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LAWRENCE F. ALWIN, CPA
State Auditor

April 9, 1997

Members of the Legislative Audit Committee:

The Honorable James E. "Pete" Laney, Chair
The Honorable Bob Bullock, Vice Chair
The Honorable Bill Ratliff
The Honorable Kenneth Armbrister
The Honorable Robert Junell
The Honorable Tom Craddick

The review of the fiscal year 1996 Texas Enterprise Zone Program (Program) Cost-Benefit Analysis indicates that, currently, there is limited future benefit to the State for requiring these periodic analyses. We recommend that the Legislature consider repealing the requirement for subsequent cost-benefit analyses as specified under Texas Government Code, Section 2303.0525.

It is neither possible nor cost effective to assess the success of the Program. Our review of the analysis' source data and methodology revealed significant weaknesses that raise serious questions as to the reliability of conclusions reached in the analysis. However, we also noted that any effort to enhance data reliability would lead to a substantial increase in data collection and monitoring costs, which appears prohibitive.

The Texas Department of Commerce (Department) generally concurs with our conclusion and recommendation for the cost-benefit analysis. We would like to thank the Department for its assistance and cooperation during this review. If you have any questions, please call Tom E. Valentine at 479-3053.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

LFA/rmn/attachment

SAO Report No. 97-052

Review of the 1996 Texas Enterprise Zone Program Cost-Benefit Analysis

Source Data:

The Cost-Benefit Analysis' major source of data is the annual Enterprise Zone surveys. This information is self-reported by the Enterprise Zone administrators and is not audited. The State has little assurance that the numbers reported by Enterprise Zones are accurate, and has no assurance that the methods used by the Enterprise Zone administrators to compile and report these numbers are viable.

Methodology:

The primary assumption of the Texas Department of Commerce's cost-benefit model is that it is not possible to directly measure the amount of activity in the Enterprise Zones which is directly attributable to the Program's existence.

The State Auditor's Office believes that this assumption holds true under the current process in place for evaluating the Program's cost-benefit information. Although it may be possible to develop a more accurate analysis, to do so does not appear advisable given the potential cost that would have to be incurred in planning and implementing that process or mechanism.

Other incentives apparently provided by the State are not accounted for in estimating the State's total incentive cost. The Cost-Benefit Analysis states "Preference for state administered loans and grants may be given to enterprise zones, and the State Treasurer is authorized to deposit state money in financial institutions located in or doing business in these zones" However, this information is not part of the cost estimates. In addition, there is no assurance that the local entities are not transferring all (or part) of their incentives' costs back to the State through some other state or federal program.

Reliability is low regarding the income benefits information calculated from the econometric model (Texas Input-Output Model) in the analysis. The Input-Output Model was last reviewed by the Comptroller of Public Accounts in fiscal year 1986. The average life span of these economic models is noted to be about eight years.