

An Audit Report on the

Texas Enterprise Zone Program



Office of the State Auditor
Lawrence F. Alwin, CPA

October 1994

Report No. 95-005



OFFICE OF THE STATE AUDITOR

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October 21, 1994

Members of the Legislative Audit Committee:

The Texas Enterprise Zone Program offers limited state-funded financial incentives in order to accomplish its objectives. Although the state incentives have had minimal impact, local incentives such as property tax abatements have been more successful in affecting business decisions concerning location.

Senate Bill 405, 73rd Legislature, has directed the State Auditor's Office to assess the impact of the Texas Enterprise Zone Program (Program) on the economies of the State as a whole and local communities with enterprise zones. The best available data indicates that the Texas Enterprise Zone Program has had a minimal impact on unemployment and other socioeconomic conditions, tax revenues and tax bases, and businesses' decisions to locate in the zones. However, the data is often incomplete or unverified, which makes assessing the impact of the Program difficult.

The Texas Enterprise Zone Program has created 137 zones, designated 132 enterprise projects, and certified the creation of 4,117 jobs. The projects have claimed to have invested no less than \$178 million in capital throughout Texas and have contributed over \$11 million in state sales tax revenue as a result of that construction. The Program, in turn, has rebated over \$5 million back to the projects.

The Program is administered by the Texas Department of Commerce. The Department does not agree with the conclusions reached in this report. Their comments are included herein.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lawrence F. Alwin".

Lawrence F. Alwin, CPA
State Auditor

LFA/rmn/enclosure

Key Points Of Report

An Audit Report on the Texas Enterprise Zone Program

October 1994

Key Findings

- The Program's overall impact on unemployment and other socioeconomic conditions has been minimal. The Program has not targeted those areas with the highest unemployment as evidenced by the fact that jobs were certified in only 2 of the 10 counties with the highest levels of unemployment.
- The Program's impact on tax bases has been minimal. There was no certified capital in 6 of the 10 counties with the lowest levels of per capita property wealth.
- The Program has had minimal impact on business decisions to locate in the zones. The state financial incentives are minor in comparison to the local incentives offered to interested businesses. The ratio of state incentives to local incentives awarded to businesses is about 1:42.
- Of the 42 enterprise projects that received state financial benefits, 74 percent were manufacturers, 17 percent were food processors, and 10 percent were in the entertainment or retailing industries.
- The Texas Enterprise Zone Program has created 137 zones, designated 132 Enterprise Projects, and certified the creation of 4,117 jobs. The Projects have claimed to have invested no less than \$178 million in capital throughout Texas and have contributed over \$11 million in state sales tax revenue as a result of that construction. The Program, in turn, has rebated over \$5 million back to the Projects.

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Executive Summary

The data indicates that the Texas Enterprise Zone Program has had a minimal impact on unemployment and other socioeconomic conditions, tax revenues and tax bases, and businesses' decisions to locate in the zones. However, the best available data is often incomplete or unverified, which makes assessing the impact of the Program difficult. The best source of information was contained in the Texas Enterprise Zone Program Annual Report. This information was collected from the zones without verification. The Program is administered by the Department of Commerce.

Since its implementation in 1988, the Program has led to the:

- creation of 137 enterprise zones
- designation of 132 enterprise projects
- certification of 4,117 jobs actually created in the zones by the designated projects
- claims of \$178 million in actual capital investment in the zones by the designated projects
- rebating of state sales tax proceeds totaling \$5.0 million for 39 designated projects
- reduction of state franchise taxes totaling \$770,992 for 19 designated projects

Program's Impact On Unemployment And Other Socioeconomic Conditions Has Been Minimal

The best available data indicates that the Program's impact on unemployment and other socioeconomic conditions has been minimal.

- Certified actual job creation by designated projects has occurred in 21 Texas counties. In 7 of the 21 counties, the number of jobs created

amounts to less than 0.1 percent of the total labor force.

- While 29.8 percent of the jobs created have been in 2 of the 10 Texas counties with the highest rates of unemployment, there has been no certified actual job creation in the other 8.
- Job creation by designated projects has had a measurable impact in four Texas counties. Designated projects have created new jobs totaling 1.85 percent of Reeves County's labor force, 1.28 percent of Hale County's Labor Force, 1.21 percent of Wood County's labor force, and 1.03 percent of Cameron County's labor force.
- The number of jobs certified as actually created is a small percentage of the number of designated projects that could potentially have been created. The 4,117 jobs actually created by designated projects computes to 5 percent of the maximum potential number of jobs that projects could have legally received incentives for creating.

Program's Impact On Tax Bases And Tax Revenues Has Been Minimal

The data indicates that the Program's impact on the tax bases and tax revenues of local governments has been minimal. There has been no creation of capital wealth in 6 of the 10 Texas counties with the lowest levels of per capita property wealth. However, 22.9 percent of the \$178 million in claimed capital investment was in 4 of the 10 Texas counties with the lowest levels of per capita property wealth.

Executive Summary

Since the Program was created in 1988, it has rebated or refunded \$5.77 million of state sales and franchise tax revenue. The data indicates that the Program's impact on the State's tax base has been minimal. Sales tax records indicate that the projects have claimed to have invested \$178 million in capital, and the State received sales taxes of \$11.1 million. In 1992, the total appraised value of property in the State was \$713.7 billion. State sales tax revenues were reported to be \$8.5 billion in 1992.

Program's Impact On Businesses' Decisions To Locate In The Zones Has Been Minimal

The data indicates that the Program's impact on businesses' decisions to locate in the zones has been minimal:

- State incentives offered to projects are relatively minor compared to local incentives. In fiscal year 1992, state incentives accounted for 2.4 percent of the \$62.5 million in incentives provided to designated projects by the State and local governments.
- The majority of designated projects have not claimed any benefits under the Program. Of the 132 projects designated in the six years of the Program's operation, only 39 (or 29.5 percent) had received sales tax rebates, and only 19 (or 14.4 percent) had received franchise tax reduction.

