

Location of State Enterprise Zones

Overall Effect on California Petroleum Use		Affects Petroleum Demand Through Intermediate Indicators:	
Magnitude	Low	Primary	Distance Traveled
Certainty	Medium	Secondary	
Applicable Level of Government	State, Local		
Relevant Laws or Cases Affecting Factor	California Revenue and Taxation Code § 17053.74(b)(4)(A)(iv)(IX) California Government Code § 7072(i) 25 California Code of Regulations § 8466(p)		
Time horizon for implementation and maturity	Reversal would be possible in the short term if the Legislature changed state law to match the targeted employment area with the specified local enterprise zone. This change would have immediate effects on new employment.		
Relevant Topics	Tax expenditures, economic development, employment		
Summary	California provides employer incentives to encourage employment in certain geographic areas of the state. If enterprise zones change the location of employment, they only do so slightly: firms that would have located near the enterprise zone locate within the enterprise zone instead. However, one State Enterprise Zone provision may slightly impact the distances employees travel to work. Employers are eligible for tax credits when they hire residents of targeted employment areas. Because this tax incentive is not restricted to a given enterprise zone's targeted employment areas, a potential result is additional distance by employees who travel between enterprise zone areas.		

Introduction

Enterprise zones, which provide incentives to businesses that locate within certain areas of California, are one tool policymakers can use to increase employment in economically depressed areas of California. Scholars debate the zones' effectiveness in generating new employment, but their potential effects on statewide petroleum use are small.

Enterprise zones offer benefits to for-profit businesses that locate within a specified area. The highest value benefit is a state income tax credit equivalent to 150% of minimum wage

or actual wages for hiring workers meeting certain requirements¹. Additionally, firms located within the zone can carry forward losses for up to 15 years versus 10 outside of the zones. Firms are eligible for reimbursements of the sales and use tax for purchases of qualified machinery, computers, film production, and other equipment.

State law authorizes up to 42 enterprise zones. Each zone is valid for 15 years, and can be reauthorized. Some cities have several zones, and some zones comprise large portions of cities or counties.

Studies by many scholars (Boarnet & Bogart, 1996), (Neumark & Kolko, 2010), and others) suggest that enterprise zones do not create new area-wide employment, but rather shift employment into the zone. Some studies (Ham, Swenson, İmrohoroğlu, & Song, 2011), (O'Keefe & Dunstan, 2001), and others) suggest that enterprise zones increase the number of jobs within the zone and the employment rates of those living in targeted employment areas. There's also some evidence that businesses locating in enterprise zones have more employees than the statewide average. This finding is consistent with survey respondent's view that smaller businesses find the process to obtain enterprise zone benefits to be burdensome (Neumark & Kolko, 2010). Enterprise zones may also induce businesses to substitute lower-skilled labor for higher-skilled labor. Additionally, benefits targeting capital equipment investments may attract capital-intensive firms to enterprise zones. Such firms have fewer employees per unit of revenue.

Effects on Petroleum Use

Enterprise zones could have two main effects on California's petroleum use. The first is by changing employment's spatial distribution and changing travel patterns versus the baseline where a business would have otherwise located. The second is by changing commute lengths for eligible residents of targeted employment areas.

With a few exceptions, enterprise zones are typically in or around a region's central—a location generally consistent with lower-than-average employee commute distances. Of the 40 authorized enterprise zones², 14 are in urban centers, 11 are in suburban areas, 10 are in exurban or rural areas within the travel shed of a larger population center, and 5 are in isolated population centers.

Of those within the sphere of influence of a larger population center, only three Kern County zones—Arvin, Delano, and Taft—are within the travel shed of a larger population center that does not have an enterprise zone. Bakersfield's enterprise zone expired in 2006 and has not been renewed. These zones are discussed further in a following section.

One concern with the second effect is that businesses in an enterprise zone can hire residents of targeted employment areas in other enterprise zones. If this occurs in practice, it would mute the effects of local hiring preference on distance traveled and petroleum use. Targeted employment areas are census tracts within the enterprise zone or within the same community as the enterprise zone. A census tract must have 51% or more of the population earning below 100% of the area median income in order to qualify as a targeted

¹ Criteria include: workers on certain job training or public assistance programs, dislocated workers, those who have been permanently laid off due to a plant shutdown, the long-term unemployed, those affected by base realignment/closure, active members of the military, veterans, ex-offenders, or residents of a targeted employment area.

² As of December, 2012

employment area. [Government Code § 7072\(i\)](#) defines targeted employment area, and the [Revenue and Taxation Code § 17053.74\(b\)\(4\)\(A\)\(iv\)\(IX\)](#) establishes eligibility guidelines based on targeted employment area. 25 CCR §8466(p) established acceptable documentation for targeted employment area eligibility guidelines, without specifying whether a targeted employment area is zone-specific.

Quantifying the effect on statewide fuel use

If the three Kern County zones are successful in shifting employment from Bakersfield, they could induce longer commutes in Kern County. 64.1% of Arvin's workers commute from distances of greater than 10 miles (U.S. Census Bureau, 2012). However, with an estimated 5,383 jobs between Arvin and Taft, the effect of distorted commute distances is likely small. Delano is home to an estimated 15,652 primary and secondary jobs. While an estimated 53.4% of Delano workers commute from distances greater than 25 miles, only around 3,000 of those come from the Bakersfield area. Delano also attracts workers from Tulare, Visalia, and Porterville, which are part of the Sequoia Enterprise Zone.

With over 14 million primary and secondary jobs in California, the effect the three Kern County enterprise zones have on travel distances is likely very small. Furthermore, zones located in populated areas on the periphery of larger employment centers, such as Merced, could reduce commute distances.

In 2004, approximately 8.4% of statewide employment was located within enterprise zones (Neumark & Kolko, 2010). Because the data on targeted employment area eligibility vouchers is not public, it is not possible to evaluate the effect of this eligibility criterion on travel demand. Not all employment within enterprise zones is eligible for vouchers, and a very small percentage of granted vouchers would be for residents of outside targeted employment areas. Thus, the total effect of enterprise zone policy on California petroleum use is likely to be negligible.

Works Cited

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