most of the early literature on enterprise zones criticized the program at a conceptual level. Until recently, very few articles were written analyzing the program in practice. A
In the first reports actually studying the success of a working enterprise zone. This study became a model and was applied to active zones in other states. Rubin and Wilder applied a shift-share analysis to the enterprise zone in Evansville, Indiana.

The analysis compared the zone employment figures with the employment figures of the surrounding metropolitan area. By isolating various factors of growth, the analysis could reasonably discern the amount of jobs attributed to the competitiveness of the zone compared with the rest of the metropolitan area. The study found that of the nearly 1,900 new jobs created in the zone, over 1,400 of them could be attributed to enterprise zones competitive advantage. This analysis concluded that the substantial growth in employment in Evansville's zone was not caused by metropolitan growth or the industrial composition of the zone, "but is instead a function of the competitive advantage of the area that comprises the zone" (Rubin & Wilder 1989).

The debate over conceptual issues of the enterprise zone has been continued in the statehouses across the country. The thirty-seven states with enterprise zone legislation have created thirty-seven different enterprise zone programs. For example in 1989, Michigan had one active zone while Louisiana had 750. Likewise, Maryland zones are as small as 49 acres, while zones in Mississippi cover entire counties (Marshall 1989). The jump from federal support to state administration has made comparisons of the different state programs difficult: "Enterprise zones are difficult to analyze because they vary from state to state and because they have been used for different purposes" (Green & Brintnall 1987).
However difficult, various studies have attempted to compare the state programs at the conceptual level. One such article compared different programs on two different scales, one, degree of state management involvement, and two, degree of private sector cooperation (Brintnall & Green 1991). The state management scale was based on the following six factors:

- whether the state required a local plan for each zone
- the frequency with which the state modified or expected to modify local zone applications
- whether the state required local managers to be appointed
- whether the state provided training for local managers
- the frequency with which the state provided or expected to provide technical assistance to local zones
- whether public reports about the zones were required

The original concept behind the enterprise zone was to remove the government from the free market system. Ironically, many states have deviated from this concept and have set up programs that actually increase bureaucracy at some levels. This scale, level of state management, truly measures how active the state government is in the management of the program. Indiana was one of five states that scored above the median on this scale.

The second scale used by Brintnall and Green was the degree of public-private cooperation. The role the private sector plays in managing the program is an important indicator of the type of program. This study used the following factors to determine a rating for this scale:

- whether there was a state advisory group for the program
- the number of nongovernmental groups reported to be actively involved in program design
- the average importance for the role played by such groups in design as reported by the state program director
- whether the program required consensus agreements be established with citizen groups within each zone
- whether public-private business partnerships were required within each zone
Again, Indiana ranked above the median on this scale (only three states ranked above average). Indiana was also the only state to rank above average on both scales. Brinrnall and Green used these two scales to classify each of the state programs:

By cross-classifying these two indexes, we identified four types of enterprise zone programs within the states: an activist program with high levels of state management and of private group involvement; a managed structure, with high levels of state management and low levels of private group involvement; a private structure, with low levels of state management involvement and high levels of private group participation; and a hands-off structure, with low levels of both state management and private group involvement in the program. (1991)

Indiana was one of three states (Illinois and California) classified as an activist program. Please see Appendix B for a table of both scales and a plot of the state classifications.

Another report by Erickson and Friedman (1989) compared the state programs on two different scales: social welfare and economic development. The analysis used different factors to determine the ranking of each program on the scale. To determine social welfare orientation, the authors used the selection criteria of poverty, unemployment, and welfare assistance along with incentives of selective hiring and employee tax credits. To determine economic development orientation, the authors used the selection criteria of population and incentives of investment tax credits, investment funds and refunds. Again, Indiana ranked high, placing second in both scales. Only California's two programs ranked high on both lists. Please see the Appendix C for tables and charts from this study.

Summary

The purpose of this report is to provide alternatives for a future enterprise zone program in Indiana. The purpose of this report is not to dispute the findings of previous reports. While Rubin makes many strong arguments against the validity of Papke's reports, Papke's findings are disturbing and must not be discounted. The shift-share analysis of Evansville's zone also shows that to determine the success of any state program, each zone
must be studied separately. Both state-by-state comparisons show that Indiana’s program is a well-designed program (when compared with other programs). Indiana’s legislation provides for a strong and active enterprise zone program at both the state and local levels. However, as the next chapters will show, Indiana’s program could stand at least some fine-tuning.
Works Cited


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The purpose of this project is to provide the state of Indiana with a series of scenarios for future enterprise zone programs in Indiana. At this point, however, this report has provided only background information on the subject. The following chapters will present to the reader three things: one, the foundations of the four scenarios; two, the scenarios; and three, final conclusions. This chapter will present the foundations of the four scenarios and the process used to reach them.

It quickly became obvious that the published articles and reports could not provide the necessary information to accurately determine the assets and liabilities specific to Indiana. The articles only provided statistical and conceptual pictures of the enterprise zone. The articles could not answer many important questions; they only answered those solved by mathematical models. Questions such as: *What is the attitude of zone businesses on the success of the enterprise zone? What relationships do the zones have with neighborhood associations? Do the local UEs have their own goals, separate from the state? What type of social programs can the zones successfully sponsor?* and *What needs to be changed to make the program more successful?* need to be answered to determine future policy initiatives.

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*Professional Opinions*

The critical part of the research for this report was a series of interviews conducted with enterprise zone experts. These interviews were conducted to answer questions like the
ones above. These questions and others were asked of local UEA directors, Enterprise Zone Board members, and academics from across the state. It seemed that those most involved in the program could provide the best answers. Because the sample is not random and arguably biased, the data gained from these interviews cannot and will not be presented scientifically. However, the responses did not conform to the preconceived notion that the sample was biased in favor of enterprise zones. Rather, the responses were distributed evenly across the spectrum. Please refer to Appendix D for a sample interview schedule and Appendix E for a list of professionals interviewed.