Auditors Used The Most Reliable, Verified Data Available To Evaluate The Impact Of The Program

The best available data for evaluating the impact of the Enterprise Zone Program was

considered to be data that was independently verified and from third-party sources. This data consisted of:

- Jobs Certified As Actually Created
- Capital Investment Claimed
- Employment And Other Socioeconomic Data By County

The Department of Commerce's Annual Report on the Program contains data about the Program. An independently contracted cost-benefit analysis of the Program relied, in part, on this data. However, much of this data is incomplete, unreliable, or unverified, making an assessment of the impact of the Program very difficult.

The cost-benefit analysis of the Program uses certain assumptions that may cause the benefits reported to be overstated. The State Auditor is required, by statute, to comment on the methodology and conclusions of this report. These comments are included in Appendix 3.

Summary Of Audit Objective And Audit Scope

The objective of this audit, as set forth by Senate Bill 405, 73rd Legislature, was to:

- Examine the impact of the Program on the State as a whole as well as the impact on individual communities with enterprise zones, including the impact on state and local:
 - tax revenues
 - tax bases
 - socioeconomic conditions
 - unemployment rates

Executive Summary

- Review the incentives offered by local communities and the relative impact of the incentives on company location, expansion, and retention.
 - Conduct a survey of companies to determine the role of the state enterprise zone incentives on decisions of companies to locate, expand, or retain jobs in the zone.

The scope of the audit included consideration of the Program's impact on tax revenues and tax bases, incentives offered by the State and local communities to induce companies to locate, expand, or retain jobs in enterprise zones.

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Section 1:

**Program's Impact On Unemployment And Other Socioeconomic
Conditions Has Been Minimal**

The data indicates that the Program's impact on unemployment and other socioeconomic conditions has been minimal:

- Where job creation has occurred, it has generally been only a small percentage of the labor force.
- Job creation has not consistently occurred in counties with the highest levels of unemployment.
- The number of jobs actually created is only a small percentage of the potential.

Certified actual job creation by designated projects has occurred in 21 Texas counties. In 7 of the 21, the number of jobs created amounts to less than 0.1 percent of the total labor force. (See Figure 1 for detailed information on job creation and impact on employment by county.)

Figure 1
County Employment Impact

County	Number Of Jobs Certified	County Civilian Labor Force	Impact On Employment
Bexar	1,040	606,886	0.17%
Brazoria	94	105,123	0.09%
Cameron	1,202	116,534	1.03%
Comal	32	28,824	0.11%
El Paso	124	275,622	0.04%
Hale	215	16,763	1.28%
Hayes	66	37,957	0.17%
Hidalgo	25	170,234	0.01%

County	Number Of Jobs Certified	County Civilian* Labor Force	Impact On Employment
Figure 1 (concluded)			
Jefferson	194	120,919	0.16%
Johnson	10	50,791	0.02%
Midland	80	57,505	0.14%
Morris	17	5,849	0.29%
Navarro	63	19,275	0.33%
Nueces	208	143,525	0.12%
Potter	249	50,084	0.50%
Reeves	125	6,773	1.85%
Tarrant	60	689,623	0.01%
Taylor	15	58,259	0.03%
Travis	19	384,115	0.00%
Victoria	105	41,082	0.26%
Wood	174	14,323	1.21%
TOTALS	4,117	3,000,066	0.14%

Job creation by designated projects has had a measurable impact in four Texas counties. Designated projects have created new jobs totaling 1.85 percent of Reeves County's labor force, 1.28 percent of Hale County's labor force, 1.21 percent of Wood County's labor force, and 1.03 percent of Cameron County's labor force. When compared with the civilian labor force at the enterprise zone level, the number of jobs created by enterprise projects were deemed significant in those same four counties with the addition of Comal County.

Job creation by designated projects totaled 29.8 percent in 2 of the 10 Texas counties with the highest levels of unemployment. However, there has been no certified actual job creation in 8 of these 10 counties. (See Figure 2 for detailed data on job creation in the 10 counties with highest levels of unemployment.)

Figure 2
Jobs Created By Counties With the Highest Levels of Unemployment

Counties With Highest Rates Of Unemployment	Unemployment Rate Of County	Number Of Jobs Created By Designated Projects	Percentage Of Total Jobs Created By Designated Projects
Presidio	31.8	0	-
Maverick	21.8	0	-
Starr	21.3	0	-
Willacy	21.1	0	-
Zavala	20.8	0	-
Dimmit	17.4	0	-
Hidalgo	16.6	25	0.61%
Cameron	16.6	1,202	29.2%
Somervell	15.7	0	-
Orange	14.1	0	-

The number of jobs certified as actually created is a small percentage of the number that designated projects could potentially have created. The 4,117 jobs actually created by designated projects computes to 5.0 percent of the maximum potential number of jobs that existing projects could have legally received incentives for creating. (See Figure 3 for a comparison of certified job creation to potential job creation if the Program had been maximized.)

Figure 3
Actual vs. Potential Job Creation

	Jobs Actually Created	Jobs Potentially Created For Number of Projects Certified	
		Designated Projects	Potential Jobs
1988		3	1,875
1989	666	10	6,250
1990	1,412	23	14,375
1991	1,208	24	15,000
1992	519	24	15,000
1993	312	48	30,000
1994		-	-
TOTAL	4,117	132	82,500

Section 2:

Program's Impact On State And Local Tax Bases And Tax Revenues Has Been Minimal

The data indicates that the Program has had no significant impact on increasing the tax base of state government. The designated projects have potentially increased the amount of taxable wealth within the zones by \$178 million. The invested capital, based on average 1992 county and school property tax rates, should generate approximately \$2.61 million a year in property taxes for those taxing authorities. The \$178 million in invested capital generated over \$11.1 million in state sales tax revenue. However, the State has rebated over \$5 million in sales taxes to 39 projects and reduced the state franchise tax by \$770,992 for 19 projects.

