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DeKalb County Government
Sycamore, Illinois

**Economic Development Committee Minutes
January 8, 2014**

The DeKalb County Economic Development Committee met on Wednesday, January 8, 2014 at 7:00 p.m., in the Legislative Center's Freedom Room. Chairman Whelan called the meeting to order. Members present were Bob Brown, Riley Oncken, Mark Pietrowski and Stephen Reid. Russ Deverell and Jeff Metzger were absent. Others present were Mr. Paul Borek and Mr. Gary Hanson.

APPROVAL OF THE MINUTES

It was moved by Mr. Oncken, seconded by Mr. Pietrowski, and it was carried unanimously to approve the minutes from December 11, 2013.

APPROVAL OF THE AGENDA

Moved by Mr. Brown, seconded by Mr. Reid and it was carried unanimously to approve the agenda.

TAX ABATEMENT REPORT – GARY HANSON

Mr. Hanson shared a report that him and staff constructed regarding a dozen Tax Abatements that have been approved in DeKalb County. He explained the formatting of the report and reviewed a couple individual Abatements to give examples of what the report provides. He did also share that even though he is excited to see the numbers of the report, this report does not answer the threshold question which is, "If you didn't offer an incentive, would the company have come here or not?" Mr. Hanson answered any other questions about the report and entertained comments about the different abated properties. Mr. Borek also shared little facts that he knew about the properties as well and the Abatement Program. *The full Tax Abatement Report is attached to these minutes.*

ENTERPRISE ZONES – PAUL BOREK

Mr. Paul Borek, Executive Director for the DeKalb County Economic Development Corporation (DCEDC) returned to the committee to discuss information regarding Enterprise Zones. Mr. Borek brought a few packets of descriptive material which gave more in depth information regarding what an Enterprise Zone is and the criteria that has to be met in order to apply for one. *The three handouts are attached to these minutes as well.*

Mr. Borek also shared with the committee that he had not received any additional RFPs for a consultant other than the Development Consortium which he shared with the committee last month. Mr. Borek did reach out to Steve McClure from Opportunity Alliance who worked with Mendota on their expansion and asked him if he would put together a proposal for DeKalb County which in return he asked Mr. Borek to prepare a summary on how he thought DeKalb County would stack up against the ten criteria that need to be met along with what the County's assets, advantages and data points are to determine if DeKalb County would be a strong candidate for an Enterprise Zone. Mr. Borek continued that Steve McClure and Greg Coil are the two most experienced individuals in their field and the most active participants in Enterprise Zones.

Mr. Hanson asked if Mr. Borek had made a public announcement in order to get receive RFPs and said that the County would advertise on their website to diminish any doubt. Chairman Whelan brought up the fees that coincide with hiring a consultant along with other maintenance fees that go along with the Enterprise Zone and mentioned it would be best to get as many RFPs as possible so that they can assure the Board they've selected the best possible firm. It was further discussed that the two individuals, Mr. McClure and Mr. Coil, were the only two individuals in this field that most anyone knows of.

Chairman Whelan inquired what type of expenditures would the County have to put up for the Enterprise Zone application. It was discussed that there is no initial fee to apply for an Enterprise Zone but a large amount of expenses would be for the consultant and will also have to take into consideration additional materials and travel reimbursement that may be accrued. Mr. Hanson asked if there would be additional representation needed for Lobbying down State which would be another added expense. Mr. Borek answered that yes to be astute and to add to the County's chances of being awarded an Enterprise Zone it would be advantageous to look into hiring a Lobbyist.

The committee reviewed the ten requirements again to determine if they had a good enough chance of being awarded an Enterprise Zone and then they discussed the timeline in which they would like to proceed forward. The committee decided they would be to have the bids for a consultant by next meeting to forward their recommendation onto the Executive Committee and Full Board in February. Mr. Borek agreed he would have bids available for the committee to review prior to their next scheduled meeting.

ADJOURNMENT

It was moved by Mr. Oncken, seconded by Mr. Brown, and it was carried unanimously to adjourn the meeting.

Respectfully submitted,

Chairman Jeff Whelan

Tasha Stogsdill, Recording Secretary

DEKALB COUNTY GOVERNMENT
Municipal Tax Abatement Programs
 Updated 1/8/2014 Through the 2012 Tax Year

A. CITY OF DEKALB

#A1 3M Distribution - 1250 Macom Dr., DeKalb - 5 yr Abatement
08-26-400-018 (R2010-38) Approved 06/16/2010

| Tax Year | Tax Before Abatement Program | Construction Year | Original Tax | Abatement | Adjusted Tax | Tax After Abatement Program |
|---------------|------------------------------|---------------------|---------------------|---------------------|---------------------|-----------------------------|
| 2006 | \$1,840.22 | | | | | |
| 2007 | \$1,555.40 | | | | | |
| 2008 | \$1,940.78 | | | | | |
| 2009 | \$2,176.80 | | | | | |
| 2010 | \$7,163.56 | | | | | |
| 2011 | | \$345,107.18 | | | | |
| 2012 | | | \$891,415.28 | \$783,729.96 | \$107,685.32 | |
| 2013 | | | | | | |
| 2014 | | | | | | |
| 2015 | | | | | | |
| 2016 | | | | | | |
| 2017 | | | | | | |
| 2018 | | | | | | |
| 2019 | | | | | | |
| 2020 | | | | | | |
| 2021 | | | | | | |
| Totals | \$14,676.76 | \$345,107.18 | \$891,415.28 | \$783,729.96 | \$107,685.32 | |

#A2 3M Distribution (Project 9) - 1211 Fairview Dr., DeKalb - 5 yr Abatement
08-26-400-016 (R2007-17) Approved 03/21/2007

| Tax Year | Tax Before Abatement Program | Construction Year | Original Tax | Abatement | Adjusted Tax | Tax After Abatement Program |
|---------------|------------------------------|---------------------|-----------------------|---------------------|-----------------------|-----------------------------|
| 2002 | \$2,314.92 | | | | | |
| 2003 | \$2,053.92 | | | | | |
| 2004 | \$1,699.56 | | | | | |
| 2005 | \$1,500.28 | | | | | |
| 2006 | \$1,840.22 | | | | | |
| 2007 | | \$152,831.18 | | | | |
| 2008 | | | \$413,129.02 | \$130,936.28 | \$282,192.74 | |
| 2009 | | | \$427,565.72 | \$122,561.06 | \$305,004.66 | |
| 2010 | | | \$430,199.24 | \$106,087.70 | \$324,111.54 | |
| 2011 | | | \$448,310.68 | \$93,249.90 | \$355,060.78 | |
| 2012 | | | \$459,157.86 | \$78,880.58 | \$380,277.28 | |
| 2013 | | | | | | |
| 2014 | | | | | | |
| 2015 | | | | | | |
| 2016 | | | | | | |
| 2017 | | | | | | |
| Totals | \$9,408.90 | \$152,831.18 | \$2,178,362.52 | \$531,715.52 | \$1,646,647.00 | |

DEKALB COUNTY GOVERNMENT
Municipal Tax Abatement Programs
Updated 1/8/2014 Through the 2012 Tax Year

#A3 3M Distribution (Project Oak) - 2600 Wirsing Pkwy, DeKalb - 5 yr Abatement
09-07-300-022 (R2006-45) Approved 08/16/2006

| Tax Year | Tax Before Abatement Program* | Construction Year | Original Tax | Abatement | Adjusted Tax | Tax After Abatement Program |
|---------------|-------------------------------|-------------------|-----------------------|---------------------|---------------------|-----------------------------|
| 2001 | \$7,000.00 | | | | | |
| 2002 | \$7,000.00 | | | | | |
| 2003 | \$7,000.00 | | | | | |
| 2004 | \$7,000.00 | | | | | |
| 2005 | \$7,000.00 | | | | | |
| 2006 | | \$7,292.52 | | | | |
| 2007 | | | \$282,474.40 | \$93,266.46 | \$189,207.94 | |
| 2008 | | | \$295,551.34 | \$192,913.16 | \$102,638.18 | |
| 2009 | | | \$309,894.40 | \$154,154.62 | \$155,739.78 | |
| 2010 | | | \$314,922.04 | \$69,538.00 | \$245,384.04 | |
| 2011 | | | \$313,258.26 | \$56,735.92 | \$256,522.34 | |
| 2012 | | | | | | \$309,857.54 |
| 2013 | | | | | | |
| 2014 | | | | | | |
| 2015 | | | | | | |
| 2016 | | | | | | |
| Totals | \$35,000.00 | \$7,292.52 | \$1,516,100.44 | \$566,608.16 | \$949,492.28 | \$309,857.54 |

* Estimated Amounts (Parcel was created in 11/16/2006)

#A4 Panduit - 1700 Fairview Dr., DeKalb - 5 yr Abatement
08-36-100-010 (2006-46) Approved 08/16/2006

| Tax Year | Tax Before Abatement Program | Construction Year | Original Tax | Abatement | Adjusted Tax | Tax After Abatement Program |
|---------------|------------------------------|-------------------|-----------------------|---------------------|-----------------------|-----------------------------|
| 2004 | \$460,009.84 | | | | | |
| 2005 | \$475,658.50 | | | | | |
| 2006 | \$481,185.36 | | | | | |
| 2007 | \$485,473.50 | | | | | |
| 2008 | \$530,390.78 | | | | | |
| 2009 | | | \$751,583.96 | \$36,386.24 | \$715,197.72 | |
| 2010 | | | \$756,213.28 | \$179,174.14 | \$577,039.14 | |
| 2011 | | | \$788,049.96 | \$160,168.58 | \$627,881.38 | |
| 2012 | | | \$807,177.28 | \$144,586.20 | \$662,531.08 | |
| 2013 | | | | | | |
| 2014 | | | | | | |
| 2015 | | | | | | |
| 2016 | | | | | | |
| 2017 | | | | | | |
| 2018 | | | | | | |
| Totals | \$2,432,717.98 | | \$3,103,024.48 | \$520,315.16 | \$2,582,649.32 | |

