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## Enterprising program offers hope

By: Jenny May

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### Popular plan was initially created to spur economic development and job creation in distressed areas

Willoughby Hills Mayor Kenneth A. Lorenz has grown tired of seeing the desolate, run-down piece of property at Route 91 and Interstate 90 that used to be a thriving restaurant.

It seemed as though no one ever would be willing to invest in the property, which has laid vacant for about five years.

However, after getting approval from county commissioners in October for his city to become part of the Lake County Enterprise Zone, Lorenz has a glimmer of hope.

Under the program, the city can begin negotiations for tax abatements to encourage prospective businesses to open up shop in the city.

In 2005, Ohio lawmakers will likely consider whether to renew the law authorizing Ohio's Enterprise Zone Program, a popular program initially created to spur economic development and job creation in distressed areas.

The Enterprise Zone Program provides personal and/or real property tax abatements to firms that locate or expand within zone borders. Only commercial and industrial businesses qualify.

About 500 communities across the state are in the program.

Ohio's Enterprise Zone Program was created in 1982. In 1994, lawmakers expanded the program to allow enterprise zones in non-economically distressed areas.

To join the program, communities must get approval from their county commissioners.

Officials typically request that their entire community be in the program, although they can request only a portion be included.

Once a community qualifies, officials there can offer a company a tax abatement of between 50 percent and 75 percent for between five and 10 years.

A community can offer an abatement of more than 75 percent and/or for between 10 and 15 years, as long as the local school board approves.

Under normal circumstances, without a tax abatement, the local school board collects the majority of the value of a company's personal property tax and the majority of a company's real estate tax, with the amount depending on the city's tax rate.

Most Enterprise Zone program agreements state that if a company receiving a tax abatement leaves the community before the abatement expires, the community can collect back taxes from the company.

City officials and businesses who have been granted admission into the program rave of its benefits.

"It allows us an opportunity to attract people who normally wouldn't look at our city," Lorenz said. "It helps to attract corporations. It puts us in a different league."

However, critics say allowing too many communities that are not poor or distressed is defeating the program's purpose and hurting the cities it

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was meant to help.

A study by Kent State University assistant professor Mark Cassell in 2003 found that substantially more of the jobs and investment associated with the program go to higher-income areas in the state.

"Of benefits attributed to the program, five times as much real property investment and twice as many jobs go to the highest-income school districts," Cassell noted in the study. "Poor districts are receiving fewer of the benefits claimed by the program than affluent districts. That suggests that a program designed to help economically disadvantaged areas has become an important economic tool for high-income areas in the state."

Critics point to communities in the program like Willoughby Hills, Highland Heights in Cuyahoga County, and Roaming Shores Village in Ashtabula County, where the average home sells for \$212,000, \$220,000 and \$150,000, respectively.

Opponents say the program has resulted in little more than upper-income communities such as these luring businesses away from each other.

"It has really become a tool to determine location," Lake County Commissioner Daniel P. Troy said. "In other words, a company is going to expand and they are saying, 'Who can give me the best bid? If I can relocate my company to Solon or Aurora, why do I want to relocate to a blighted area?' It's defeating the purpose of what it's intended to do."

State Rep. Ed Jerse, D-Euclid, agrees.

"They are overused," Jerse said. "In very specific situations they can be an effective tool, but currently we overuse them and see them as a panacea, which they are not. Most companies make their decision based on things other than tax abatements, so essentially the abatement is given away."

However, proponents of the program believe there is nothing to gain from shutting certain cities out.

Ned Hill, professor of economic development at Maxine Goodman Levin College of Urban Affairs of Cleveland State University, has done several studies on the Enterprise Zone Program.

Hill concludes that the program is crucial because of the fact that Ohio is one of only seven states that taxes companies on their tangible personal property, which is machinery, equipment and inventory.

Hill believes Ohio companies need the Enterprise Zone Program to catch up from being what he describes as overtaxed.

"The tangible personal property tax is archaic, it's stupid, and it hurts the growth of the state," Hill said. "We have a fundamental flaw in the tax code, and the Enterprise Zone Program is the only way we have to offset that disadvantage."

Fran Migliorino, Gov. Bob Taft's regional representative in the Ohio Department of Development, said schools and cities stand to lose little under the program.

"It depends on whether you see the glass as half-full or half-empty," Migliorino said. "I've always been an advocate of the Enterprise Zone Program. You're comparing it to looking at (land), where there's no tax value at all."

Migliorino said critics should also take into account that employees lured to an area under the program benefit that community in several ways.

"When you have full-time employees, there can be a five-fold spin-off," Migliorino said. "They are benefiting retail, education, housing, leasing and rentals."

The program will be even more appealing to cities in light of recent news that the state of Ohio anticipates cutting local revenue sharing funds to cities by 20 percent to 30 percent.

"For us, that means \$260,000 less into the general fund," Lorenz said. "That is going to be a significant kahuna. Every municipality across the state is going to be impacted by that."

Some communities, including Mentor and Highland Heights, have come up with an alternative method to attract businesses.

Rather than granting tax abatements, the communities may give companies annual grants based on a company's anticipated payroll and investment in the community, such as improvements or construction of a facility.

Companies typically agree to increase their payroll by a certain percentage each year to qualify for the grants.

The program allows the community and schools to continue collecting taxes while attracting businesses, said Ronald M. Traub, community development director for Mentor.

Mentor began using such a program, called the Mentor Incentive Grant, in 2003.

"It's a neat program," Traub said. "It offers a little more incentive to smaller companies. The Enterprise Zone Program is still on the books, but council would look much more favorably on the Mentor Incentive Grant, which keeps the school district whole."

The first company to use the Mentor Incentive Grant program was SourceOne Healthcare Technologies, which opened on Tyler Boulevard in 2003.

Under the program, it's estimated the company will receive an annual grant of between \$50,000 and \$60,000 a year for 10 years.

For some school officials, such an alternative to the Enterprise Zone Program comes as a relief.

"It certainly sounds like a good thing," said Dan Wilson, chief financial officer for the Mentor School District. "Any incentive the city can use out of its own treasury to lure jobs and strengthen the economy is great. There are certainly a lot of existing tax abatements that affect the schools."

Other school officials see nothing wrong with allowing many communities to join the Enterprise Zone Program and offer tax abatements.

"I think it's a win-win situation for the schools," said Keith Miller, superintendent of the Willoughby-Eastlake School District. "They are doing this all over the state of Ohio and if we're not competing, businesses aren't going to relocate here and we're just shooting ourselves in the foot."

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