Since Texas does not have a personal income tax, job creation has no direct impact on state tax revenues. It does, however, have an indirect effect on the amount of sales tax the State collects.

Local governments offer a variety of incentives to encourage businesses to locate in economically distressed areas. These incentives are awarded independently of those offered through the State's Program. However, the data suggests that the financial incentives offered through the State's Program were not a significant factor in businesses' decisions to locate in the zones. (See Section 3-A.)

Job creation by designated projects has no direct impact on the tax revenues of local governments. As with state sales tax, there is an indirect effect of additional local sales taxes generated.

Section 2-A:

Capital Investment Has Not Been Widely Distributed

Capital investment of \$178 million by designated projects has occurred in 21 Texas counties and 23 Texas cities. However, in 9 of the 21 counties, the investment has totaled less than \$1 million.

Section 2-B:

Distribution Of Capital Investment Has Not Consistently Targeted Counties With Lowest Per Capita Wealth

There has been no creation of capital wealth in 6 of the 10 Texas counties with the lowest levels of per capita property wealth. However, approximately 23 percent of the \$178 million in claimed capital investment was in the 4 of the 10 Texas counties with the lowest levels of per capita property wealth. (See Figure 4 for more detail on claimed capital investment in Texas counties with the lowest levels of per capita property wealth.)

Figure 4
Claimed Capital Investment In Counties With The Lowest Per Capita Property Wealth

Counties With Lowest Per Capita Wealth	Amount Of Claimed Capital Investment By Designated Projects	Percentage Of Claimed Capital Investment By Designated Projects
Coryell	\$ 0	0.0%
Cameron	37,643,516	21.1%
Hidalgo	635,945	.4%
Val Verde	0	0.0%
Waller	0	0.0%
Maverick	0	0.0%
Bell	0	0.0%
El Paso	\$ 2,504,704	1.4%
Taylor	128,815	0.1%
Starr	0	0.0%

Section 3:

Program's Impact On Businesses' Decisions To Locate In The Zones Has Been Minimal

Section 3-A:

State Incentives Are Relatively Minor Compared To Local Incentives

State incentives offered to projects are relatively minor compared to local incentives. In fiscal year 1992, state incentives accounted for 2.4 percent of the \$62.5 million in incentives provided to designated projects by the State and local governments. (See Figure 5 for a comparison of state and local incentives.)

Figure 5
Tax Incentives

Incentive	Amount (Fiscal Year 1992)	Provider
Property Tax Abatements	\$61,000,000	Local governments
Sales Tax Refunds	1,297,928	State government
Franchise Tax Reductions	206,394	State government
TOTAL	\$62,504,322	

Section 3-B:

Participation Among Designated Projects Has Generally Been Low And Uneven

As of fiscal year 1993, the majority of designated projects have not claimed any benefits under the program. Of the 132 designated projects, only 39 (or 29.5 percent) have received sales tax rebates, and only 19 (or 14.4 percent) have received franchise tax refunds.

Among the projects that have received incentives, 20 have received less than \$50,000. Six of those 20 projects have received less than \$10,000.

Five projects created 2,159 of the 4,117 (or 52.4 percent) of the jobs certified as actually created. These projects have also received \$2.1 million of the \$5.0 million (or 42 percent) in incentives provided over the six years that the Program has been in existence.

Section 4:

Auditors Used The Most Reliable, Verified Data Available To Evaluate The Impact Of The Program

The best available data for evaluating the impact of the Enterprise Zone Program was considered to be data that was independently verified and from third-party sources. This data consisted of:

- Jobs Certified As Actually Created
- Capital Investment Claimed
- Employment And Other Socioeconomic Data By County

The Department of Commerce's Annual Report on the Program contains data about the Program. An independently contracted cost-benefit analysis of the Program relied, in part, on this data. However, much of this data is incomplete, unreliable, or unverified, making an assessment of the impact of the Program very difficult.

The cost-benefit analysis of the Program uses certain assumptions that may cause the benefits reported to be overstated. The State Auditor is required by statute to comment on the methodology and conclusions of this report. These comments are included in Appendix 3.

Section 4-A:

Commerce's Annual Enterprise Zone Report

The Department of Commerce's Annual Enterprise Zone Report to the Governor, Legislature, and Legislative Budget Board is a good source of information for background information about the Program. Examples of this type of information include the location and distribution of designated projects and zones.

Much of the financial and performance data in the report is not a reliable basis for evaluating the impact of the Program. The Department performs minimal verification of the information contained in its Annual Enterprise Zone Report to the Governor, Legislature, and Legislative Budget Board. This information is reported by zone administrators, frequently contains errors, and is often incomplete. For example, in the 1992 Texas Enterprise Zone Annual Report, the Department reported a net increase of 646 businesses in enterprise zones throughout Texas. It should have reported a net decrease of 646 businesses. In addition, the information reported by the zone administrators is not verified, even when the information is suspect. For example, information supplied by the Department shows that Houston reported no change in the number of businesses operating in its enterprise zone for four consecutive years.

Objective, Scope, And Methodology

Objective

The objective of this audit, as set forth by Senate Bill 405, 73rd Legislature, was to:

- Examine the impact of the Program on the State as a whole as well as the impact on individual communities with enterprise zones, including the impact on state and local:
 - tax revenues
 - tax bases
 - socioeconomic conditions
 - unemployment rates
- Review the incentives offered by local communities and the relative impact of the incentives on company location, expansion, and retention.
 - Conduct a survey of companies to determine the role of the State's enterprise zone incentives on decisions of companies to locate, expand, or retain jobs in the zone.

Scope

The scope of the audit included consideration of the Program's impact on tax revenues and tax bases, incentives offered by the State and local communities to induce companies to locate, expand, or retain jobs in enterprise zones.