DEKALB COUNTY GOVERNMENT
Municipal Tax Abatement Programs
 Updated 1/8/2014 Through the 2012 Tax Year

#A5 Target Distribution Center - 1115 Macom Dr., DeKalb - 5 yr Abatement
08-26-200-010 (R2004-50) Approved 7/21/2001
R2009-64 Recsinding 2009 Tax Year (R2010-06) Approved 1/21/2010

| Tax Year | Tax Before Abatement Program | Construction Year | Original Tax | Abatement | Adjusted Tax | Tax After Abatement Program |
|---------------|------------------------------|---------------------|-----------------------|-----------------------|-----------------------|-----------------------------|
| 2000 | \$1,109.64 | | | | | |
| 2001 | \$1,003.36 | | | | | |
| 2002 | \$892.12 | | | | | |
| 2003 | \$791.26 | | | | | |
| 2004 | \$2,653.64 | | | | | |
| 2005 | | \$123,829.84 | | | | |
| 2006 | | \$503,655.62 | | | | |
| 2007 | | | \$726,863.04 | \$215,070.06 | \$511,792.98 | |
| 2008 | | | \$850,231.68 | \$239,529.52 | \$610,702.16 | |
| 2009 | | | \$820,120.80 | \$0.00 | \$820,120.80 | |
| 2010 | | | \$794,504.94 | \$465,423.48 | \$329,081.46 | |
| 2011 | | | \$827,953.70 | \$143,513.96 | \$684,439.74 | |
| 2012 | | | | | | \$847,986.50 |
| 2013 | | | | | | |
| 2014 | | | | | | |
| 2015 | | | | | | |
| 2016 | | | | | | |
| Totals | \$6,450.02 | \$627,485.46 | \$4,019,674.16 | \$1,063,537.02 | \$2,956,137.14 | \$847,986.50 |

B. CITY OF GENOA

#B1 Custom Aluminum Products, Inc. - 312 Eureka St., Genoa - 3 yr Abatement
03-19-430-007 (R2007-40) Approved 06/20/2007

| Tax Year | Tax Before Abatement Program | Construction Year | Original Tax | Abatement | Adjusted Tax | Tax After Abatement Program |
|---------------|------------------------------|---------------------|---------------------|---------------------|--------------------|-----------------------------|
| 2001 | \$96,595.34 | | | | | |
| 2002 | \$99,238.32 | | | | | |
| 2003 | \$98,535.50 | | | | | |
| 2004 | \$98,967.52 | | | | | |
| 2005 | \$100,722.72 | | | | | |
| 2006 | | \$74,565.08 | | | | |
| 2007 | | \$73,949.82 | | | | |
| 2008 | | | \$75,729.80 | \$49,423.24 | \$26,306.56 | |
| 2009 | | | \$76,973.80 | \$50,938.50 | \$26,035.30 | |
| 2010 | | | \$78,965.36 | \$51,558.10 | \$27,407.26 | |
| 2011 | | | | | | \$82,411.60 |
| 2012 | | | | | | \$90,104.80 |
| 2013 | | | | | | |
| 2014 | | | | | | |
| 2015 | | | | | | |
| Totals | \$494,059.40 | \$148,514.90 | \$231,668.96 | \$151,919.84 | \$79,749.12 | \$172,516.40 |

DEKALB COUNTY GOVERNMENT
Municipal Tax Abatement Programs
 Updated 1/8/2014 Through the 2012 Tax Year

#B2 Service Concepts Inc. - 404 S. Centre Dr., Genoa - 5 yr Abatement
03-29-154-003 (R2010-07) Approved 01/20/2010

| Tax Year | Tax Before Abatement Program | Construction Year | Original Tax | Abatement | Adjusted Tax | Tax After Abatement Program |
|---------------|------------------------------|--------------------|--------------------|--------------------|--------------------|-----------------------------|
| 2005 | \$74.74 | | | | | |
| 2006 | \$72.26 | | | | | |
| 2007 | \$74.88 | | | | | |
| 2008 | \$2,273.30 | | | | | |
| 2009 | \$2,334.72 | | | | | |
| 2010 | | \$14,427.40 | | | | |
| 2011 | | | \$16,888.08 | \$11,030.78 | \$5,857.30 | |
| 2012 | | | \$18,203.90 | \$11,896.32 | \$6,307.58 | |
| 2013 | | | | | | |
| 2014 | | | | | | |
| 2015 | | | | | | |
| 2016 | | | | | | |
| 2017 | | | | | | |
| 2018 | | | | | | |
| 2019 | | | | | | |
| 2020 | | | | | | |
| Totals | \$4,829.90 | \$14,427.40 | \$35,091.98 | \$22,927.10 | \$12,164.88 | |

C. CITY OF SYCAMORE

#C1 Ample Supply Company - 1401 S. Prairie Rd., Sycamore - 5 yr Abatement
09-05-151-014 (R2007-73) Approved 12/19/2007

| Tax Year | Tax Before Abatement Program | Construction Year | Original Tax | Abatement | Adjusted Tax | Tax After Abatement Program |
|---------------|------------------------------|--------------------|---------------------|-------------------|---------------------|-----------------------------|
| 2004 | \$92.34 | | | | | |
| 2005 | \$79.22 | | | | | |
| 2006 | \$78.56 | | | | | |
| 2007 | \$44.64 | | | | | |
| 2008 | \$46.56 | | | | | |
| 2009 | | \$26,398.18 | | | | |
| 2010 | | | \$51,906.40 | \$4,502.92 | \$47,385.48 | |
| 2011 | | | \$51,828.80 | \$3,748.44 | \$48,080.36 | |
| 2012 | | | \$51,315.34 | \$667.48 | \$50,647.86 | |
| 2013 | | | | | | |
| 2014 | | | | | | |
| 2015 | | | | | | |
| 2016 | | | | | | |
| 2017 | | | | | | |
| 2018 | | | | | | |
| 2019 | | | | | | |
| Totals | \$341.32 | \$26,398.18 | \$155,050.54 | \$8,918.84 | \$146,113.70 | |

DEKALB COUNTY GOVERNMENT
Municipal Tax Abatement Programs
Updated 1/8/2014 Through the 2012 Tax Year

#C2 Continental Custom Ingredients Inc. - 1631 S. Priarie Dr., Sycamore - 3 yr Abatement
09-06-427-011 (R2003-63) Approved 11/19/2003

| Tax Year | Tax Before Abatement Program | Construction Year | Original Tax | Abatement | Adjusted Tax | Tax After Abatement Program |
|---------------|------------------------------|--------------------|---------------------|---------------------|---------------------|-----------------------------|
| 2000 | \$837.48 | | | | | |
| 2001 | \$857.26 | | | | | |
| 2002 | \$178.56 | | | | | |
| 2003 | \$157.88 | | | | | |
| 2004 | \$204.80 | | | | | |
| 2005 | | \$94,450.74 | | | | |
| 2006 | | | \$114,459.28 | \$32,788.50 | \$81,670.78 | |
| 2007 | | | \$115,676.06 | \$86,572.30 | \$29,043.76 | |
| 2008 | | | \$120,641.72 | \$58,820.08 | \$61,821.64 | |
| 2009 | | | | | | \$106,817.92 |
| 2010 | | | | | | \$145,149.94 |
| 2011 | | | | | | \$145,673.96 |
| 2012 | | | | | | \$136,793.72 |
| 2013 | | | | | | |
| Totals | \$2,235.98 | \$94,450.74 | \$350,777.06 | \$178,180.88 | \$172,536.18 | \$534,435.54 |

#C3 Fullco Industries Inc. - 1551 Prairie Dr., Sycamore - 3 yr Abatement
09-05-301-001 (R2005-26) Approved 03/16/2005

| Tax Year | Tax Before Abatement Program | Construction Year | Original Tax | Abatement | Adjusted Tax | Tax After Abatement Program |
|---------------|------------------------------|--------------------|---------------------|--------------------|--------------------|-----------------------------|
| 2000 | \$221.26 | | | | | |
| 2001 | \$226.52 | | | | | |
| 2002 | \$226.52 | | | | | |
| 2003 | \$228.00 | | | | | |
| 2004 | \$2,441.00 | | | | | |
| 2005 | | \$23,145.96 | | | | |
| 2006 | | | \$46,986.20 | \$14,613.38 | \$32,372.82 | |
| 2007 | | | \$47,462.08 | \$33,351.78 | \$14,109.30 | |
| 2008 | | | \$49,524.16 | \$25,386.74 | \$24,137.42 | |
| 2009 | | | | | | \$50,979.02 |
| 2010 | | | | | | \$51,973.28 |
| 2011 | | | | | | \$52,160.94 |
| 2012 | | | | | | \$51,644.12 |
| 2013 | | | | | | |
| Totals | \$3,343.30 | \$23,145.96 | \$143,972.44 | \$73,351.90 | \$70,619.54 | \$206,757.36 |

DEKALB COUNTY GOVERNMENT
Municipal Tax Abatement Programs
 Updated 1/8/2014 Through the 2012 Tax Year

#C4 Smart Motion Robotics - 805 Thornwood Dr., Sycamore - 3 yr Abatement
09-06-426-014 (R2009-23) Approved 04/15/2009

| Tax Year | Tax Before Abatement Program | Construction Year | Original Tax | Abatement | Adjusted Tax | Tax After Abatement Program |
|---------------|------------------------------|-------------------|--------------------|--------------------|--------------------|-----------------------------|
| 2006 | \$39.28 | | | | | |
| 2007 | \$40.54 | | | | | |
| 2008 | \$5,582.08 | | | | | |
| 2009 | \$4,464.04 | | | | | |
| 2010 | \$4,547.06 | | | | | |
| 2011 | | | \$41,930.98 | \$12,600.04 | \$29,330.94 | |
| 2012 | | | \$41,515.54 | \$30,235.38 | \$11,280.16 | |
| 2013 | | | | | | |
| 2014 | | | | | | |
| 2015 | | | | | | |
| 2016 | | | | | | |
| 2017 | | | | | | |
| 2018 | | | | | | |
| Totals | \$14,673.00 | | \$83,446.52 | \$42,835.42 | \$40,611.10 | |