The first part of the interview, asked only of UEA directors, asked questions concerning the local aspects of the program. These questions were directed at several different factors: goals of the local UEA, relationships between the UEA and other community entities (government, neighborhood groups, civic clubs, etc.), and UEA activities. It was obvious from the responses of these questions that UEAs have taken an active role in their communities. Each of the directors interviewed stated that his/her respective zone had specific goals and objectives. Most of these goals were above and beyond the purposes set in the enabling legislation. These local goals were generally concerned with quality of life issues for the zone residents, such as housing and social services. However, other goals included physical improvement and businesses services.

Each of the UEAs had ties with other community organizations, such as neighborhood organizations, chambers of commerce, merchant groups and local governments. In fact, many of the directors interviewed were actually employed by the city government, not the UEA exclusively. Other directors had offices in government buildings yet received wages from the UEA. In essence, each zone’s staffing requirements are different and require unique partnerships to achieve each locality’s objectives.

The UEAs actively supported a variety of different programs in their respective communities. Zones with full-time staff generally played more active roles in community
projects while other zones provided financial support. The types of programs offered are varied from zone to zone. Each of the communities require different needs, allowing each UEA to fulfill these needs appropriately.

The second part of the interview was directed to all those interviewed. This set of questions was directed at two different factors: one, needed changes in the Indiana program, and two, important aspects of enterprise zone programs. The first set of questions, regarding needed changes in the program, provided a range of responses from "it's not broken, so don't fix it" to "the whole idea is worthless" and everything in between. However, many respondents provided useful insight into structural flaws in the legislation. Most agreed that the biggest flaws included compliance problems and certain ineffective incentives.

The second set of questions dealt with conceptual aspects of the enterprise zone ideology. An article by Brintnall and Green (1991) provided a list of enterprise zone program dimensions. The article intended to use these dimensions to create a framework for comparing state programs:

1. The extensiveness of state and local government intervention in program management.
2. The degree of private-sector cooperation and involvement in zone management.
3. The degree to which the goals of the enterprise zone program extend beyond job creation to incorporate broader social and community development objectives.
4. The extent to which the state’s program is tolerant of risk.
5. The extent to which the state program meets the expectation of being innovative.
6. The emphasis placed by the state government on the enterprise zone as a marketing device for economic development. (ibid.)

This project used the dimensions to create the ‘ideal’ program for each professional. Each respondent was asked how to change the existing Indiana program on the basis of each individual dimension. These responses were extremely important to determine the structure of the four scenarios.
All of the responses provided a general attitude about the program. To most of the those interviewed, the program provides an important service to each of the cities with a zone. However, most agree that the General Assembly should make some changes to make the program more effective. It also seems that the Indiana program has shifted, as in many states, away from the theories of the enterprise zone’s conservative forefathers. One professional even described the program as “capitalism driving socialism” (not exactly Stuart Butler’s plan).

**Assets and Liabilities**

Before the four scenarios could be developed, specific assets and liabilities of the Indiana program had to be identified. The combination of both the interviews and the library research easily identified the assets and liabilities. Most of the program assets can be attributed to one part of the program, the Urban Enterprise Association. The following section will detail what makes the UEA an important and vital part of the program. Likewise, most of the program’s liabilities are caused by one major problem: an unclear purpose. The section following the assets will detail this problem and how it affects other parts of the program.

**Program Assets: Urban Enterprise Associations**

Indiana’s enterprise zone program is unique. According to a report by the US Department of Housing and Urban Development (1989b), only seven state programs set up new, private organizations specifically charged to oversee the activities of an enterprise zone. However, of these seven state programs, Indiana’s offers one of the most progressive forums for local control of a zone: the Urban Enterprise Association.
Determining Scenarios

The Urban Enterprise Association system gives each zone community in Indiana an opportunity to stress specific issues particular to the community: while communities in some other states must work with the broad policy directives handed down from the statehouse. As stated in Chapter III, the Urban Enterprise Association is given the following responsibilities from the enabling legislation:

1. Coordinate zone development activities.
2. Serve as a catalyst for zone development
3. Promote the zone to outside groups and individuals.
4. Establish a formal line of communication with residents and businesses in the zone
5. Act as a liaison between residents, businesses, the municipality and the Board for any development activity that may affect the zone or zone residents. (IN PL 23-1983)

The zone directors interviewed cited many creative activities to reach the above tasks. The flexibility of the Indiana program at the local level has proven to be one of the program’s greatest assets.

In 1990, the Lilly Endowment sponsored a state-wide planning initiative with each of the fourteen enterprise zones. The Endowment saw the UEAs as a tremendous source for successful community action projects. However, the Endowment saw this unique opportunity being missed in many zone communities due to communication problems and unclear objectives. To strengthen each UEAs ability to promote community development, the Endowment awarded strategic planning grants totaling $350,000 to all fourteen of Indiana’s zones. The program was:

designed to encourage strategic planning in housing, neighborhood development and human services, create or reinforce linkages between the Urban Enterprise Associations and community development entities, increase the capacity of zone residents and enhance the resources available for community development methods and techniques which will be replicable in distressed areas throughout the state and nationally. (Lilly Endowment 1990)
The public participation planning process required by the program provided each UEA with a consensus on issues in the zone. With these issues, each UEA could generate a priority listing of needed programs for the community.

Through the Lilly program, each zone has developed a strategic plan complete with issues and programs to help promote the revitalization of the zone neighborhoods. During the interviews, the directors discussed this project and its outcomes. Both traditional and innovative community development activities were discussed. Each of the directors interviewed stated that the process provided only positive outcomes for the community. The process allowed residents and businesses to discuss issues important to each community.