The consideration of the Program's impact on tax revenues and tax bases included a review of:

- sales tax refunds by the State
- franchise tax reductions by the State
- property tax abatements awarded by local communities
- capital investment by enterprise projects

The consideration of the impact of local incentives to businesses included a review of:

- responses to a survey sent to enterprise projects
- interview responses from local administrators

The consideration of the impact of state incentives to businesses included a review of:

- responses to a survey sent to enterprise projects
- interview responses from local administrators

We reviewed the Annual Enterprise Zone Report for accuracy.

We reviewed the cost-benefit methodology.

Methodology

Information collected to accomplish our objectives included the following:

- surveys of enterprise projects
- sales tax refunds from the Comptroller's Office
- franchise tax data from the Comptroller's Office
- interviews with selected zone administrators from several cities
- independent studies conducted in other states
- data presented in the Annual Enterprise Zone Reports
- enterprise project applications
- interviews with agency personnel

Procedures and tests conducted:

- design survey instrument and summarize responses
- analyze supporting documentation for the Texas Enterprise Zone Annual Report for accuracy

Analysis techniques used:

- Math checks
- Review of performance measures

Other Information

The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

There were no instances of noncompliance with these standards.

The audit work was performed by the following members of the State Auditor's staff:

- Leo Pattera, CPA (Audit Manager)
- Craig Kinton, CPA (Audit Director)

Summary Of Survey Results

SURVEY OBJECTIVES: The objective of the survey was to determine the role of the State and local enterprise zone incentives on decisions of companies to locate, expand, or retain jobs in the zone.

SURVEY RESPONSE: Of the 119 surveys sent out, 37 surveys were returned. Due to the low response rate, survey results were not felt to be representative of the population and, therefore, were not projected over the sample population.

SURVEY DESIGN: Design of the survey instrument began with information contained in the 1992 Enterprise Zone Annual Report of the Enterprise Zone Program and a location study which indicated the factors important to companies who have located to Texas. Texas Department of Commerce staff were consulted, and their questions were also included in the survey.

SURVEY PILOT: A revised survey was then piloted with two companies. The final revision was made based on the comments received.

SURVEY TRACKING: The surveys were numbered #001 - #121, which correspond to their Enterprise Project Number assigned by the Department. There were a total of 119 surveys sent, since two projects were no longer in business. A master list with the survey numbers was maintained. The surveys along with a cover letter and a postage-paid return envelope were mailed August 5, 1993. Once the surveys were returned, they were checked off the master list. Companies who did not respond by August 27 were contacted by telephone and asked to return the survey.

PRESENTATION OF THE SURVEY RESULTS: The survey results are presented as "number responded" within the appropriate boxes of the survey instrument. Written responses to questions and comments are presented following the survey instrument.

Blanks appear in the response section due to editing to remove any indicators that could be tied back to a particular respondent. This was done to ensure the anonymity of the respondents as well as to prevent disclosure of any proprietary information.

General Information

1. Your operation at the current location could be considered: Start-up: 10; First-time location in Texas: 11; Subsequent location in Texas: 3; Existing Business: 11; or Business relocation: 7.
2. Please indicate how important the following factors were to you in evaluating site location or expansion at this location by checking (✓) the appropriate box for each factor.

Factors	Very Important	Somewhat Important	Not Important
Availability of labor force with skills to meet your needs (task or skill based)	26	10	1
Educated work force (education based)	8	24	5
Labor costs	25	10	2
Availability of land/land conditions	20	10	7
Acquisition/Construction costs; Occupancy/Facilities costs	23	12	2
Regulatory environment	16	17	4
Overall tax environment	28	9	0
Low union profile	20	12	5
Appropriate physical infrastructure (i.e. utility capacity, water treatment)	23	13	1
Appropriate transportation infrastructure (i.e. airport, freight hauling, trucking services)	24	11	2
Telecommunications services	10	20	7
Cost of living	8	25	4
Cost of energy	16	20	1
Pro-business political environment	25	10	2
Technical and higher education training for workers	5	20	11
Availability of long-term financing	9	13	15
Proximity to domestic markets	12	13	12
Access to foreign markets - export potential	8	10	19
Proximity to suppliers	10	17	10
Public school system	6	18	13
Community involvement	7	25	5
Quality of life	12	22	3

Local Incentives

3. Local governments typically offer incentives such as the following. Please check (✓) all that applied to your business.

TAX INCENTIVES	AVAILABLE			GRANTED	RECEIVED
	Inside Zone	Outside Zone	Unsure		
Tax abatement	26	6	2	21	9
Tax deferral	5	0	9	4	0
Local sales & use tax refund	22	1	4	19	7
Freeport exemption	3	0	12	2	1
Economic development sales tax	3	0	13	1	0
Tax increment financing	1	0	11	0	0
Other:					

REGULATORY RELIEF INCENTIVES	AVAILABLE			GRANTED	RECEIVED
	Inside Zone	Outside Zone	Unsure		
Zoning changes or variances	6	2	11	3	2
Exemption from building code requirements	0	0	13	1	0
Streamlined permitting	4	1	9	4	2
Waiver of performance bond for public works contracting	1	0	11	1	1
Other:					

ENHANCED SERVICES INCENTIVES	AVAILABLE			GRANTED	RECEIVED
	Inside Zone	Outside Zone	Unsure		
Improved fire and police protection	3	3	9	2	1
Community crime prevention programs instituted	3	3	7	1	0
Special public transit routes or reduced fares	1	1	10	0	0
Day care	1	2	10	0	0
Other:					

IMPROVEMENTS IN COMMUNITY FACILITIES INCENTIVES	AVAILABLE			GRANTED	RECEIVED
	Inside Zone	Outside Zone	Unsure		
Capital improvements in water and sewer facilities	7	4	6	6	3
Road repair	7	2	6	4	2
Creation/improvement of parks	0	0	11	0	0
Other:					

Local Incentives (concluded)

EFFORTS TO IMPROVE HOUSING INCENTIVES	AVAILABLE			GRANTED	RECEIVED
	Inside Zone	Outside Zone	Unsure		
Low interest loans for housing rehab/improvements	0	0	13	0	0
Transfer of abandoned housing to individual/community groups	0	0	13	0	0
Other:					