#C5 Superior Industrial Equipment - 1609 Afton Rd., Sycamore - 3 yr Abatement
09-06-426-011 (R2007-62) Approved 09/19/2007 (R2009-63 Amended) Approved 11/18/2009

| Tax Year | Tax Before Abatement Program | Construction Year | Original Tax | Abatement | Adjusted Tax | Tax After Abatement Program |
|---------------|------------------------------|-------------------|--------------------|--------------------|--------------------|-----------------------------|
| 2004 | \$32.82 | | | | | |
| 2005 | \$28.18 | | | | | |
| 2006 | \$27.84 | | | | | |
| 2007 | \$28.36 | | | | | |
| 2008 | \$31.48 | | | | | |
| 2009 | | | \$31,180.84 | \$7,257.64 | \$23,923.20 | |
| 2010 | | | \$31,760.58 | \$20,286.30 | \$11,474.28 | |
| 2011 | | | \$31,713.08 | \$15,935.28 | \$15,777.80 | |
| 2012 | | | | | | \$31,398.96 |
| 2013 | | | | | | |
| 2014 | | | | | | |
| 2015 | | | | | | |
| 2016 | | | | | | |
| Totals | \$148.68 | | \$94,654.50 | \$43,479.22 | \$51,175.28 | \$31,398.96 |

ENTERPRISE ZONE PROGRAM
TAX QUESTIONS AND ANSWERS

The Illinois Enterprise Zone Act took effect December 7, 1982. An enterprise zone is a specific area designated by the State of Illinois in cooperation with a local government to receive various tax incentives and other benefits to stimulate economic activity and neighborhood revitalization.

The Enterprise Zone Program is administered at the state level by the Illinois Department of Commerce and Economic Opportunity. For general information on the program, contact the Department at 217/785-6169 in Springfield. The hearing impaired may call at 312/419-0667 in Chicago or at 217/785-6055 in Springfield.

Enterprise zones range from a half square mile to fifteen square miles.

ENTERPRISE ZONE TAX BENEFITS

The following summarizes the most often asked questions on the tax benefits offered through the Enterprise Zone Program.

INVESTMENT TAX CREDIT

What is the enterprise zone investment tax credit? The Illinois Income Tax Act 35 ILCS 5/201, as amended allows a .5 percent credit against the state income tax for investments in qualified property, which is placed in service in an enterprise zone.

Who are qualifying taxpayers? The credit may be taken by corporations, trusts, estates, individuals, partners and Subchapter S shareholders who make investments in qualified property and who otherwise meet the terms and conditions established by statute.

What is qualified property? "Qualified property" is property which:

is tangible; whether new or used, including buildings and structural components of buildings;
is acquired by purchase as defined in Internal Revenue Code (IRC) Section 179(d);
is depreciable pursuant to IRC Section 167;
has a useful life of four or more years as of the date placed in service in an enterprise zone;
is used in the enterprise zone by that taxpayer;
has not been previously used in Illinois in such a manner and by such a person as would qualify for the credit; and, is an improvement or addition made on or after the date the zone was designated to the extent that the improvement or addition is of a capital nature, which increases the adjusted basis of the property previously placed in service in an enterprise zone and otherwise meets the requirements of qualified property.

What are examples of "qualified property"? Examples include buildings, structural components of buildings, elevators, materials tanks, boilers, and major computer installations. Examples of non-qualifying property are land, inventories, small personal computers, trademarks, typewriters, and other small, non-depreciable, or intangible assets.

What does "placed in service" mean? Qualified property is "placed in service" on the earlier of 1) the date the property is placed in a condition of readiness and availability for use, or 2) the date on which the depreciation period of that property begins. To qualify for the enterprise zone investment tax credit, the property must be placed in service on or after the date the zone was certified by the Department of Commerce and Economic Opportunity, and on or before the last day of the firm's taxable year.

What is "depreciable" property? Property must be depreciable pursuant to Internal Revenue Code Section 167. Depreciable property is used in the taxpayer's trade or business or held for the production of income (but not inventory), which is subject to wear and tear, exhaustion or obsolescence.

There are some types of assets that may not be depreciable, even though they are used in the taxpayer's business or trade or are held for the production of income. Good will and land are examples. Other examples of tangible property, which are not depreciable, are inventories, natural resources and currency.

Does “used” property qualify for the enterprise zone investment tax credit? Used property does not qualify if it was previously used in Illinois in such a manner and by such a person as would qualify for either the statewide investment tax credit or the enterprise zone investment tax credit.

Example: A corporation purchases a used pick-up truck for use in its manufacturing business in an enterprise zone from an Illinois resident who used the truck for personal purposes in Illinois. If the truck meets the other requirements for the investment tax credit, it will not be disqualified because it was previously used in Illinois for a purpose, which did not qualify for the credit. However, had the corporation purchased the truck from an Illinois taxpayer in whose hands the truck qualified for the credit, the truck would not be qualified for the investment tax credit, even though the party from whom the truck was acquired had never received an investment tax credit for it.

What is the “basis” value of property? The “basis” value of property, for the purposes of this credit, is defined the same way it is defined for purposes of federal depreciation calculations. Essentially, the basis is the cost of the property, as well as related capital costs.

Does the enterprise zone investment tax credit carry forward? Yes. The credit is allowed for the tax year in which the property is placed in service, or, if the amount of the credit exceeds the tax liability for that year, the excess may be carried forward and applied to the tax liability of the five taxable years following the excess credit year. The credit must be applied to the earliest year for which there is a liability. If there is credit from more than one tax year that is available to offset a liability, the credit accruing first in time is applied first.

SALES TAX DEDUCTION

What is the sales tax deduction and what is the retailer's role? Each retailer who makes a qualified sale of building materials to be incorporated into real estate in an enterprise zone established by a county or municipality under the Illinois Enterprise Zone Act by remodeling, rehabilitation or new construction, may deduct receipts from such sales when calculating the tax imposed by this Act. For purposes of this Section, "qualified sale" means a sale of building materials that will be incorporated into real estate as part of a building project for which a Certificate of Eligibility for Sales Tax Exemption has been issued by the administrator of the enterprise zone in which the building project is located. To document the exemption allowed under this Section, the retailer must obtain from the purchaser a copy of the Certificate of Eligibility for Sales Tax Exemption issued by the administrator of the enterprise zone into which the building materials will be incorporated. The Certificate of Eligibility for Sales Tax Exemption must contain:

- (1) A statement that the building project identified in the Certificate meets all the requirements for the building material exemption contained in the enterprise zone ordinance of the jurisdiction in which the building project is located;
- (2) the location or address of the building project; and
- (3) the signature of the administrator of the enterprise zone in which the building project is located.

In addition, the retailer must obtain certification from the purchaser that contains:

- (1) a statement that the building materials are being purchased for incorporation into real estate located in an Illinois enterprise zone;
- (2) The location or address of the real estate into which the building materials will be incorporated;
- (3) the name of the enterprise zone in which that real estate is located;
- (4) a description of the building materials being purchased; and
- (5) the purchaser's signature and date of purchase.

The deduction allowed by this Section for the sale of building materials may be limited, to the extent authorized by ordinance, adopted after the effective date of this amendatory Act of 1992, by the municipality or county that created the enterprise zone into which the building materials will be incorporated. The ordinance, however, may neither require nor prohibit the purchase of building materials from any retailer or class of retailers in order to qualify for the exemption allowed under this Section.

How does the enterprise zone sales tax deduction affect the Regional Transit Authority Retailers' Occupation Tax (RTA ROT), the Metro-East ROT, the County Water Commission Tax, Home Rule Municipal Tax, and the County Supplemental Tax? Once the gross receipts from sales of building materials are excluded from the Illinois Retailers' Occupation Tax base by virtue of exempted building materials, these receipts are also excluded from the RTA and the Metro-East ROT base.

Do all retailers offer a point of sale exemption? No. Retailers are not required by law to participate. The purchaser must ask the retailer for cooperation on this incentive. Retailers have, however, demonstrated good cooperation throughout the history of this program, as this incentive permits them to give customers a "break" without cost to themselves.

What qualifies as "building materials" eligible for the sales tax deduction? Building materials that are eligible for the enterprise zone sales tax deduction include items that are permanently affixed to real property such as lumber, mortar, glued-down carpets, paint, wallpaper and similar affixed items.

EZ MACHINERY AND EQUIPMENT SALES TAX EXEMPTION

What is the EZ Manufacturing Machinery and Equipment (M, M & E) Sales Tax Exemption?

The Revenue Act 35 ILCS 120/1d-1f, as amended allows a business enterprise that is certified by DCEO, that either creates a minimum of 200 full-time equivalent jobs in Illinois; or retains a minimum of 2,000 full-time jobs in Illinois; or which retains 90% of the existing jobs, a 6.25 percent state sales tax exemption on all tangible personal property which is used or consumed within an enterprise zone in the process of manufacturing or assembly of tangible personal property for wholesale or retail sale or lease. This exemption includes repair and replacement parts for machinery and equipment used primarily in the wholesale or retail sale or lease, and equipment, manufacturing fuels, material and supplies for the maintenance, repair or operation of manufacturing, or assembling machinery or equipment.

