Policy Matters Ohio

Economic Development

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Testimony
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Senate Bill 112

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Good morning, Chairman Beagle, Vice-Chair Manning, Ranking Member Tavares and members of the committee. My name is Wendy Patton and I am a senior project director at Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. Thank you for the opportunity to testify today regarding Senate Bill 112.

In 2003, Policy Matters Ohio studied the first 20 years of Ohio's enterprise zone program and based on a review of the data, interviews with local officials and analysis of outcomes in communities, came to the following conclusions. Ohio's enterprise zone program was initially designed to help urban communities with high poverty by lowering costs to incentivize firms to locate within their boundaries. It was assumed the program would make distressed communities more appealing places to locate jobs and to make investments. Over time, the type of place allowed to participate was broadened from the initial, distress-based definition. Our study found that in those first 20 years, lower-income districts were slightly more likely to participate in the program than other types of communities, but higher-income districts reaped most of the jobs and investment associated with the program.

In 2011, the national research group Good Jobs First published a study of enterprise zones in the Cleveland and Cincinnati areas between 1996 and 2010. One hundred and sixty-four small and medium-sized business establishments with an estimated 14,500 employees in these enterprise zones received lucrative tax breaks as they merely moved around within the Cincinnati and Cleveland metropolitan areas. These subsidized relocations were overwhelmingly outward bound and by many measures, especially in the Cleveland region, they fueled suburban sprawl. By dispersing jobs away from the two urban cores, the relocations contributed to disparities in wealth and opportunity among localities in the regions. They moved jobs away from areas with higher rates of poverty and people of color to more affluent and less racially diverse areas. And by moving mostly to locations that are not served by public transportation, they denied job opportunities to workers without cars.

Over the past 30 years, the enterprise zone program accomplished the opposite of what it was designed to accomplish. It facilitated the movement of jobs and investment away from distressed communities of high unemployment.

In 2007, in the wake of the state tax overhaul of 2005 that eliminated some of the taxes the enterprise zone was established to abate, Senator Amstutz initiated a tax incentive review study. The legislatively mandated report found flaws in the enterprise zone program, including:

- Tax reform rendered major portions of the enterprise zone program obsolete;
- Tax abatement began in Ohio as a targeted urban development program, but by 2009 virtually all areas of the state qualified;
- Ohio's tax abatement statutes did not align with its tax increment financing statutes,
- Ohio's tax abatement statutes were found to be complex and confusing, and
- Ohio's tax abatement and tax increment financing programs adversely impacted school district revenues, particularly in Ohio's most "urbanized" counties.

The study suggested that the enterprise zone program be ended and consolidated with the other major local tax abatement programs. Consistency was encouraged, with a focus on:

- Growing existing businesses in place;
- Eliminating the perception that incentives are an entitlement;
- Providing distressed communities with distinctive tools;
- Providing schools with a minimum of the foregone revenues;
- An early warning system for job loss;
- Financial mechanisms for enhancing infrastructure and public transit.

Regrettably, the incentive study's call for a bipartisan working group to develop a detailed proposal to reform local property-tax incentives did not result in such an overhaul. The enterprise zone program is still with us, renewed year after year, in spite of dramatically changed context and recommendations for change, consolidation and/or elimination. Use is dwindling – the total number of active enterprise zone agreements reported in Ohio fell for the eighth year in a row in 2011, by 24 percent from 2010, according to the 2011 annual report for the program. Performance has been uneven: for example, while 10 percent more jobs (about 4,700) were created than promised, about 22 percent fewer jobs (27,000) were retained than promised. We do not know, from the annual report, why the performance was so uneven, or how underperformance was addressed.

This suggests a thorough examination of whether the program should continue is needed, rather than simply another extension. If the program is to be continued, it needs a serious overhaul.

Mr. Chairman, thank you for allowing me to testify on this legislation. I am happy to answer any questions that you or any of the other members of the committee may have.

Policy Matters Ohio is a nonprofit, non-partisan research institute with offices in Cleveland and Columbus.