BUSINESS & INDUSTRIAL DEVELOPMENT SERVICES INCENTIVES	AVAILABLE			GRANTED	RECEIVED
	Inside Zone	Outside Zone	Unsure		
Use of surplus/underutilized publicly owned facilities	0	0	11	0	0
Provision of publicly owned land for development	1	0	13	0	0
Special one-stop permitting/problem resolution centers	2	0	10	1	0
Promotion and marketing services	0	0	11	0	0
Permitting/development fee exceptions	3	0	8	2	0
Low cost land	1	1	8	2	0
Low cost utility fee	5	2	10	4	2
Other:					

TRAINING & EMPLOYMENT SERVICES INCENTIVES	AVAILABLE			GRANTED	RECEIVED
	Inside Zone	Outside Zone	Unsure		
Retraining programs	10	2	8	6	3
Literacy & employment skills programs	7	2	8	3	2
Vocational education	6	3	8	3	1
Customized job training	10	2	7	4	3
Other:					

BUSINESS FINANCIAL ASSISTANCE INCENTIVES	AVAILABLE			GRANTED	RECEIVED
	Inside Zone	Outside Zone	Unsure		
Low interest loans	3	1	9	3	3
Bond programs	3	0	8	2	1
Ancillary structure finance	1	0	9	1	0
Trade development	0	0	10	1	0
Other:					

New Location/Relocation

4. Please indicate how important the following **local** incentives were to your decisions to **locate** in the enterprise zone by *checking (✓) the appropriate box for each incentive.*

Incentives	Very Important	Somewhat Important	Not Important	Not Available
Tax incentives	19	8	0	0
Regulatory relief	5	9	6	4
Enhanced services	3	8	8	4
Improvements in community facilities	1	7	13	2
Efforts to improve housing	1	4	14	4
Business and industrial development services	4	8	6	4
Job training & employment services	4	17	1	3
Business financial assistance	2	8	9	4

Expansion/Consolidation/Retention

5. Please indicate how important the following local incentives were to your decisions to **expand** in the enterprise zone by *checking (✓) the appropriate box for each incentive.*

Incentives	Very Important	Somewhat Important	Not Important	Not Available
Tax incentives	15	3	0	2
Regulatory relief	4	5	2	4
Enhanced services	1	6	4	4
Improvements in community facilities	1	3	7	4
Efforts to improve housing	1	2	7	5
Business and industrial development services	1	6	5	2
Job training & employment services	3	8	4	1
Business financial assistance	1	6	5	5

6. What was the average number of employees your first year of operation? *Check only one:*

- | | |
|--------------------|--------------------|
| 12 a. Less than 30 | 3 e. 200 - 299 |
| 5 b. 30 - 49 | 1 f. 300 - 500 |
| 5 c. 50 - 99 | 1 g. 500 - 625 |
| 5 d. 100 - 199 | 2 h. More than 625 |

Expansion/Consolidation/Retention (concluded)

7. Have you expanded your business beyond your original commitments? Yes 10 No 23
 If yes,
 a. Briefly describe the nature of your expansion

- b. Did you add new jobs? Yes 20 No 3. If yes, number added _____
8. Estimate of your actual capital investment in the enterprise zone since inception \$ _____
9. How difficult has it been for you to retain employees? (circle one)
 V = Very difficult 1 S = Somewhat difficult 12 N = Not difficult 21
10. What would you consider to be the single most important factor in this difficulty or non-difficulty?

State Incentives

11. Please check the state tax incentive(s) your company has received through the Texas Enterprise Zone Program:
 28 a. State Sales Tax Refund
 12 b. State Franchise Tax Reduction
 1 c. Other _____
12. Please indicate how important the assistance received from the Texas Enterprise Zone Program in the following programs were to your decision to **locate and/or expand** in the enterprise zone by *checking (✓) the appropriate box for each program.*

REGULATORY RELIEF	Very Important	Somewhat Important	Not Important
Priority and preference or special consideration for state services from _____ (State Agency)	4	2	5
Waiver or variance of state permitting from _____ (State Agency)	1	2	7
Other:			
Check box if none: <input type="checkbox"/>			

State Incentives (continued)

STATE FINANCING	Very Important	Somewhat Important	Not Important
Loan packaging/grants	2	4	7
Texas Capital Fund Infrastructure Grant	6	2	6
Real Estate Development Program	1	5	7
Small Business Incubator Program	1	3	8
Texas Leverage Fund	0	3	8
Rural Economic Development Fund	1	4	7
Product Development Fund	1	2	8
Product Commercialization Fund	0	3	8
Exporter's Loan Guarantee Fund	1	3	8
Governor's Special Assistance Fund	2	1	8
Linked Deposit Program	0	2	9
Rural Microenterprise Loan Program	0	2	9
Texas Agricultural Finance Authority	0	2	9
Industrial Development Bonds	1	3	7
Other:			
Check box if none: <input type="checkbox"/>			

FEDERAL FINANCING	Very Important	Somewhat Important	Not Important
SBA 7(A) Loan Guarantee Program	1	1	5
SBA 504	1	2	5
Business and Industry Loan Program (FHA)	1	1	5
Industrial Development Bonds	2	2	3
Economic Development Administration (EDA) Grants/Loans	4	1	3
Other:			
Check box if none: <input type="checkbox"/>			

State Incentives (concluded)

TRAINING	Very Important	Somewhat Important	Not Important
Work Force Incentive Program (State)	4	13	4
Targeted Jobs Tax Credit (Federal)	9	11	3
Job Training Partnership Act (Federal)	9	13	3
Other:			
Check box if none: <input type="checkbox"/>			

OTHER PROGRAMS/SERVICES	Very Important	Somewhat Important	Not Important
Texas Marketplace	2	2	3
Technical assistance on recycling	1	1	5
Technical assistance on transportation	1	2	4
Other:			
Check box if none: <input type="checkbox"/>			

(For more information on these programs, please call 512-320-9579.)