How does a business become eligible for the M, M & E Sales Tax Exemption? To be eligible for this incentive, DCEO must certify that the business has made an investment of at least \$5 million in an enterprise zone and has created a minimum of 200 full-time equivalent jobs in Illinois or has made an investment of at least \$40 million in an enterprise zone and has retained a minimum of 2,000 full-time jobs in Illinois or has made an investment of \$40 million in an enterprise zone and retained 90 percent of the jobs in place on date of certification. A majority of the "jobs created" or "retained" must be in the Enterprise Zone in which the eligible investment is made. A business must submit an application to DCEO documenting the eligible investment and that the job creation or job retention criteria will be met.

What is an eligible investment? For purposes of this incentive, eligible investment may be either: 1) investments in qualified property as defined in the Enterprise Zone Investment Tax Credit (described on Page 3 of this publication); or, 2) non-capital and non-routine investments and associated service costs made for the basic construction, renovation or improvement of qualified property including productive capacity, efficiency, product quality or competitive position. Regular maintenance and routine expenditures are not included.

Are eligible sales limited to the units of government sponsoring the zone? No. Items eligible for the 6.25 percent state sales tax exemption may be purchased anywhere in Illinois.

What tangible personal property is eligible for the M, M & E sales tax exemption? To be eligible for this exemption the tangible personal property **must** be directly used or consumed in the process of manufacturing or assembling tangible personal property for wholesale or retail sale or lease. Examples of this include: repair and replacement parts; hand tools; materials and supplies such as abrasives, acids or lubricants; protective clothing and safety equipment; and, any fuel used for machinery and equipment.

NOTE: The above examples are only exempt to the extent they are used with machinery and equipment that qualifies for the statewide Manufacturing Machinery and Equipment Sales Tax Exemption.

UTILITY TAX EXEMPTION

What is the Utility Tax Exemption? The Public Utilities Act 220 ILCS 5/9-222.1, as amended and the Telecommunications Excise Tax Act 35 ILCS 630/2(a)(5), as amended allows a business enterprise that is certified by DCEO, as making an investment in a zone that either creates a minimum of 200 full-time equivalent jobs in Illinois or retains a minimum of 1,000 full-time jobs in Illinois, a 5 percent state tax exemption on gas, electricity and the Illinois Commerce Commission .1 percent administrative charge and excise taxes on the act or privilege of originating or receiving telecommunications. Local units of government may also exempt their taxes on gas, electricity and water.

How does a business become eligible for the Utility Tax Exemption? To be eligible for this incentive, DCEO must certify that the business makes an investment of at least \$5 million in an enterprise zone and has created a minimum of 200 full-time equivalent jobs in Illinois or makes an investment of at least \$175 million in an enterprise zone and has created a minimum of 150 full-time equivalent jobs in Illinois or makes an investment of at least \$20 million in an enterprise zone and has retained a minimum of 1,000 full-time jobs in Illinois. A majority of the “jobs created” or “retained” must be in the Enterprise Zone in which the eligible investment is made. A business must submit an application to DCEO documenting the eligible investment and that the job creation or job retention criteria has been met.

What is an eligible investment? For purposes of this incentive, eligible investment may be either: 1) investments in qualified property as defined in the Enterprise Zone Investment Tax Credit (described on Page 3 of this publication); or, 2) non-capital and non-routine investments and associated service costs made for the basic construction, renovation or improvement of qualified property including productive capacity, efficiency, product quality or competitive position. Regular maintenance and routine expenditures are not included.

PROPERTY TAX INCENTIVES

There are two types of property tax incentives related to the Enterprise Zone Program: tax abatement and assessment reduction. Assessment reduction is available in Cook County only.

What is the enterprise zone property tax abatement incentive? The Revenue Act 35 ILCS 200/18-170, as amended provides that any taxing district may order the county clerk to abate (that is, to give up) any portion of its taxes on real property, or on any particular class thereof, located within a zone and upon which new improvements have been constructed or upon which existing improvements have been renovated or rehabilitated.

Are taxes reduced on the current value of property (or on existing improvements)? No. The abatement applies only to taxes on the increase in assessed value attributable to the new construction, renovation, or rehabilitation. Taxes based on the assessed value of land and existing improvements continue to be extended and collected.

If property tax abatement is authorized, are new improvements made to property located within a zone assessed? Yes. By law, every time property is improved, it is reassessed.

What is the Cook county assessment reduction incentive? Cook County offers special property tax incentives for property anywhere in the county. However, property in enterprise zones receives special consideration under the Class 6b - Industrial Program. Industrial property in Cook County is generally assessed at 25 percent of market value. A 6b designation allows property tax to be assessed at 10 percent for the first 10 years, at 15 percent for the 11th year, and at 20 percent in the 12th year. If you have questions about assessment in Cook County, you can contact the Cook County assessor's office at 312-443-7550.

Why is this available only in Cook County? All other counties assess all property at 33 percent of market value. Cook is the only county that classifies property at different assessment rates.

What is the process for obtaining these incentives? For tax abatement, contact local zone administrators to find out if abatements are available in their zone. Most of the property tax abatements and the Cook County program require taxpayers to apply or give some formal notice **before** beginning construction. Contact the local zone administrator, and, if applicable, Cook County as early as possible to assure that eligibility is not denied due to tardy notice.

How do these incentives affect the multiplier? They don't. The multiplier or equalization factor is the application of a percentage increase or decrease, generated by the Illinois Department of Revenue, in order to adjust assessment levels in various counties to the same percentage of full value. Multipliers are not affected by the enterprise zone property tax abatement provision or by county assessment reductions.

Does the abatement of taxes on improvements in an enterprise zone affect the tax rate? Yes, however in most cases the effect will be marginal. Tax rates depend on the levy (amount of tax revenue the local government is raising) and the size of the tax base (total equalized assessed valuation of the district less homestead exemptions, plus the value of any State assessed property). Under normal circumstances, the tax rate for a district is calculated by dividing the district's tax levy by its tax base. The greater the tax base, the lower the rate needed to generate the amount of the levy.

Under the Enterprise Zone Program, the value of abated property is subtracted from the tax base prior to the calculation of the tax rate. In most cases, the tax base is large enough and the enterprise zone abatements are low enough that the overall effect is negligible.

How does the enterprise zone property tax abatement provision in 18-170 of the Revenue Act differ from the property tax provision in 18-165? The enterprise zone provision is broader and more flexible. The enterprise zone property tax abatement:

may be offered on all classes of real property, including commercial, residential and industrial (18-165 abatements are limited to commercial and industrial improvements).

may be offered for any number of years, up to the termination date of zone certification (18-165 abatements cannot exceed 10 years).

may be offered by a taxing district in any amount (the abatement offered under 18-165 limits the aggregated amounts of an abatement offered by all taxing districts to \$4,000,000).

Can property tax be abated in a tax increment-financing district (TIF)? Tax increment financing is a financing technique that cities may use to pay for public improvements such as land assemblage, building demolition, utilities, streets, and sidewalks. Property owners in the project area do pay their full share of taxes. Taxes generated by the increase in assessed valuation -- the tax increment -- go into a special allocation fund used to pay the bonds, which financed the public improvement costs. This financing method is not a tool to speculatively prepare for development -- tax increment financing requires an advance commitment by a developer to a project.

Property tax abatement is, however, a tool that is used for development. It is not a financing technique. The Revenue Act provides that any taxing district, upon a majority vote of its governing authority, may order the county clerk to abate any portion of its taxes on improvements made to real property located in a zone. The increase in assessed valuation due to new construction, rehabilitation or renovation is not taxed for the term of the abatement as set by local ordinance.

A TIF district may be included in the legal description of the zone and consequently be eligible to receive other tax incentives and benefits. However, the Enterprise Zone designating Ordinance pertaining to property tax abatement must be amended to exclude the TIF district from the area eligible for abatement.

Am I automatically entitled to 100 percent abatement? No. Eligibility criteria and abatement formulas are established by local ordinance and vary with the zone. Contact the zone administrator to determine the amount of abatement offered, the number of years of abatement, and the classes of real property eligible for abatement.

CORPORATE CONTRIBUTION DEDUCTION

What is the corporate contribution deduction? The Illinois Income Tax Act 35 ILCS 5/203 provides that corporations may make donations to designated zone organizations for projects approved by the Illinois Department of Commerce and Economic Opportunity, and claim an income tax deduction at double the value of the contribution, to the extent that 1) the contribution qualifies as a charitable contribution under Section 170, Subsection (c) of the Internal Revenue Code; and 2) the Department approves the amount and type of contribution which may be claimed as a deduction.

What is a designated zone organization? Only an organization that meets the eligibility criteria set forth in the Enterprise Zone Act, including approval from the local government and the Illinois Department of Commerce and Economic Opportunity, is a designated zone organization. For a list of these groups, contact local zone administrators.

Who is an eligible taxpayer? Only corporations may deduct twice the amount of a cash or in-kind contribution made to a designated zone organization project.

What is an approved contribution? In order to deduct twice the amount of a contribution, the contribution must be approved by the Illinois Department of Commerce and Economic Opportunity and must be made to an approved designated zone organization.

TAX INCENTIVE ADMINISTRATION

Are tax incentives and other benefits offered on a case-by-case basis?

No. "Case-by-Case" is contrary to the intent of the Enterprise Zone Act. Tax incentives must be offered uniformly and equitably by class. The local ordinance authorizing tax incentives, such as property tax abatement, extends the incentives automatically through eligibility criteria, such as class of property (I.e., residential, commercial and industrial) and formulas (i.e., percentages and number of years available).

ADDITIONAL INFORMATION

What other incentives are available? To learn more about a specific enterprise zone, please contact the local zone administrator. The Department maintains a list of local zone administrators. This list can be found on the Department of Commerce and Economic Opportunity Web Site (www.commerce.state.il.us). If you would like additional information on how the Department can help small businesses, call our Business Hotline at 800/252-2923.

Where can income tax forms be obtained? Income tax forms are available from the Illinois Department of Revenue (DOR) at P.O. Box 3545, Springfield, Illinois 62708, or at 100 West Randolph, Chicago, Illinois 60601. The Chicago location also has a walk-in taxpayer assistance center on the lower level concourse. DOR's toll free number is 800/732-8866.