Since 1984, some of the older zones have had difficulty providing the community with an active UEA. However, during the last eight years, the zones have finally discovered the formula for a dynamic, community organization: participation and purpose. The Lilly program helped to determine this formula. Without the UEA as a vehicle for community cooperation, the Indiana program would be merely a rehash of older economic development programs with the fashionable catchphrase, enterprise zone.

Program Liabilities: The Unclear Purpose

As the interviews progressed, a trend with one particular question surfaced. The responses to this one question, surprisingly, were all different: In your opinion, what are the goals of the Indiana enterprise zone program? Most of the responses to this question were similar, but nevertheless, different. Some responses were broad, philosophical statements on issues like economic revitalization or increased quality of life. Other responses stated specific goals, such as job creation or infrastructure development. While all of these responses were related, it became apparent that the Indiana enterprise zone program does not have a clear purpose.
While the program’s strength lies in the ability of each UEA to set its own agenda, the program is in need of a strong purpose. A recent book, *The Purpose-Driven Organization: Unleashing the Power of Direction and Commitment*, by Perry Pascarella and Mark A. Frohman (1989), talks about the power of the clear and concise purpose. The book was written for business executives; however, the fundamental issues concerning purpose can be transplanted to any type of organization, including government programs. Pascarella and Frohman discuss throughout the book the power of the “purpose-driven organization:”

An organization driven by purpose can override the tendencies to become complacent and stagnant. Purpose can provide the vitality, direction, and flexibility so often lacking in business organizations. Purpose can help set limits for the organization so it can focus its strengths and resources on its best products, markets, and opportunities.

An organization becomes truly purpose driven by capturing the sense of purpose that a leader provides, institutionalizing it, and making it the driving force for all of the organization’s activities, policies, and practices. Then members of the organization can clearly understand the purpose, make a commitment to it and live by it. A clearly stated purpose expresses the values and core beliefs of the organization’s members. That purpose will set the direction for what the organization wants to accomplish and provide guidance for implementation. (1989)

Enterprise zones in Indiana are neither complacent or stagnant. However, as stated above, the strong purpose will “set the direction” of the entire program. The Indiana program has developed without the direction of a clear purpose. This is particularly apparent with the incentive package. While job creation *seems* to be the underlying theme of the program, only one incentive promotes the creation or retention of jobs. The most important and widely used incentive is completely independent of job creation. The next section will examine these problems in more detail.

*Program Liabilities: Ineffective Incentives*

The interviews helped to discover a variety of problems with the incentive package offered in the program. The Employment Expenses Credit received most of the complaints. The EEC is the only incentive offered to encourage zone employers to either hire or retain
zone resident employees. However, according to the zone directors, a glitch in the legislation limits the types of businesses that can claim this credit. In fact, nearly 90% of the businesses in one zone were not eligible to claim the EEC because of their legal form of business. Regardless, to those firms who can claim it, the EEC is ineffective. The data reported in Papke’s (1990) most recent study supports this claim: the EEC credit only accounted for $390 thousand in tax savings while the Inventory Tax Credit accounted for nearly $11.5 million.

The Inventory Tax Credit was also criticized by many interviewees. The relationship between the amount of inventory a business has on Tax Day and the amount of new jobs created is not direct. In fact, it could be argued that the ITC encourages high inventory, low labor firms to the zone. Another problem with the ITC is that only larger firms can truly benefit from the credits. Without question, the ITC is the most used and most important incentive for zone businesses.

Problems other than with the incentive package were also stated. Zone business compliance with requirements is also a problem. The biggest problem dealing with compliance is the registration forms. As stated in Chapter III, there was a discrepancy over the number of forms returned to Indianapolis. Since these forms are the only way to truly measure the effects of the program, they are essential. Firms are required to invest all of their tax savings either into the UEA, physical improvements, or job creation/retention. The difficulty of tracking each firm’s investment is also mentioned.

**Scenario Development**

To build on the findings of the research, this project has created four different scenarios for any future enterprise zone program. Each of the four scenarios is built on a unique purpose. The following chapter will discuss each of these scenarios fully. The first scenario,
the incremental approach, assumes the purpose of the existing program and provides subtle changes to the existing program to better achieve this purpose. The second scenario, jobs, jobs and more jobs, assumes the purpose of job creation. This scenario provides a model program, based on the UEA structure, devoted specifically to creating new jobs. The third scenario, quality of life, assumes the purpose of community development. This model will build on the foundations of the existing UEA structure to increase the enterprise zones’ ability to contribute to the community’s quality of life. The fourth scenario, the socialists approach to capitalism, serves as an alternative to traditional enterprise zone concepts. For this project, the fourth scenario’s purpose is to provide the reader with a model for a different, innovative economic development package. The specific purpose of this model is to save jobs, as opposed to creating new ones.

With a clear purpose the legislature can mold a new and improved enterprise zone program. The strengths of the existing program, the UEA structure and the local directors must be used as a foundation for the new program. Without a clearly defined purpose, the state will find it difficult to make any rational or effective changes.
Works Cited


The following scenarios were developed to provide the State of Indiana with alternatives to the existing enterprise zone program. Each of the scenarios are "purpose-driven." Each scenario has a clear and concise purpose which sets the direction for the entire program, from administration to incentive packages. The first three scenarios are models of the existing enterprise zone program, slightly altered. However, the fourth scenario does not follow the enterprise zone paradigm. Its purpose in this report is to introduce a different concept of economic development.

The first scenario follows the direction set by the existing program. This model is built on a purpose derived from a majority of the interview responses. Essentially, this first model provides only "fine-tune" adjustments to the current program. The second and third schemes are built on two specific, yet different purposes—job creation and community development. The final scenario is also built with a specific purpose—job saving.