13. Was the state incentive essential for your decision to **locate and/or expand** in the enterprise zone?
 Yes 18 No 19
14. Please indicate which of the state, local, and other incentives were most influential in your decision to **expand/retain employees**?
 Local incentives (from question 4): _____
 State incentives (from questions 11 and 12): _____
 Other factors. Please describe: _____

Summary Information

15. Please indicate your overall satisfaction level with the enterprise zone program: (circle one):

V = Very successful 19 S = Somewhat successful 17 N = Not successful 0

Comments:

Summary Information (concluded)

16. If you had to consider one incentive that was most instrumental in your decision to locate or expand at your current location, what would it be?
17. Please describe the commitments that your company has made as a part of the enterprise project.

ADDITIONAL COMMENTS: *(attach additional page if necessary)*

GENERAL COMMENTS FROM ENTERPRISE ZONE SURVEY

Question 1 Business relocation from:

Of the companies who responded to the survey, 5 relocated from out of state while 2 relocated from within the state of Texas.

Question 7 Briefly describe the nature of your expansion:

- Machinery and equipment plus facility improvements
- Doubled capacity 1992
- ___ processing plant
- Expansion of second floor of facility
- Added 3rd line
- We added 16 ___ printing and packaging lines during 1st year.
- Added 1 additional system. Increased from 5 to 7 days.
- Equipment
- Added additional mill
- ___ refurbishment

Question 10 What would you consider to be the single most important factor in this difficulty or non-difficulty? (to retain employees)

- Working 3 shifts and 7 days per week
- People do not want to work. They don't show up regularly. They do not want to work overtime.
- Good team relationship
- Our processes tend to be intensive and somewhat personnel unfriendly. As a result some persons did not want to work as hard as others.
- Above average salaries. Good working atmosphere & conditions.
- Labor available
- Wages
- Fewer hours available for work as business gains momentum.
- Employee quality.
- The attractiveness of our corporation as a company to work for.
- The industry has always had somewhat of a difficult time with turnover.
- Part-time nature of many positions.
- Education.
- We are a responsible employer offering fair wages, excellent benefits, good working conditions.
- Training and work environment.
- Current surplus labor market.
- Reputation of owners involved in this project is very good.
- Not difficult - we offer an excellent employee training and benefit package.
- 3 shifts - 7 day/week operation.
- Lack of technical skills.
- Availability of unskilled labor.
- Difficulty in finding non-migratory workers.
- Hiring qualified employees.

Question 11c The State incentive(s) your company has received through the Texas Enterprise Zone Program.

Note: Blank spaces are due to editing to remove any proprietary information or to preserve the anonymity of the respondents.

- Texas Capital Fund

Question 12 How important was the assistance received from TEZP in the following programs in your decision to locate and/or expand in the zone?

Regulatory Relief

Priority and preference or special consideration for state services from:

- Texas Department of Commerce (4 responses)

Waiver or variance of state permitting:

- Texas Department of Commerce (1 response)

Other:

- ____ Co. Local Dev. Corp.

Question 14 Please indicate which of the state, local, and other incentives were most influential in your decision to expand/retain employees?

Local Incentives:

- Property tax abatement (5 responses)
- Too early in our development
- Tax abatement/enterprise zone
- ____ County Local Development Corp.
- Sales tax rebates
- Tax incentives (4 responses)
- Tax - regulatory.
- Industrial services.
- Check & then rejected.
- Sales & use tax refund.
- All the eight (8) local incentives.

State Incentives:

- Sales tax rebates and franchise tax abatement
- Job credits
- #11 State Franchise Tax Reduction
- Tax (sales) refunds & franchise tax benefits
- Cap. Fund Infrastructure Grant
- Texas Capital Fund, tax rebates
- State grant for infrastructure
- Sales and use tax refund
- Real Estate Development Program
- Sales and use tax refund
- Sales tax refund
- Loan packaging/grants
- State sales and franchise taxes

Note: Blank spaces are due to editing to remove any proprietary information or to preserve the anonymity of the respondents.

GENERAL COMMENTS FROM ENTERPRISE ZONE SURVEY

- Sales & use tax, franchise tax refunds
- Sales tax refund
- Sales tax/Franchise refund
- State incentive A and B

Other Incentives:

- Industrial Revenue Bond
- Location made the most sense from the perspective of our business

Question 15 Comments on your overall satisfaction level with the enterprise zone program:

- Jury is still out - to date I have seen mostly forms and excuses. We'd probably be better off if you'd turn out the lights in Austin and let us work on our business.
- Have not turned in for sales tax refund as of yet.
- Not all the benefits were described as available. We could use help on the infrastructure improvements & how to obtain federal income tax benefits.
- It's too early in our process to give a fair evaluation.
- We sincerely appreciate the incentives to come to Texas.
- Too complicated and cumbersome!
- Need banks to lend to foreign companies to allow for expansion without using letter of credits from principal companies.
- The sales tax rebate has helped in funding the expansion.
- We are excited at the new opportunity to expand our business under this program.

Question 16. If you had to consider one incentive that was most instrumental in your decision to locate or expand at your current location, what would it be?

- Good climate for business expansion at local site
- Tax credit
- Favorable lease rates from owner. Free parking from City of ____ and Tax incentives from the state.
- The no tax load at the county level.
- Texas Capital Fund Infrastructure Grant
- Tax abatement (5 responses)
- Tax incentives
- Location to _____ customers & _____.
- Texas Cap Infrastructure Grant
- Texas Capital Fund (provided \$2 million) for land/infrastructure.
- Tax incentives
- Cost of living
- The Industrial Revenue Bond & Grant
- Permitting assistance
- Sales & use tax refund
- Real Estate Development Program
- Sales tax refund (2 responses)
- Loan incentives
- Local intra-company raw materials supplies. Local trained labor force.
- Franchise, sales, use tax incentives.