State & Local Tax **Alert**

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Illinois Enacts Legislation that Extends and Revises Enterprise Zone Program

On August 7, Illinois Governor Pat Quinn signed legislation that extends the state's Enterprise Zone program and allows for new areas to be designated as "Enterprise Zones."¹ Specifically, the legislation: (i) extends the sunset of the Illinois Enterprise Zone program; (ii) creates an Enterprise Zone Board; and (iii) increases the reporting requirements of companies that receive tax benefits from the Enterprise Zone and High Impact Business programs.² In addition, the legislation amends or eliminates some of the tax provisions relating to Enterprise Zones.

Background

The Illinois Enterprise Zone program, originally enacted in 1982, is one of the state's most well-known economic development tools.³ The program provides for the establishment of "depressed" geographic areas, known as "Enterprise Zones," which are administered by counties and municipalities. Businesses located in areas that have been designated as Enterprise Zones by the Illinois Department of Commerce and Economic Opportunity (DCEO) are eligible for a number of tax incentives, including but not limited to, an investment tax credit and jobs tax credit for income tax purposes, a limited machinery and equipment sales tax exemption and a utility tax exemption.

The maximum life of an Enterprise Zone is 30 years⁴ and as such, a number of existing zones were scheduled to expire shortly.

Enterprise Zone Act

Definitions of Terms

The legislation provides new definitions of terms relevant to the Enterprise Zone designation.⁵ In particular, it defines "Board," "local labor market area," "full-time equivalent job," and "full-time retained job."

¹ P.A. 97-0905 (S.B. 3616), Laws 2012.

² Press Release, Illinois Governor's Office, Aug. 7, 2012.

³ The Illinois Enterprise Zone Act is codified at 20 ILL. COMP. STAT. 655/1 to 655/12-10.

⁴ 20 ILL. COMP. STAT. 655/5.3(c).

⁵ 20 ILL. COMP. STAT. 655/3.

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Expiring Enterprise Zones

The legislation extends the life of existing Enterprise Zones, which had been scheduled to expire by operation of law prior to July 1, 2016.⁶ All such Enterprise Zones are extended until July 1, 2016.

Existing Enterprise Zones must reapply for designation in order to keep enterprise zone status after the scheduled date of expiration.⁷

New Proposed Enterprise Zones

Representatives of new proposed zones also have to apply for zone designation to replace expiring zones.⁸ The new proposed zones need not be located in the same geographic area as the expiring zones.

Enterprise Zone Application Process

The legislation requires the DCEO to develop an enterprise zone application process for both expiring and newly proposed zones by March 31, 2013.⁹

Pursuant to the provisions of the legislation, the applications received by the DCEO, along with the DCEO's recommendations, are required to be submitted to a newly created Enterprise Zone Board.¹⁰ The applications will be reviewed and approved by this five-person board, comprised of the DCEO Director, the Director of Revenue, and three members appointed by the governor.¹¹ The newly designated zones are effective for 15 years, will be reviewed after 13 years and will have the possibility of being extended for an additional 10 years for a total of 25 years.¹²

Qualifications for Enterprise Zones

The legislation sets forth new detailed eligibility criteria for Enterprise Zone designation.¹³ Applicants are required to meet three or more of the following 10 criteria:

1. All or part of the local labor market area¹⁴ has had an annual average unemployment rate of at least 120 percent of the state's annual average for the most recent calendar year or fiscal year as reported by the Department of Employment Security;

⁶ 20 ILL. COMP. STAT. 655/5.3.

⁷ *Id.*

⁸ *Id.* The Illinois Enterprise Zone Act only allows for a fixed number of Enterprise Zones at any given time.

⁹ 20 ILL. COMP. STAT. 655/5.2.

¹⁰ 20 ILL. COMP. STAT. 655/4.1; 20 ILL. COMP. STAT. 655/5.2(c); 20 ILL. COMP. STAT. 655/5.2.1.

¹¹ 20 ILL. COMP. STAT. 655/5.2.1.

¹² 20 ILL. COMP. STAT. 655/5.3(c).

¹³ 20 ILL. COMP. STAT. 655/4.

¹⁴ 20 ILL. COMP. STAT. 655/3 is amended to add a definition of "local labor market area" as "an economically integrated area within which individuals can reside and find employment within a reasonable distance or can readily change jobs without changing their place of residence."

2. Designation will result in the creation or retention of a minimum aggregate of 1,000 full-time equivalent jobs due to an investment of \$100,000,000 or more;
3. All or part of the local labor market area has a poverty rate of at least 20 percent, or 50 percent or more of the children participate in the federal free lunch program, or 20 percent or more of the households receive food stamps;
4. An abandoned coal mine or brownfield is in the proposed zone, or all or a portion of the zone was declared a federal disaster area in the three years preceding the application;
5. The local labor market area contains large employers that have downsized over the years, or there have been plant closures, or state or federal facility closures in the five years prior to the date of application, affecting more than 50 workers;
6. The local labor market area contains a high floor vacancy rate of industrial or commercial properties, or vacant or demolished commercial and industrial structures are prevalent, or industrial structures in the local labor market area are not used because of age, deterioration, relocation of former occupants or cessation of operation;
7. The applicant demonstrates a substantial plan for using the designation to improve the state and local government tax base;
8. Significant public infrastructure is present in the local labor market area in addition to a plan for infrastructure development and improvement;
9. High schools and community colleges located within the local labor market area are engaged in certain specified training that prepares students for careers; and
10. The change in equalized assessed valuation of industrial and/or commercial properties in the five years prior to the date of application is equal to or less than 50 percent of the state average change in law for the same period of time.¹⁵

Businesses' Reports

Businesses that receive Enterprise Zone tax incentives are required to compile detailed reports of the benefits received to the Illinois Department of Revenue no later than March 30 of every year.¹⁶ Employers are required to report job creation, retention and capital investment numbers within the zone annually to the zone administrator and the zone administrator will compile the information into a report to the Department of Revenue. The Department of Revenue will then take the reports it receives and compile them into a report for the DCEO.

¹⁵ 20 ILL. COMP. STAT. 655/4.

¹⁶ 20 ILL. COMP. STAT. 655/8.1.

Enterprise Zone Building Materials Exemption

The legislation modifies the Retailers' Occupation Tax Act's Enterprise Zone building materials exemption.¹⁷ This exemption applies to building materials to be used for real estate within an Enterprise Zone. On or after July 1, 2013, retailers are required to document the exemption by obtaining a certification from the purchaser. The certification must contain the Enterprise Zone building materials exemption certification number issued to the purchaser by the Department of Revenue. Prior to July 1, 2013, certificates are issued to the purchaser by the zone administrator.

Moreover, the legislation requires the issuance of High Impact Business Building Exemption Certificate numbers by the Department of Revenue.¹⁸

Income Tax Credits and Deductions Eliminated

The legislation also amends the Illinois Income Tax Act by eliminating the Enterprise Zone job tax credit,¹⁹ the Enterprise Zone dividend deduction²⁰ and the Enterprise Zone interest income deduction for financial institutions.²¹

Commentary

In light of the state's budget crisis, it is in the state's interest to keep policies in effect that drive business development and growth. The Enterprise Zone program stimulates growth at the local level in "depressed" areas of the state. As explained by the governor, the legislation "provides employers with the long-term certainty they need to grow, and strengthens oversight standards to ensure accountability from businesses that participate in the program."²²

Zone administrators should be aware of the requirements to extend their zone's designation as an Enterprise Zone and other depressed areas that have not been designated as an Enterprise Zone should seize the opportunity to apply for designation. Moreover, businesses taking advantage of the Enterprise Zone incentives should be aware of the changes with respect to the income tax credits and deductions, and certain sales and use tax exemptions.

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¹⁷ 35 ILL. COMP. STAT. 120/5k.

¹⁸ 35 ILL. COMP. STAT. 120/5l.

¹⁹ 35 ILL. COMP. STAT. 5/201(g).

²⁰ 35 ILL. COMP. STAT. 5/203(a)(2)(J), (b)(2)(K), (c)(2)(M), (d)(2)(K).

²¹ 35 ILL. COMP. STAT. 5/203(b)(2)(M).

²² Press Release, Illinois Governor's Office, Aug. 7, 2012.

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ILLINOIS ENTERPRISE ZONES

A Civic Federation Issue Brief

August 7, 2012

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The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

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EXECUTIVE SUMMARY

Enterprise zones are geographic areas designated by state and/or local governments to stimulate economic growth and create or retain jobs in economically depressed areas. Businesses are provided certain state and local tax exemptions, credits and related benefits to relocate to enterprise zones or to continue operating in them.¹ The concept underlying enterprise zones is that reducing government regulation and taxation in economically depressed areas will stimulate local business enterprise and investment that would otherwise not occur.² Currently 43 states have created enterprise zone programs and there are well over 3,000 enterprise zones in the U.S.³

The purpose of this issue brief is to describe:

- How enterprise zones currently operate in Illinois and recent efforts to reform their administration and implementation;
- The types of tax incentives offered;
- The number and county location of Illinois enterprise zones;
- Enterprise zone fiscal and economic performance;
- A short review of the policy literature on enterprise zones; and
- An overview of enterprise zone operations in five selected states.

Number of Enterprise Zones in Illinois

- In FY2011 there were a total of 96 enterprise zones operating in Illinois.⁴ Of these, 16 enterprise zones were located in Cook County, four in the Collar Counties and 76 in the downstate counties. There are a total of six enterprise zones within the City of Chicago.⁵

Value of Enterprise Zone Tax Expenditures

- According to the Illinois Comptroller's Office the dollar value of the various state enterprise zone tax expenditures was \$104.2 million in FY2010, the last year for which data are available. This is a \$33.1 million or 45.0% increase from five years before.
- Of that amount, approximately 66.3% of the \$104.2 million in tax expenditures were for utility tax exemptions, 24.5% for sales tax exemptions, 8.3% for corporate income tax credits and deductions and just 1.9% for individual income tax credits.