The following schemes are described only at conceptual levels. Creating complex tax formulae or specific threshold criteria would be premature. These models provide only a framework: for policy makers will need to fill in gaps at a later date. Each scenario is divided into three conceptual levels—purpose, administration, and incentives. Strengths and weaknesses of each scheme will also be discussed. Before any new formulas are determined, however, the policy makers must select a strong purpose, stick with it, and create a strong program.
Scenario One—the incremental approach

This scenario is titled *the incremental approach* because it proposes only minor changes to the current program. Unlike the following three models, this model does not make any broad jumps to a new conceptual level. Rather, this model simply makes necessary changes to help make the existing program more successful (assuming the stated purpose). Charles Lindblom once stated: “Usually...what is feasible politically is policy only incrementally or marginally different from existing policies” (Hardison 1981). Assuming this philosophy is true, than this model is the only model which the state could feasibly pursue. However, such assumptions are not always true. Regardless, this model is based primarily on the responses from the interviews.

**Purpose**

The following purpose was generated from the responses of the interviews. The statement is two fold, as is the purpose of the current program. Instead of concentrating on either job creation or community development, the existing program attempts to confront both problems.

To revitalize blighted areas in Indiana cities by creating jobs for inner city residents and promoting redevelopment.

**Administration**

Presently, the program allows businesses to claim certain credits and exemptions from different taxes. The tax savings to business is in the form of taxes not paid, not in the form of a refund check. The legislation requires that the entire amount of tax savings must be used for property or employees (in the zone) and to support the UEA with cash or in-kind services. Each UEA can require that up 24% of each firms tax savings be given to the UEA in the form of ‘contribution.’

The State Enterprise Zone Board also requires businesses to return a registration form detailing information on jobs created, amount of tax savings, and how tax savings were spent. These forms are the only source of data for evaluating the program and thus are very important. However, both requirements (how tax savings are to be spent and the returning of registration forms) are difficult to enforce. Disqualifying firms for not complying with these requirements is the only enforcement mechanism
available. However, to disqualify firms from receiving tax benefits is contrary to the purpose of the program.

**Tax Refund Checks**—All tax savings would be distributed to each firm in the form of a check, much like individual income tax refunds. The refund check would only be returned to a business after the following:

1. The business returns a registration form to the Enterprise Zone Board. The registration form would ask for specific details about how the tax savings were spent the previous year.
2. The business states how the tax savings for the current year plan to be spent.

**UEA Contributions**—The state treasury would transfer 24% of each firm’s tax savings directly to the local UEA. Also, the state would transfer 1% of each firm’s tax savings directly to the State EZ Board.

These actions also free valuable UEA staff time for other activities. This entire structural change would eliminate the need to disqualify any zone business from the program. Those firms that did not return the required paperwork would simply not receive tax savings that year. Since these businesses would not be disqualified, than they would again be eligible for tax savings the following year.

**Incentives**—

The biggest criticism of the existing program’s incentive package is that it is not designed for the program’s purpose. Specifically, the major incentive to create jobs for zone residents is very weak compared with other non-labor incentives. Furthermore, the most important incentive in the program, the Inventory Tax Credit, could be seen as a negative incentive to job creation. For years, inner cities have been victim to redlining by banks and other lending institutions. The Loan Interest Credit offered by the state attempts to reverse redlining by creating a tax incentive to provide loans to zone business. However, the credit is very weak, even though it generates the second highest volume of tax savings. Banks claiming this incentive are not accountable for the savings they receive (in most recent figures (Papke 1990), nearly $900,000).

**Employment Expense Credit**—Each employer would receive a credit equal to a percentage of the entire payroll paid to zone residents. The employer would also receive a flat rate credit for each new job (net) created for zone residents.

**Loan Interest Credit**—The LIC would be graduated, depending on the amount of the loan. The state would give up to 50% credit for the smallest range of loans, while keeping the 5% credit for the highest range. Each bank would be held accountable for 25% of the tax savings received from this credit. Banks would be required to either contribute to the local UEA or
create a revolving loan fund open to any community development organization in the community.

Inventory Tax Credit—The ITC credit would be graduated, depending on the ratio of full-time employees to square footage of building space. The firms in the highest ratio range would receive 100% credit on the inventory tax. The lowest ratio range would receive only 50% credit. Firms not receiving the full 100% credit would receive additional percentage credits (10%) for each new zone resident job created.

Summary—

Of the four scenarios, this model is the most feasible. Simply, this scenario makes no major philosophical jumps. However, the biggest challenge with this model is the cost shift. Because the existing program relies heavily on the Inventory (property) Tax Credit, each locality with a zone incurs most of the cost of the program, not the state. This model would shift much of the cost burden back to the state in the form of increased credits on state income tax. It is important to realize that the stated purpose of this model is important to all Indiana residents, not just the communities with zones. Assuming that these changes will make the program more effective, than the added tax burden to each Hoosier is justified.

Scenario Two—jobs, jobs, and more jobs

This scenario looks at an enterprise zone model that is specifically designed to create jobs. Because these models are purpose driven, this model will not attempt to directly stimulate community development. However, assuming the basic economic theories of spill-over benefits and circular flow models, any new job created in a community will indirectly generate a degree of community development activity. Again, this model is built on the foundation of the existing program, specifically the UEA structure. However, the more direct purpose of creating jobs alters the program much more then the first scenario.

Purpose—

The following statement assumes that the creation of jobs should be the single goal of the Indiana enterprise zone program. The program will attempt to create jobs for all Indiana residents, not specifically zone residents.