Note: Blank spaces are due to editing to remove any proprietary information or to preserve the anonymity of the respondents.

GENERAL COMMENTS FROM ENTERPRISE ZONE SURVEY

- Involvement of local technical training facility to tailor a job training package for our plastic injection molding machines operators & set up employees.
- Sales & use tax refunds, utility tax abatements, and property tax abatements.
- Freeport exemption
- There were several incentives which collectively allowed us to decide to locate in _____. In retrospect, I would say that the Enterprise Zone Designation and the property tax abatement were equally persuasive.
- Existing buildings

Question 17 Please describe the commitments that your company has made as a part of the enterprise project:

- Invest \$3.2 million. Hire and retain up to 40 new people.
- Doubled capacity
- 600+ jobs. \$5M+ initial expenditure in capital improvements.
- Committed funds for 3 yrs research at TX A&M for new _____ product. Purchase of 23 acres & extensive roadways & concrete slabs & bins, complete as of 8/9/93. _____ shown at major _____ show in county, many interested buyers.
- The enterprise zone made available by the local community is a very positive statement that they are pro-business and are willing to help with our success.
- We have committed to hire up to 100 persons in jobs, newly created, ranging from hourly production to supervisory. In addition, we are expending up to 1.5 million in capital improvements over a five year time frame.
- Have surpassed employment requirements. Help economic impact in free services to state agencies, federal agencies, local city & county.
- Hiring enterprise zone employees.
- Increase employment. Increase investment.
- Create new jobs.
- Significant real estate improvement, capital investment and job creation in the enterprise project and throughout the state.
- Will hire from the disadvantaged category. Offer basic reading and writing training to employees.
- We have hired all the people we promised to and we are trying very hard to meet all the air quality requirements.
- To seek candidates for employment from the enterprise zone or from ranks of the economically disadvantaged.
- Spent ten million dollars to keep our plant producing strongly for the future. Will hire new employees, creating jobs for people in the zone.
- To employ qualified people to cover 25% of positions.
- \$4.2 mil capital investment.
- Hire and maintain specified level of employees.
- Committed to creating/retaining 95 new jobs within 5 yrs. After 7 mon. had created & retained 49 full-time positions. Committed to spend \$2.5 mil on capital items. Committed to being an active, civic-minded company and help our local community
- Currently 33% of employees reside in the zone.
- Undetermined number of permanent jobs.
- Capital Expenditures = \$4.0 mil, Manufacturing Facilities = \$4.0 mil, Equipment Expenditures = \$7.5 mil. Total of \$15.5 mil. Employees: 10 beginning, 200 - 1996.
- 45% of new jobs will be filled by employees a) geo. area, b) on-welfare, c) released from prison, d) Texas Emp. Commission qualified.
- \$9 mil + investment. Create 60 new jobs.

Note: Blank spaces are due to editing to remove any proprietary information or to preserve the anonymity of the respondents.

GENERAL COMMENTS FROM ENTERPRISE ZONE SURVEY

- Capital equipment.
- _____ recruited/trained residents of Enterprise Zone in greater percentages than agreement; cap. investment is more than double what we originally planned (\$39 mil vs. \$16 mil). We are concentrating purchases of raw material, supplies and services in the Enterprise Zones.
- Hire certain number of employees within a specified time frame.
- Creating new jobs.
- To employ persons from our area. To offer training. To improve our employees' quality of life.

Additional Comments:

- In late 1993, our projections are for a new state of the art manufacturing plant. Your office will be informed from time to time of our progress.
- Incentives procedures too complicated. Have to deal w/ too many agencies. Could use 1 state/local coordinator so we don't have to FIND right people, dept., etc. Paperwork/instructions too complicated/confusing/contradictory. Creates burden on smaller companies who are trying to get up & running but end up bogged down in unnecessary paperwork.

Note: Blank spaces are due to editing to remove any proprietary information or to preserve the anonymity of the respondents.

Evaluation Of The Cost-Benefit Methodology

Section 1:

Use Of Certain Assumptions May Cause The Benefits From The Enterprise Zone Program To Be Overstated.

We have some concerns with certain assumptions made in the independent study prepared for the Texas Department of Commerce, *Texas Enterprise Zones: Cost Benefit Analysis*. It appears that the net impact of these assumptions could overstate the benefits of the Enterprise Zone Program. We cannot precisely quantify what the outcome of the adjustments would be if different assumptions were substituted in the cost-benefit analysis.

The study assesses the effectiveness of both state and local incentives. While the basic approach of comparing costs against benefits is appropriate, the following assumptions made in the study appear to overstate the benefits derived from the Texas Enterprise Zone Program:

- All jobs in existence in Enterprise zones in fiscal year 1993 will continue to exist from fiscal year 1994 until 20 years after the charter date of the enterprise zone.
- Each zone will, for the period from fiscal year 1994 until 20 years after the initial certification of the zone, achieve the same average annual amount of investment as was observed during the period fiscal year 1988 to fiscal year 1993.
- Companies locating in enterprise zones are either newly created or relocating from outside Texas.

Section 1-A:

The Assumption Of The Length Of Time Over Which Benefits Are Derived Appears To Be Long.

The cost-benefit analysis assumes that "all jobs in existence in Enterprise Zones in fiscal year 1993 will continue to exist from fiscal year 1994 until twenty years after the charter date of the Enterprise Zone." It also assumes that "each Zone will, for the period from fiscal year 1994 until twenty years after the initial certification of the Zone, achieve the same average annual amount of investment as was observed during the period fiscal year 1988 to fiscal year 1993."

The assumption that all jobs will exist for 20 years after fiscal year 1994 and the same average annual amount of investment is maintained beyond fiscal year 1994 does not seem reasonable. Enterprise projects are primarily manufacturing companies. Recent

research in progress by The University of Texas at Dallas, using information from the Comptroller of Public Accounts, shows that of all the manufacturing businesses that had entered the Texas economy in 1985:

- 50 percent had gone out of business in approximately two years.
- Less than 25 percent of the manufacturing businesses that were created in 1985 were found to be in existence in 1992.
- The effect of the assumptions is that the benefits from the Enterprise Zone Program may be overstated.