Value of Enterprise Zone Investments

- The Department of Commerce and Economic Opportunity's FY2011 annual enterprise zone report stated that the total dollar amount of Illinois enterprise zone investments was nearly \$2.5 billion in FY2011. It fell from \$4.6 billion in FY2008.⁶

¹ Alan Peters and Peter S. Fisher. State Enterprise Zone Programs: Have They Worked? (Kalamazoo, W.E. Upjohn Institute for Employment Research, 2002), p. 23.

² Alan Peters and Peter S. Fisher. State Enterprise Zone Programs: Have They Worked? (Kalamazoo, W.E. Upjohn Institute for Employment Research, 2002), p. 24.

³ Ian Pulsipher. National Conference of State Legislatures. Enterprise Zones: Development for Distressed Communities. Volume 13, Number 38. October 2005.

⁴ Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.

⁵ City of Chicago at http://www.cityofchicago.org/city/en/depts/dcd/supp_info/enterprise_zone_program.html.

⁶ Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.

Jobs Retained or Created in Illinois Enterprise Zones

- The annual DCEO annual enterprise zone report also provides information on jobs retained or created in each zone. Multiple investments by a firm occurring throughout a fiscal year may retain the same jobs.⁷
- The total number of new jobs created and existing jobs retained in Illinois enterprise zones fell by 54.2% between FY2006 and FY2011. This was a drop from 50,417 to 23,099.
- Of that total, the number of new jobs created in this same period fell from 21,332 to 8,980; this is a decrease of 57.9%.
- Of the total, the number of existing jobs retained between FY2006 and FY2011 decreased by 51.5% or from 29,085 to 14,119.

INTRODUCTION

Enterprise zones are geographic areas designated by state and/or local governments to stimulate economic growth and create or retain jobs in economically depressed areas. Businesses are provided certain tax exemptions, credits and related benefits to relocate to enterprise zones or to continue operating in them.⁸

The concept underlying enterprise zones is that reducing government regulation and taxation in economically depressed areas will stimulate local business enterprise and investment that would otherwise not occur.⁹ According to economic theory, enterprise zones can be successful if the following propositions are correct:¹⁰

1. There are significant barriers to economic growth in a target area, such as poor access to transportation, limited access to capital, a shortage of adequately trained or skilled labor or environmental cleanup issues.
2. These barriers can be overcome with the assistance of targeted tax incentives. Firms will locate in an enterprise zone because they calculate that these incentives are high enough to help generate net profits large enough to produce an equal or higher return than other possible investments.
3. Enterprise zone conditions and incentives will reduce costs and barriers for firms sufficiently to allow for long-term profitability.
4. The enterprise zones increase overall economic growth rather than accelerate growth already occurring or shift economic activity from other locations.

Connecticut was the first state to approve an enterprise zone program in 1981. Today 43 states have created similar programs and there are well over 3,000 enterprise zones in the U.S.¹¹ They are called by

⁷Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.

⁸Alan Peters and Peter S. Fisher. *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo, W.E. Upjohn Institute for Employment Research, 2002), p. 23.

⁹Alan Peters and Peter S. Fisher. *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo, W.E. Upjohn Institute for Employment Research, 2002), p. 24.

¹⁰This discussion is drawn from Don Hirasuna and Joel Michael. "Enterprise Zones: A Review of the Economic Theory and Empirical Evidence." Policy Brief, Minnesota House of Representatives, January 2005, pp. 5-6.

¹¹Ian Pulsipher. National Conference of State Legislatures. *Enterprise Zones: Development for Distressed Communities*. Volume 13, Number 38. October 2005.

a number of different names including “Renaissance Zones,” “Empire Zones,” Pine Tree Opportunity Zones,” “Crop Zones” and “Economic Target Areas.”¹²

In 1993 the federal government approved the creation of federal enterprise empowerment zones and communities. The enabling legislation provided for the establishment of nine empowerment zones, of which six were to be located in urban areas and three in rural areas. In addition, 95 enterprise communities were approved (65 urban and 30 rural communities).¹³

Two federal empowerment zones were established in Illinois, one in Chicago and another located in St. Louis, Missouri and East St. Louis, Illinois. In addition, the Southernmost Illinois Delta Empowerment Zone was established in rural southern Illinois as a renewal community. Federally designated empowerment zones expired at the end of 2011. The zones provided businesses with approximately \$11 billion in incentives including tax credits for employing residents of empowerment zones, a 0% tax on capital gains, increased tax deductions on equipment, accelerated real property depreciation and other incentives.¹⁴

ENTERPRISE ZONES IN ILLINOIS

Illinois enterprise zones are geographic areas designated by the State in cooperation with local governments to receive certain tax incentives and other benefits. The purpose of these incentives is to stimulate economic growth and revitalize neighborhoods in economically depressed areas. The zones can range in size from one half square mile to fifteen square miles.¹⁵

The Illinois Enterprise Zone Act was signed into law December 7, 1982.¹⁶ Businesses that are located within the boundaries of an enterprise zone or that choose to locate operations in an enterprise zone can become eligible for certain state and local tax incentives, regulatory relief and improved governmental services. These include corporate and individual income tax credits, sales tax exemptions and utility tax exemptions. The various tax incentives offered require a business to apply to and be certified by the Department. In addition to the incentives provided by the State of Illinois, each enterprise zone provides local incentives. Enterprise zones have been in effect for up to 30 years, although that period may be shorter if specified in the certified designating ordinance.¹⁷

The Enterprise Zone program is administered by the Department of Commerce and Economic Opportunity (DCEO). An administrator is designated for each enterprise zone. He or she is responsible for the zone’s compliance with relevant regulations. The various state exemptions, credits and deductions are offered uniformly, not on a case by case basis. Local incentives are authorized by local

¹² Ian Pulsipher. National Conference of State Legislatures. Evaluating Enterprise Zones. February 26, 2008. See <http://www.ncsl.org/issues-research/econ/evaluating-enterprise-zones.aspx>.

¹³ Ian Pulsipher. National Conference of State Legislatures. Evaluating Enterprise Zones. February 26, 2008. See <http://www.ncsl.org/issues-research/econ/evaluating-enterprise-zones.aspx>.

¹⁴ U.S. Department of Housing and Urban Development at <http://www.hud.gov/offices/cpd/economicdevelopment/programs/rc/index.cfm>.

¹⁵ Illinois Department of Commerce and Economic Opportunity. “Enterprise Zone Program Tax Questions and Answers.” http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

¹⁶ 20 ILCS 655/ Illinois Enterprise Zone Act.

¹⁷ 20 ILCS 655/5.3 (c).

ordinances that are extended automatically through eligibility criteria (e.g., class of property) and formulas (e.g., percentages and numbers of years available).¹⁸ DCEO annually publishes a report that includes information on:

- The types of tax incentives offered;
- Data on the dollar amount of investments made and the number of jobs created or retained in each enterprise zone; and
- Changes in county population, per capita income and unemployment for each county in which an enterprise zone is located.

The DCEO report does not include calculations of how much revenue the State of Illinois loses annually due to the enterprise zone tax incentives. The State Comptroller's Office does include information regarding the value of all state tax expenditures, including those for enterprise zone incentives, in its annual tax expenditure report.

Enterprise Zone Reform Efforts in 2012

Some of the enterprise zones designated in 1983 are due to expire in 2013. The Senate approved legislation in 2011 to extend the lifespan of the zones, but it stalled in the House of Representatives.¹⁹ House Majority Leader Barbara Flynn Currie questioned the usefulness of the zones if they were to last beyond 20 years and raised concerns about abuse of the sales tax exemption incentive for building materials. Much of the business community, including the Illinois Manufacturers' Association, supported the extension of the zones' duration.²⁰

Senate Bill 3688

In 2012 Senate Bill 3688 was introduced to extend the duration of the enterprise zones and to make additional changes to the Illinois Enterprise Zone Act. These changes include:²¹

- Increasing the allowable size of an enterprise zone to as much as 18 square miles.
- Extending the life of enterprise zones from a maximum of 30 years to a maximum of 55 years.
- Authorizing the certification of 10 additional enterprise zones by 2022.
- Requiring each Enterprise Zone Administrator to post a copy of the enterprise zone boundaries on its website and to collect and aggregate certain information.
- Eliminating certain tax incentives, including:
 - The job tax credit for a taxpayer conducting business operations in an enterprise zone;
 - The deduction for dividends paid by a corporation conducting business operations in an enterprise zone; and

¹⁸ Illinois Department of Commerce and Economic Opportunity. "Enterprise Zone Program Tax Questions and Answers." at http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

¹⁹ David Thomas. "Enterprise zone bill advances out of Senate committee," State Journal-Register, April 19, 2012.

²⁰ David Thomas. "Industry lobbying for Illinois to extend life of enterprise zones," State Journal-Register, April 12, 2012.

²¹ The following information is from the text of Illinois Senate Bill 3688 at <http://www.ilga.gov/legislation/billstatus.asp?DocNum=3688&GAID=11&GA=97&DocTypeID=SB&LegID=65742&SessionID=84>.