To create new jobs for Indiana citizens to stimulate overall economic activity.
Increased business representation in the State Enterprise Zone Board and each UEA would generate, to some degree, an increase in business participation, particularly at the local level. Because the creation of new jobs is a business decision made at each individual firm, business representation should be considered a higher priority than community participation. UEA activities would also be directed to businesses.

State Enterprise Zone Board—The State Board will be made up of seven representatives of the private sector and six representatives of the public sector. Of the seven private sector representatives, two must represent small businesses and two must represent minority businesses. The six public sector representatives must represent the following: Fire Prevention and Building Safety Commission, State Board of Health, a zone municipality, Governor's Office, Indiana Senate, and Indiana House of Representatives.

Urban Enterprise Association—Each UEA Board of Directors will be made up of nine voting representatives. The Governor will appoint two non-voting representatives: a state legislator whose district includes at least part of the zone and a representative from the Department of Commerce. The executive branch of the locality will appoint a member of the local plan commission and the local economic development agency. The executive will also appoint two representatives of businesses in the zone. The legislative branch will appoint a representative of a minority business, a small business and a manufacturing firm. The legislative branch will also appoint a representative of the zone residents.

The selection of zones in each city would be based on business activity and the availability of vacant or usable industrial facilities. This scenario would also provide for more flexible boundaries. Ethically speaking, gerrymandering is an example of legal political corruption. However, in this scenario, the creation of jobs is as important as ethics. If a large corporation's decision to locate in a community is based on whether or not the site is in an enterprise zone, then the UEA should be able change the zone boundaries without question.

In this scenario, the state Board would take on a new role; advertising. The state would sponsor an aggressive marketing campaign at the national and international level. The purpose of this campaign would be to introduce the benefits of the Indiana enterprise zone program to businesses across the country, and across the oceans.

Incentives—

As in the first scenario, a credit for creating jobs will be considered the most important incentive in this model. However, because the purpose in this model is to create new jobs, the incentive will apply to all new jobs, not just jobs given to zone residents. However, the credit for new zone resident jobs would be higher than the regular flat rate. The model will also help lower the cost of job training and re-
training. The Inventory Tax Credit is not available. Job creation and the amount of inventory a firm has are not directly related.

New Jobs Credit—For each new job created within the enterprise zone a firm will be eligible to receive a flat credit of $1500 on the state income tax. For each new job created for a zone resident, the firm will receive a flat credit of $3000.

Job Training Cost Credit—Firms can deduct 100% of the cost of any job training expenses incurred for new employees. Firms can also deduct 50% of the cost of re-training existing employees.

Property Improvement Tax Credit—The cost of any physical improvement made to a site within the zone may be deducted from Personal Property Tax. The deduction would be equal to 100% of the projects cost.

Summary—

Many politicians believe that the bottom-line number of jobs created is the most important factor of economic development. If this is the philosophy of the Indiana State Assembly, than a new enterprise zone program should look like this model. The statistics show that the existing program does not create a large bottom-line number of new jobs. However, the current program’s incentives do not promote the creation of new jobs. This model provides two new incentives that will help to stimulate job creation, and removes the one incentive that is a negative incentive to job creation, the Inventory Tax Credit.

Scenario Three—quality of life

Quality of life is an ambiguous term. However, it is easy to discern the difference between a community with poor quality of life and a community with excellent quality of life. Many times, politicians and traditional economic developers forget that quality of life is an important factor in business location decisions. According to a Government Accounting Office (1988) study, businesses felt that factors such as community characteristics and quality of life were more important than financial inducements. This scenario attempts to increase the quality of life of blighted areas through community development to encourage business location.
Purpose—

Again, as with the previous scenarios, this model is purpose driven. Therefore, the administrative structure and incentive packages will specifically attempt to promote the long-term economic and social viability of the community. To accomplish this task, the program needs to do more than simply create jobs. The model will help to stimulate self-improvement among the residents of the zone.

To promote the long-term economic and social viability of the zone community through promoting community development activities.

Administration—

In this scenario, the make-up of the UEA would not be changed from the existing program. However, representatives of each of the zone’s organized neighborhoods will be included as ex-officio members to the each UEA board. The business-resident-government forum which the UEA provides is extremely important to the program. Without input from each of the groups, any community development activity would probably not succeed. The UEA will have a new role. In the previous model, the State Board was charged with marketing the program’s benefits to the business community. However, in this scenario, the UEA will market the program’s benefits and activities to the local community. Public awareness will provide the best support for any UEA project or activity.

Zone Boundaries—Each enterprise zone’s boundary will be fixed. Boundary changes could only be made if significant demographical changes have occurred in the community.

The most important factor of this model’s purpose is “long-term viability.” Therefore, the incentive package will use Stuart Butler’s (1981) idea of a “turn-over trigger point.” A trigger point will be set at which businesses would be eligible for a continually diminishing portion of incentives. Before the trigger point is reached, businesses would be eligible for the entire incentive package. The trigger point alleviates the need to set an arbitrary time-limit for each zone. Theoretically, the zone would eventually disappear as the firms reach the trigger point and become stable, profitable enterprises. Obviously, some firms will still not succeed with the help of incentives, however, the purpose of this model is to help individual firms become stable. If a firm cannot stabilize, than the program cannot help it.

Incentives—

The Inventory Tax Credit is a very attractive incentive to businesses in Indiana. Therefore, this model will continue the existing 100% credit on property tax on
inventory. In this scenario, the UEA will be more active and will require steady funding from the tax savings. The ITC provides each UEA with extensive funds.

Social viability requires an educated and skilled work force. This model will promote both individual and business sponsored educational and job training programs.

**Employment Expense Credit**—In addition to the credits given for each new zone resident job, firms will receive 100% credit for any job training expenses.