Section 1-B:

Companies Locating In Enterprise Zones Are Not Necessarily Newly Created Or Relocating From Outside Texas.

The cost-benefit analysis appears to assume that all companies entering enterprise zones are either newly created or relocating from outside Texas. Thus, it is appropriate to view new jobs as truly new jobs to the State. However, reality may be quite different.

The study does not discuss nor does it discount the jobs that may be relocating as a result of businesses moving from one area of Texas to another. The *Texas Enterprise Zone Program: 1993 Annual Report* states that "of the 129 projects, 44 are new companies to Texas while 85 are existing Texas businesses." Therefore, it is possible that a company may be an existing Texas business and may choose to locate in an enterprise zone as opposed to another area in the State. For example:

- A Texas consumer electronics company, has a manufacturing and distribution center in an enterprise zone in north Fort Worth.
- A Texas-based apparel retailer, has an operation in an enterprise zone in east San Antonio.
- An Austin-based personal computer manufacturer is moving part of its operations to Round Rock for which it received both local and state incentives. The state incentives were not part of the Enterprise Zone Program.

Had the consumer electronics and the apparel retailers not located in enterprise zones, it is possible that they would have located elsewhere in the State, creating income in that area.

Using the cost-benefit analysis' assumption has probably resulted in the number of jobs created and the direct and indirect benefits accruing from the Program to be overstated. The authors should have obtained an estimate of the number of companies in their sample that relocated from one area in Texas to another. They should then have filtered out the effect of jobs that existed prior to relocation and costs such as incremental loss in closing old locations and the cost of retraining displaced workers.

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Appendix 4:

Management's Response

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STATE OF TEXAS
DEPARTMENT OF COMMERCE

October 12, 1994

Mr. Lawrence F. Alwin, CPA
State Auditor
State of Texas
P.O. Box 12067
Austin, Texas 78711

Dear Mr. Alwin:

The Department of Commerce appreciates the opportunity to respond to your staff's report on the impact of the Texas Enterprise Zone Program on the State economy and on local communities with enterprise zones, as mandated by Senate Bill 405. We do not believe the "Key Findings" in Sections 1 through 3 of the report are accurate or supported by your analysis.

First, this is a sub-county, local option participation program. Cities and or counties determine the need for and placement of enterprise zones based upon their goals to induce investment and create new jobs in a particular area. Currently, communities in 91 of the 254 counties are utilizing the Enterprise Zone Program to improve economic conditions in their jurisdictions.

We feel it is inappropriate to determine the effectiveness of a sub-county program at a county level or to analyze only ten counties for determining the program's economic impact on the whole state. One cannot assume the ten counties with the highest unemployment or lowest per capita property wealth are adequate indicators of the program's impact on distressed areas across the state, especially when half of these counties have opted not to participate in the program. (Figures 2 and 4 of the report).

Second, the analysis is based on jobs and capital investment made by enterprise zone "projects." Projects are businesses that have been nominated for state tax benefits in the zones with the highest level of economic distress. While the success of these projects, many of which are entering or still in the job creation phase of operation, certainly contributes to the economy of the immediate and surrounding communities, we do not feel scrutinizing the projects alone illustrates the success of the whole program. This belief is underscored by the findings in the report.

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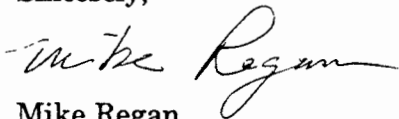
For example, as indicated in the key findings, "(T)he state financial incentives are minor in comparison to the local incentives. . .". We agree. Communities have the most to gain from business location and should provide the majority of the incentives rather than state government through the designation of enterprise projects. The commitment shown by the state by partnering with a locality is oftentimes more important than the monetary value of the state incentives being offered.

This conclusion is also supported by the businesses responding to your survey. Survey questions 4 and 5 questioned the importance of local tax incentives to the companies' decision to locate or expand in an enterprise zone. All the responses were either "Very Important" or "Somewhat Important". Moreover, 49 percent of the survey respondents said state incentives were essential to the companies' decision to locate/expand in the zone. Not one respondent (to survey question 15) felt the program was not successful to some degree.

Finally, in reference to the impact of the program on state and local economies, the utility of a tool such as the Enterprise Zone Program can realistically only be measured by the community and its stated economic development goals (e.g. small vs. large businesses, labor intensive vs. capital intensive businesses, etc.). Even if only \$178 million in capital investment had been invested by the companies designated as projects (a figure which represents claimed, not actual investment) and the costs to the state in tax refunds and reductions has only been \$5 million, the state has leveraged its money over 30 times.

To summarize, we respectfully question the conclusion that the Enterprise Zone Program has had minimal impact on unemployment, socioeconomic conditions, tax revenues and tax bases, and business' location decisions based on the data used in the analysis and the findings presented in this report. A more in-depth review of this report by Commerce staff is available upon request.

Sincerely,



Mike Regan
Chief Administrative Officer

cc: Deborah C. Kastrin
Kenneth Carlile, Chairman, TDOC Board
Leo Paterra

Auditor's Follow-up Comment:

The Department inappropriately supports their conclusions based on the results of the survey that was distributed during the course of this review. While the survey results were considered by the State Auditor's Office, due to the low response rate, no valid conclusions can be drawn based on the results of the survey.

Copies of this report have been distributed to the following:

Legislative Audit Committee

Honorable James E. "Pete" Laney, Speaker of the House, Chair
Honorable Bob Bullock, Lieutenant Governor, Vice Chair
Senator John Montford, Chair, Senate Finance Committee
Senator Kenneth Armbrister, Chair, Senate State Affairs Committee
Representative Robert Junell, Chair, House Appropriations Committee
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