- The deduction for interest income from a loan or loans secured by property which is eligible for the Enterprise Zone Investment Credit.
- Requiring DCEO to send a letter of notification to each member of the General Assembly whose legislative districts contain all or part of a designated area.
- Expanding reporting requirements by requiring Enterprise Zone Administrators to:
 - Collect and aggregate data on the estimated cost of each building project, including costs for labor and materials. New estimates must be provided each time an applicant requests an extension of a sales tax exemption certificate.
 - Collect and aggregate data on the actual cost of the building project within 60 days after the completion of the project.
 - File a copy of the fee schedule for each zone to be filed by April 1 to DCEO; the Department will be required to review and approve the fee schedule. Enterprise zone administrators will be allowed to charge no more than 0.1% of the actual cost of a project up to \$100,000.
- Changing and clarifying the definitions of “full-time, permanent job” and “retained employee.”
 - A new **full-time permanent job** is defined as a job where the new employee works for the recipient of the tax incentive or for a corporation under contract to the recipient for at least 35 hours per week. A recipient who employs labor or services at a specific site or facility under contract with another may declare one full-time, permanent job for every 1,820 hours worked per year under that contract. Vacation, paid holidays and sick leave are included in the full-time computation. However, overtime would not be included.
 - A **retained employee** is defined as any employee having a full or part-time equivalent job at a specified site or facility. The recipient of enterprise zone tax incentives may declare one retained employee per year for every 1,750 hours worked per year under a contract even if different individuals permit on-site labor or services.

Senate President John Cullerton created a bipartisan Special Senate Committee on Enterprise Zone Extension to obtain information and input about the Enterprise Zone program. Co-chaired by State Senators Michael Frerichs (D-Champaign) and Pamela Althoff (R-McHenry), the committee held hearings in Carbondale, Rockford, Chicago, Peoria and Springfield.²²

On April 19, 2012, the Committee voted to approve SB3688. The full Senate approved the bill on a 55-0 vote on April 27, 2012.²³

House Bill 4189

House Speaker Michael Madigan has called for increasing the accountability of the enterprise zones.²⁴ To that effect, he introduced House Bill 4189, which would have:

- Established standard monitoring methods for enterprise zones.
- Required enterprise zones to meet three of five specific criteria. One of the criteria would be that a new enterprise zone’s average annual unemployment rate would have to be 120% of the

²² Illinois Enterprise Zone Association. “Bipartisan Statewide Hearings on Enterprise Zones Announced,” at <http://www.ieza.org/index.php?view=article&catid=13%3Aieza-news&id=100%>.

²³ Taxpayers Federation of Illinois. “Enterprise Zone Legislation Advances,” TFI Report from the Capitol, April 27, 2012 – Issue 13, pp. 1-2.

²⁴ Michael Madigan. “Hold those receiving tax perks to higher standard.” State Journal Register, April 24, 2012.

unemployment rate in the entire state and the zone would have to create or maintain a minimum of 1,000 full-time jobs.

- Authorized a new 10-year enterprise zone each time one of the current zones expires.
- Allowed all areas of the state to be able to competitively bid for new zones. There would be no preference for areas where an enterprise zone was previously located.
- Shifted authority for siting enterprise zones from DCEO to an appointed enterprise zone board.
- Maintained and reported itemized records for each transaction eligible for a tax incentive as well as additional information regarding economic activity in each zone.
- Given sales tax exemptions as refunds rather than point of sale exemptions.

Public Act 97-0905

Ultimately, neither SB3688 nor HB4189 were approved by the General Assembly. Instead, both houses unanimously approved Senate Bill 3616, House Floor Amendment 1, which was signed into law as Public Act 97-0905 by Governor Quinn on August 7, 2012. P.A. 97-0905 includes the provisions summarized below.

Administration

- Authority for siting enterprise zones will be shifted from DCEO to an enterprise zone board appointed by the Governor. Decisions regarding the awarding or extension of enterprise zones will be made by a new five-member board headed by the Director of the Department of Commerce and Economic Opportunity. The board would also include the Director of the Illinois Department of Revenue and three other gubernatorial appointees.
- Communities will be required to compete to renew zones or be replaced by new zones as old zones expire.
- The Department of Revenue will issue building material sales tax exemption certificates to designated construction contractors, rather than having the exemption certificates be issued by Enterprise Zone administrators.
- The definitions of full-time and qualified jobs will be changed. Companies will be able to use staffing agencies or part-time workers to tap into incentives. A full time job defined as person working for at least 35 hours a week for 52 weeks for a time total of 1,820 hours per year. A company will receive incentives for the number of hours it employs workers rather than the total number of workers employed. Every 1,820 hours worked per year will equal one job.
- In the future, areas will be eligible for enterprise zone designation if they meet 3 or more of the following ten criteria:²⁵
 1. All or part of the local labor market area has had an annual average unemployment rate of at least 120% of the State's annual average unemployment rate for the most recent calendar year or the most recent fiscal year as reported by the Department of Employment Security;
 2. Designation will result in the development of substantial employment opportunities by creating or retaining a minimum aggregate of 1,000 full-time equivalent jobs due to an aggregate investment of \$100,000,000 or more and will help alleviate the effects of poverty and unemployment within the local labor market area;

²⁵ Public Act 97-0905. Section 4(f).

3. All or part of the local labor market area has a poverty rate of at least 20% according to the latest federal decennial census, 50% or more of children in the local labor market area participate in the federal free lunch program according to reported statistics from the State Board of Education or 20% or more households in the local labor market area receive food stamps according to the latest federal decennial census;
4. An abandoned coal mine or a brownfield is located in the proposed zone area or all or a portion of the proposed zone was declared a federal disaster area in the three years preceding the date of application;
5. The local labor market area contains a presence of large employers that have downsized over the years, the labor market area has experienced plant closures in the five years prior to the date of application affecting more than 50 workers or the local labor market area has experienced State or federal facility closures in the 5 years prior to the date of application affecting more than 50 workers;
6. Based on data from Multiple Listing Service information or other suitable sources, the local labor market area contains a high floor vacancy rate of industrial or commercial properties, vacant or demolished commercial and industrial structures are prevalent in the local labor market area or industrial structures in the local labor market area are not used because of age, deterioration, relocation of the former occupants or cessation of operation;
7. The applicant demonstrates a substantial plan for using the designation to improve the State and local government tax base, including income, sales and property taxes;
8. Significant public infrastructure is present in the local labor market area in addition to a plan for infrastructure development and improvement;
9. High schools or community colleges located within the local labor market area are engaged in ACT Work Keys, Manufacturing Skills Standard Certification or other industry-based credentials that prepare students for careers; or
10. The change in equalized assessed valuation of industrial and/or commercial properties in the five years prior to the date of application is equal to or less than 50% of the State average change in equalized assessed valuation for industrial and/or commercial properties, as applicable, for the same period of time.

DCEO will review all applications for open Enterprise Zones based on a scoring system that awards specific points based on the new eligibility criteria mentioned above. They will then assign a final score and forward the applicant information to the new Enterprise Zone Board.

Term

The term of enterprise zones is extended by 25 years. The initial designation will be for 15 years, with a possible 10 year renewal by the new oversight board. The board will review enterprise zone performance in year 13, after which they may recommend extension.

Number

Five additional zones will be created by converting existing River Edge Redevelopment Zones upon their expiration into enterprise zones. This will increase the total number of zones to 102. (The River Edge Redevelopment Zone program will be eliminated when the existing zones expire).

Tax Incentives:

Three current income tax business incentives will be repealed:

- The Jobs Tax Credit for Enterprise Zone employers;
- The Subtraction for dividends paid by corporations doing business in an Enterprise Zone; and
- The Subtraction for financial organizations for interest income on loans secured by property located in an enterprise zone.

Reporting

The legislation contains a number of new reporting requirements for businesses and government agencies:

- The Department of Revenue will report on the value of state tax incentives received by businesses and individuals. The names of individuals or companies will not be disclosed.
- DCEO will be required to send a letter of notification to each member of the General Assembly whose legislative districts contain all or part of a designated area.

New Tax Incentive Reporting Requirements for Taxpayers Receiving Incentives

- Any business receiving tax incentives due to its location within an Enterprise Zone or River Edge Development Zone or that is designed as a High Impact Business must annually report all tax benefits received by the business, broken down by incentive category and Enterprise Zone or River Edge Zone.
- Utility providers required to file a return under the Gas, Electric or Telecommunications excise tax acts must also file an annual report with the Illinois Department of Revenue itemizing the amount of the deduction taken under each Act due to the location of a business in an Enterprise Zone, River Edge Development Zone or because a business is designated as a High Impact Business. The report shall be itemized by business and the business location address.
- Employers within an Enterprise Zone or River Edge Development Zone will have to report their job creation, retention and capital investment numbers within the applicable zone annually to the Zone Administrator, who will compile the information and report it to the Illinois Department of Revenue. High Impact Businesses will have to report their job creation, retention and capital investment numbers directly to the Department of Revenue.

New Reporting by the Department of Revenue

- The Department of Revenue will aggregate and collect the tax, job and capital investment data by Enterprise Zone, River Edge Development Zone or for High Impact Businesses and report the information, formatted to exclude company-specific proprietary information, to DCEO by May 1, 2013 and annually thereafter. DCEO will include this information in its annual report to the General Assembly on enterprise zone activity.

New Reporting by Enterprise Zone Administrators

Enterprise Zone Administrators must:

- Post a copy of the zone boundaries on their website and provide same to DCEO for posting on their website;
- Collect and aggregate:
 1. The estimated cost of each building project, broken down into labor and materials; and
 2. Within 60 days after the end of the project, the estimated cost of each building project, broken down into labor and materials.
- File a copy of the enterprise zone fee schedule with DCEO. The Department will now review and approve the fee schedule. The Zone Administrator may charge a fee of no more than 0.5% of the costs of building materials associated with the project within the zone, with a maximum fee of no more than \$50,000.

ILLINOIS ENTERPRISE ZONE TAX INCENTIVES

Illinois offers a variety of income, sales, utility and property tax incentives in enterprise zones. The description that follows describes the incentives prior to the passage of the 2012 reform legislation. That legislation proposes to eliminate several of these incentives; that change is noted in the text.