**Resident Education Credit**—Each zone resident employee will be eligible for credit on their personal state income tax equal to tuition costs at any vocational or post-secondary school. The resident must be employed at least part-time (20 hrs/week) with a zone firm to receive this credit.

Research and development is a long-term business investment and should be encouraged in the zone. Additionally, zone businesses should help to provide necessary benefits to their employees.

**R&D Credit**—Zone businesses can receive a credit equal to 25% of zone R&D payroll.

**Benefits Credit**—Each firm will be given a credit equal to 50% of the cost to provide their employees with either comprehensive health care and/or child care.

**Summary**—

Quality of life is an important issue to confront for any economic development agency. However, the forum that is provided by the UEA structure, is an excellent way to improve quality of life in zone cities. While the bottom-line number of new jobs may not be as high as the second scenario, at least zone residents and businesses will be given the opportunity to build a strong foundation for a viable future.

**Scenario Four—the socialist’s approach to capitalism**

The final scenario is not a model enterprise zone program. Its purpose in this report is to provide an alternative to the enterprise zone concept. The program’s philosophy is actually opposite of that of the enterprise zone; it promotes government intervention in the marketplace. The concept was engineered by the liberal Labour Party in England as a re-
sponses to the Conservative enterprise zone. The program, Enterprise (Labour) Boards, set out to solve the same problems as the enterprise zones:

In 1982, five Labour-dominated metropolitan governments in Britain established so-called enterprise boards to deal with the same problem by quite different means. Granted the power to invest public funds in private companies (which nevertheless remain in private hands), enterprise boards attempt to improve the competitive position of endangered but potentially strong businesses in order to save existing jobs and perhaps generate new ones. (Schwarz & Volgy 1988)

The basic premise of this program is that it cheaper and more effective to save jobs than to create new ones. For example, when a job is lost, a worker is forced to live on welfare and unemployment until he can find a new job. In the zone cities, that new job was also subsidized by the public. However, if the government had invested in the company before the job was lost, then the worker would not have been on welfare.

This concept is not new to the United States. However, most government bail-outs have been at the federal level of large corporations. In 1979, perhaps the most infamous government bail-out of a single company occurred. Most industry analysts predicted that Chrysler could not survive the year without $1.2 billion in Federally guaranteed loans. With a failing economy, the Carter Administration saw that the cost of 500,000 new jobless was much greater than the $1.2 billion. Despite the controversy, Chrysler has again become a stable company. This program is based on the philosophy which bailed-out Chrysler; without public assistance, many potentially lucrative firms will fail, at great expense to the economy.

As with the previous scenarios, this model is also driven by strong purpose. Instead of creating jobs or promoting community development, this model attempts to save jobs. The entire program is built from this purpose.

To save jobs in failing businesses by providing state and local government funds for investment.
Administration—

The program would be administered at two levels, the state and locally. Each locality in Indiana would be eligible to participate in the program. However, the community must commit to a local half-cent sales tax to fund the program. The tax increase must be determined by popular vote of the locality.

**Indiana Partners in Business Corporation**—The IPBC would be set up as a not-for-profit trust corporation. IPBC will administer the program at the state level by a Board of Directors and a hired staff. The Board of Directors would represent government, business and citizens in making decisions for the Corporation. The IPBC would be responsible for approving eligible cities and other administrative duties (record keeping, communications, public relations, etc.). The IPBC will be funded by a 5% take of each localities increased sales tax.

**Local Partners in Business Corporations**—Each approved locality will set up a local Partners in Business Corporations (ie, South Bend Partners in Business, Warsaw Partners in Business). Each local not-for-profit PBC is financed entirely from 95% of the half-cent sales tax and income derived from investments. The local PBC Board of Directors will be comprised of local government, business and resident representatives. The PBC will accept applications from local business struggling to survive. The PBC will make a determine how much if any, money will be loaned to the firm. The selection of firms will be based on the following criteria:

a. **LIKELIHOOD OF SUCCESS**— the PBC is responsible for making only sound investment decisions. Each investment should guarantee jobs saved and a small return on the investment.

b. **LOCATION**— firms located in the center city and older industrial areas will be given preference

c. **AGE**—young firms will be given preference over older, more established firms

d. **SIZE**—small businesses will be preferred over the larger corporations

e. **ACTIVITY**—manufacturing and other labor-intensive firms will be given preference over service firms

f. **EQUITY**—preference will be given to minority and women owned businesses

Depending on the legal organization of the firm, the PBC will be represented in the firms as a major shareholder or limited partner. If the firm reneges on any contractual obligation, PBC has the authority to remove all public assets from the company.

All investment income earned by the PBC must be either re-invested into other corporations or used to finance community development activities. The PBC may also set up low-interest loan funds for housing rehabilitation programs in the community. All funds invested by PBC in any form must be used in the community.
This program has a number of strengths that enterprise zone programs do not enjoy. Specifically, the program is enjoyed by the entire community, yet the center city and older neighborhoods receive a greater share of the investments. The program is free to the state since it is funded entirely by a local initiative sales tax. But most important, the program actively attempts to keep local residents employed.

**Conclusion**

Each of these scenarios provide possible solutions to achieve four unique objectives. While each purpose is directed toward the same goal of economic growth, each purpose requires unique policy initiatives. The four scenarios: *the incremental approach, jobs, jobs, and more jobs, quality of life, and the socialist's approach to capitalism*, each can improve on Indiana’s only existing urban policy. Each one has its strengths and weaknesses however, and it is these strengths and weakness that must be weighed.

The *incremental approach* biggest strength is its incremental nature. This is the only model that does not change the stated purpose of the existing program. However, because the ambiguity of the stated purpose is a program liability, the entire model is weakened. The second model, *jobs, jobs, and more jobs*, is strengthened by the clear purpose of creating jobs. However, the pro-business stance of the model will not be popular with many labor and citizen groups. Also, the removal of the Inventory Tax Credit will be fought by many existing zone businesses. The *quality of life* model is also stronger than the first because of its strong purpose of promoting community development. Many citizen and minority advancement groups should find this appealing because it promotes employee benefits and educational advancement of zone residents. While some businesses will be happy with the continued ITC, other business will resent the turn-over trigger point concept. The final proposal, the *socialist's approach to capitalism* model also benefits from a strong purpose, saving jobs. The program is also strengthened because it requires new additional expenditure from the
state. However, many groups, both citizen and business groups may not support the basis for the program. Pro-business groups could see the program as an attempt to destroy the free-market system. While citizen groups may see the program as a way to subsidize private industry profits with a regressive sales tax.

While each of these programs has weaknesses, the state must still choose a direction for the future. All of the above scenarios are practical transitions for the state to make with urban policy. However, it is up to the State to decide what direction the policy will take. The last chapter will discuss the conclusions made by this report and recommend the next step.
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Chapter VI — Final Conclusions

Both the recent riots in Los Angeles and election-year rhetoric have brought renewed interest to the enterprise zone. The conservative White House and the media are again stating that this ‘new’ concept will solve all of the problems in inner city America: from Murphy Brownism to racial discrimination and everything in between. However, the problems of our cities are much deeper than any one program can solve. Thirty-seven states have applied the ‘new’ enterprise zone concepts to their own state initiatives. In some states more than others, the program has been successful in creating some new jobs and generating some investment. However, it is dangerous to say that any state or federal enterprise zone program could be the one solution for even just one urban problem.

Overview

This report has studied, in detail, the enterprise zone concepts and the Hoosier enterprise zone experience. Through examination of previous research and numerous interviews with experts, various findings were made. These findings became the foundation for four scenarios offered in the report. These four scenarios offers the state of Indiana four different models to build a new enterprise program. It is now the state’s responsibility to use this information and determine the future of urban policy in Indiana.
Major Findings

The following statements represent the major findings discovered throughout this research project. Each finding must be studied in closer detail before any new action is taken.

Enterprise zones (General)

- Historically, enterprise zones have been able to create jobs, but at a rather high cost.
- Depending on the size of the firm, tax incentives may have no effect on business location decisions.
- The enterprise zone remains as the only urban policy directive at the federal and state level.
- Many states have created innovative and active enterprise zone programs without any assistance from the federal government.

Enterprise Zones (Indiana)

- The Indiana enterprise zone has a dual purpose: to revitalize distressed areas and to create jobs.
- The Inventory Tax Credit is most important incentive to zone businesses.
- The Inventory Tax Credit could be a negative incentive against creating jobs by promoting high-inventory, low-labor firms in the zones.
- The only incentive created to encourage job creation is used by only a small number of zone firms.
- Most of the program’s cost burden rests on the each locality with a zone. The State pays for only a small portion of program (16% in 1989).
- Required registration forms are not submitted by all businesses participating in the program. Missing forms makes evaluation of the program extremely difficult.
- When compared with other states, Indiana’s program is supported by an active state government and public-private sector cooperation. Indiana’s program also ranks high on both social welfare and economic development scales.
Interviews

- Each expert interviewed had a different opinion of the purpose of the program.
- The unclear purpose creates numerous problems, particularly with the incentive package.
- The Urban Enterprise Association model creates an excellent forum for communication between community groups.

Recommendations

The findings stated above represent the foundations of the four scenarios presented in Chapter V. Each of the four scenarios, the incremental approach, jobs, jobs, and more jobs, quality of life and the socialist's approach to capitalism are built from the findings of the research. The following recommendations are built from both the findings and the models themselves.

The first recommendation is that the State should actively continue and expand the program for an indefinite period of time. Until the State can create a new, innovative approach to urban policy, the enterprise zone must remain. Regardless of the arguments against the program, it is the only program that actively creates jobs and stimulates investment in distressed areas. Because the State bears so little of the actual cost of program, each individual locality should determine the future of its own enterprise zone.

The second recommendation is that the State should provide a new purpose for the program. Without going through the process of determining a clear purpose, the deficiencies of the existing program will never completely disappear. Every time the program is evaluated against an objective that is created by the evaluator, than the effectiveness of the program will remain questionable. However, if the purpose of the program is concrete, than evaluations would be much more reliable. If the State decides that the current dual purpose
is good, than it must determine which of the two objectives is most important, job creation or reinvestment.

The third recommendation assumes that the State has defined a clear purpose for the program. This recommendation is that the State build a new program on the new objective. The four scenarios in Chapter V can be used as models, assuming the State selects one of the four purposes provided. It is important the program be built to achieve only the one true objective. Other incentives will simply weaken the ability of the program to reach the objective.

The State has a variety of alternatives to evaluate from the this report. Obviously, the first four alternatives to evaluate are the four models provided in this report. Two additional alternatives included leaving the current program unchanged and the ‘do nothing’ alternative (ie, no program). In addition to these six alternatives, the state could combine the models in numerous combinations. The Partners in Business model could easily be used in conjunction with the other six alternatives. The State could also let each locality set the purpose for their own zone. Some communities might find the job creation model more appealing than the quality of life model. The State could provide a variety of different incentive packages for communities to choose from.

**The Next Step...**

Ideally, the State will continue some type of enterprise zone through the next decade. If the State only has one urban policy to combat all of the social and economic problems of today’s cities then that policy should offer more than just new jobs. Programs offering only new jobs simply cannot help the structurally unemployed. Programs must be able to offer to inner city residents a chance to improve their own ability to gain employment. This includes not only education and training, but also child and health care.
The third model, *quality of life*, is the only scenario which can help provide these things to residents of the inner city. The incentives are aimed at promoting social enhancement of these residents, while encouraging needed investment. Jobs will be created as a secondary effect of the program. However the primary effect is to help these people get more out of life. The fourth scenario could be easily adapted to work with the *quality of life* model. The Partners in Business Corporations could work with the UEA to promote even more community development activities.

The final recommendation of this report is that the State shift the purpose of the current program to concentrate on improving the quality of life in the inner city. The State should also implement a Partners in Business program to keep potentially profitable firms from failing. With both programs implemented, Indiana would be one of a few states committed to effectively challenging the problems of the inner city. However, it will take a firm commitment by the State and the cities to make the programs work.

In the past half-century, the city has been imagined into one form; the form of poverty, crime and racial distress. Yet with active leadership at both the state and local levels, cities and Indiana can be imagined into another form; the form of people helping themselves to improve the community they live in. Imagining the city in a new form will take new and innovative programs. Without creative and almost radical programs, the form of the city will stay the same.


Appendices


Appendix D  *Sample Interview Schedule.*

Appendix E  *Professionals Interviewed.*
### ENTERPRISE ZONE SURVEY DATA BY ENTERPRISE ZONE: 1988 REGISTRATION

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### Enterprise Zone Survey Data by Enterprise Zone: 1988 Registration

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Source: Indiana Enterprise Zone Board, Enterprise Zone Business Registration Form For Year 1988.

(a) Top average refers to computation based on the number of firms filing completed registrations; bottom average refers to computations based on the number of firms claiming the credit.
### Appendix B

#### Degree of State Management Involvement

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#### Degree of Public-Private Cooperation

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<td>Florida</td>
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<tr>
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![Diagram showing the degree of state management involvement and public-private cooperation with state names placed accordingly on the graph.]
## Appendix C

### RANKING OF STATE EZ PROGRAMS ON SOCIAL AND ECONOMIC DEVELOPMENT INDEXES

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1. See text for description of indexes.
2. California's Nolan and Waters programs.
Appendix D

Sample Interview Schedule

Local EZ program:

1. What year was your city given enterprise zone status?
   - How long have you been administrator of this UEA?
   - Were you involved with any other enterprise zone program (in Indiana or else where)?

2. How is this UEA associated with your city government or other private organizations?

3. What are the specific goals of your local program?
   - Do any of these goals reach beyond the enterprise zone boundaries?

4. Do you have any means to evaluate your success in achieving these goals?

5. Do any other local groups (public or private) have an active role in helping you achieve these goals?

6. What types of programs (other than typical EZ programs) has your UEA participated in?

7. What kind of relationship do you have with neighborhood groups (if any) within the zone?
   - What direction (physically and economically) have the neighborhoods in your zone taken?

8. Was your program involved with the recent Lilly grants?
   - How would you describe the process used to achieve the strategic plan?
   - What were the outcomes of the process?

9. How many of the businesses in your zone participate in the EZ program?
   - Do those that receive tax benefits, participate in the UEA and its programs?
   - Generally, do those that receive tax benefits, contribute the required share of their tax credits to the UEA?
   - Have you gone through the disqualification process for any business?
10. How much contact do you have with the businesses in your zone?
   - What is the general attitude of the businesses on the success of this enterprise zone?
   - What is their attitude on the success of the EZ program as a whole?

State EZ program:

11. In your opinion, what were the original goals of the Indiana EZ program?

12. How do the goals of your local program relate to the goals of the state program?

13. Are you aware of the Dr. Papke’s (Purdue) evaluation of the Indiana EZ program?
    - Do you have any opinions on the results of his evaluation?

14. Should the state EZ program be changed when the original program expires?
    - What about it needs to be changed?

15. What method would you use to evaluate the EZ program?

16. Please rate the importance of the following enterprise zone dimensions:

   Extensiveness of government (state & local) intervention in the program

   Degree of private-sector cooperation in zone management

   Degree to which goals reach beyond job creation to broader social issues

   The state’s tolerance of risk

   Innovativeness

   State and local government marketing of the program

   - Please comment on any of the above.

17. Personally, do you think the General Assembly will continue the EZ program (with or without changes)?
Appendix E

Professionals Interviewed

Ted Alexander
Indiana State Board of Health
Enterprise Zone Board

Arthur Banks, III
Enterprise Zone Program Director
Indiana Department of Commerce

David Bills
Indiana Fire Prevention & Building Safety Commission
Enterprise Zone Board

Mark Brinson
UEA Director
Elkhart

James Carey
UEA Director
Muncie

Casey Foley
UEA Director
Richmond

The Honorable J. Jeff Hays
Indiana State Representative
Enterprise Zone Board

Robert Hedding
UEA Director
Indianapolis

Gordon Y. Ipson
Director, Indiana Economic Development Academy
Ball State University

Alan Jones
UEA Director
Evansville

Mary Kaczka
UEA Director
Michigan City

The Honorable Louis J. Mahern, Jr.
Indiana State Senator
Enterprise Zone Board

Pamela Meyer
UEA Director
South Bend

Jihad Muhammad
UEA Director
Gary

Bob Murray
UEA Director
Anderson

Larry Parrott
Director, Indiana Conference of Teamsters
Enterprise Zone Board

The Honorable Allen Paul
Indiana State Senator
Enterprise Zone Board

Rick Phillips
Past UEA Director
Kokomo

Patrick Reardon
UEA Director
Hammond

Dennis West
President, Eastside Community Investments
Enterprise Zone Board
Literature References


Indiana Administrative Code. 58 IAC 1 — 2.

Indiana Administrative Code. 50 IAC 4.1-3-11.

Indiana Code. IC 4-4-6.1-1 — 8.

Indiana Code. IC 6-1.1-20.8-1 — 3.

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