Corporate Income Tax Credits

Investment Tax Credit

The Investment Tax Credit provides for a 0.5% credit against the State income tax for investments in qualified property. The credit may be taken by corporations, trusts, estates, partners and subchapter S shareholders and thus can be taken as a credit against the individual or corporate income tax.²⁶

Qualified property is defined as:

- Tangible property, including buildings and structural components of buildings;
- Is depreciable pursuant to Internal Revenue Code Section 167;
- Has a useful life of 4 or more years; and
- Is used by the taxpayer in the enterprise zone.

The credit carries forward if the amount of the credit exceeds the tax liability for a year. It may be applied to the tax liability of the five taxable years following the excess credit year.

Effective Date: 1983.

River Edge Redevelopment Zone Site Remediation Tax Credit. In addition, the State has developed the River Edge Redevelopment Zone Site Remediation Tax Credit. The City of Rockford has established one of these zones. This zone focuses on returning environmentally challenged brownfields sites to productive use. The Zone was approved August 27, 2007 and will be in effect for 30 years through the year 2037.²⁷

Statutory Citations:

²⁶ 35 ILCS 5/201.

²⁷ These figures include the Enterprise Zone Investment tax credit and the River Edge Redevelopment Zone Site Remediation tax credit. Illinois State Comptroller. *Fiscal Year 2010 Tax Expenditures Amended Appendices*, p. B-1.

- Investment Tax Credit: 35 ILCS 5/201 (f)
- River Edge Redevelopment Zone Site Remediation Tax Credit: 35 ILCS 5/201(n)

Note: The River Edge Redevelopment zone program will be sunsetted according to the provisions of Public Act 97-0905 signed into law by the Governor on August 7, 2012.

Dividend and Corporate Charitable Contribution Deductions: Taxpayers are permitted to deduct from their taxable income an amount equal to dividends earned that were paid by a corporation which conducts a substantial portion of its operations in an enterprise zone or multiple enterprise zones. Individuals, corporations, trusts and estates are eligible for this deduction.

Corporations are able to make contributions to organizations in enterprise zones for projects approved by DCEO. They can then claim an income tax deduction at double the value of that contribution if: 1) the contribution can be classified as a charitable contribution under the Internal Revenue Code and 2) DCEO approves the amount and type of charitable contribution. This deduction is only available to corporations.

Effective Date: 1983.²⁸

Statutory Citations:

- Dividend Deduction: 35 ILCS/5-203.
- Corporate Charitable Contribution Deduction: 35 ILCS/5-203.

Note: The dividend deduction incentive was eliminated in Public Act 97-0905 signed into law by the Governor on August 7, 2012.

Financial Institution Income Tax Deduction

Financial institutions may deduct from their taxable corporate income an amount equal to the interest received from a loan for development in an enterprise zone. This is limited to loans on or portions of loans secured by property which is eligible for the enterprise zone investment tax credit.

Effective Date: 1983.²⁹

Statutory Citation: 35 ILCS/5-203.

Note: The financial institution income tax incentive was eliminated in Public Act 97-0905 signed into law by the Governor on August 7, 2012.

²⁸ Illinois Comptroller. *FY2006 Tax Expenditure Report*, p. F-7.

²⁹ Illinois Comptroller. *FY2006 Tax Expenditure Report*, p. F-7.

Individual Income Tax Credit

Jobs Tax Credit

The Enterprise Zone Jobs Tax Credit provides employers with an individual income tax credit of \$500 per eligible employee per year hired to work in a zone. Eligible employees must be certified as economically disadvantaged or dislocated workers.

For employers to qualify for the credit they must hire five eligible employees in a tax year and the number of total employees must increase by five employees greater than the number in the enterprise zone at the end of the previous year for which the credit was taken. The unused portion of a credit may be carried forward to five years.

To qualify as eligible employees for the Jobs Tax Credit, employees must:

- Be certified;
- Be employed in an enterprise zone or employed in an enterprise which is based in the zone; and
- Be employed at least 180 consecutive days for 30 or more hours per week.

Effective Date: 1986.³⁰

Statutory Citation: 35 ILCS 5/201.

Note: This incentive was eliminated in Public Act 97-0905 signed into law by the Governor on August 7, 2012.

Sales and Use Tax Exemptions

Building Materials Sales Tax Deduction

Retailers who make a qualified sale of building materials that are used in an enterprise zone for remodeling, rehabilitation or new construction may deduct receipts from the sales for purposes of calculating sales and use taxes owed. A “qualified sale” is one where the building materials purchased are part of a building project for which a Certificate of Eligibility for Sales Tax Exemption has been issued by the Enterprise Zone administrator. Sales exempted from the State retailer’s occupation tax (ROT) are also exempted from Regional Transit Authority and Metro-East ROT.

Effective Date: 2006.³¹

Statutory Citations: 35 ILCS 105/12, 110/12, 115/12, 120/5k.

Enterprise Zone Manufacturing Machinery and Equipment (M, M & E) Sales Tax Exemption

The M, M & E Sales Tax Exemption allows a business certified by DCEO to receive a 6.25% sales tax exemption on tangible personal property used or consumed in an enterprise zone in the process of manufacturing or assembling tangible personal property for wholesale or retail sale or lease. It is also

³⁰ Illinois Comptroller. *FY2006 Tax Expenditure Report*, p. F-6.

³¹ Illinois Comptroller. *FY2010 Tax Expenditure Report*, p. 3.

available for pollution control facilities. Eligibility for the exemption is contingent upon DCEO's certification that a business meets one of the three following criteria:

- It has made an investment of at least \$5 million in an enterprise zone and has created at least 200 full-time equivalent jobs;
- It has made a \$40 million investment and retained a minimum of 2,000 full-time jobs; or
- It has made an investment of \$40 million and retained 90% of the jobs in place on the date of the certification.³²

The exemption applies to:

- Hand tools used to maintain, repair or operate machinery and equipment;
- Abrasives, acids and polishing compounds used in manufacturing or assembly;
- Coolants, adhesive, solvents or cleaning compounds used in the manufacturing or assembly process;
- Fuel manufacture;
- Protective clothing and safety equipment; and
- Fuels, chemicals or catalysts used in pollution control facility operations.³³

This exemption is also called the Designated Tangible Personal Property within an Enterprise Zone.

Effective Date: 1985.³⁴

Statutory Citation: 35 ILCS 120/1d-f

Utility Tax Exemptions

The utility tax exemption provides that businesses in an enterprise zone are potentially eligible for a 5.0% state sales tax exemption on gas, electricity and the Illinois Commerce Commission's 0.1% administrative charge as well as excise taxes on the act or privilege of originating or receiving telecommunications. Eligibility for the exemption is contingent upon DCEO's certification that a business has either created a minimum of 200 full-time equivalent jobs or that it has retained 1,000 full-time jobs. Local governments may also exempt certified enterprises from gas, electricity and water taxes or fees.³⁵ The value of utility tax exemptions accounted for a majority of all exemptions between FY2006 and FY2007, averaging over 55% of the total.

Effective Date: 1986.³⁶

Statutory Citations: The Public Utility Act - 220 ILCS 5/9-222.1 - as amended and the Telecommunications Excise Tax Act - 35 ILCS 630(a)(5) - as amended.

³² Illinois Department of Commerce and Economic Opportunity. "Enterprise Zone Program Tax Questions and Answers," p. 5 at http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

³³ Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 2.

³⁴ Illinois Comptroller. *FY2006 Tax Expenditure Report*, p. F-5.

³⁵ Illinois Department of Commerce and Economic Opportunity. "Enterprise Zone Program Tax Questions and Answers," p. 6 at http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

³⁶ Illinois Comptroller. *FY2006 Tax Expenditure Report*, p. F-9.

Property Tax Incentives

Illinois statute provides for local property tax abatement in enterprise zones throughout the state and assessment reduction in Cook County enterprise zones.

Any taxing district can require the county clerk to abate a portion of real estate taxes on real property or improvements within an enterprise zone. The abatement specifically applies to taxes on the increased value that can be directly attributed to new construction, renovation or rehabilitation. Taxes levied on the assessed value of land and existing improvements are not abated.³⁷ The abatement can be applied to all classes of real property, it may be offered for any number of years up to the termination of the enterprise zone and it may be offered by a taxing district in any amount. Tax increment financing (TIF) districts must be excluded from areas eligible for abatement in the Enterprise Zone's designation ordinance.³⁸

The enterprise zone property tax abatement provisions are different from those allowed under Section 18-165 of the Illinois Property Tax Code, which limit abatements to commercial and industrial improvements for a period of no more than 10 years in an aggregated amount not to exceed \$4 million.³⁹

The Cook County assessment reduction incentive is offered for property in enterprise zones; it receives special consideration under the County's Class 6b Industrial Program. The program permits qualifying industrial properties to receive an assessment reduction from 25% of market value to 10% for the first 10 years, 15% for the 11th year and 20% in the 12th year before expiring.⁴⁰

NUMBER AND LOCATION OF ILLINOIS ENTERPRISE ZONES

In FY2011 there were a total of 96 enterprise zones operating in Illinois.⁴¹ DCEO designated 89 of these enterprise zones while eight zones were certified under the auspices of the Quad Cities Regional Economic Development Authority Act, the Southwestern Illinois Economic Development Authority Act, the Illinois River Valley Development Authority Act, the Western Illinois Economic Development Authority Act and under the auspices of 20 ILCS 655/5.3 (e) relating to closed military bases.⁴²

There were 16 enterprise zones in Cook County, four in the Collar Counties and 76 in the downstate counties. The South Beloit/Rockton/Winnebago County enterprise zone expired on March 1, 2010.⁴³ There are a total of six enterprise zones within the City of Chicago.⁴⁴

³⁷ 35 ILCS 200/18-170.

³⁸ Illinois Department of Commerce and Economic Opportunity. "Enterprise Zone Program Tax Questions and Answers," pp. 8-9 at http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

³⁹ 35 ILCS 200/18-165.

⁴⁰ Illinois Department of Commerce and Economic Opportunity. "Enterprise Zone Program Tax Questions and Answers," p. 8 at http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

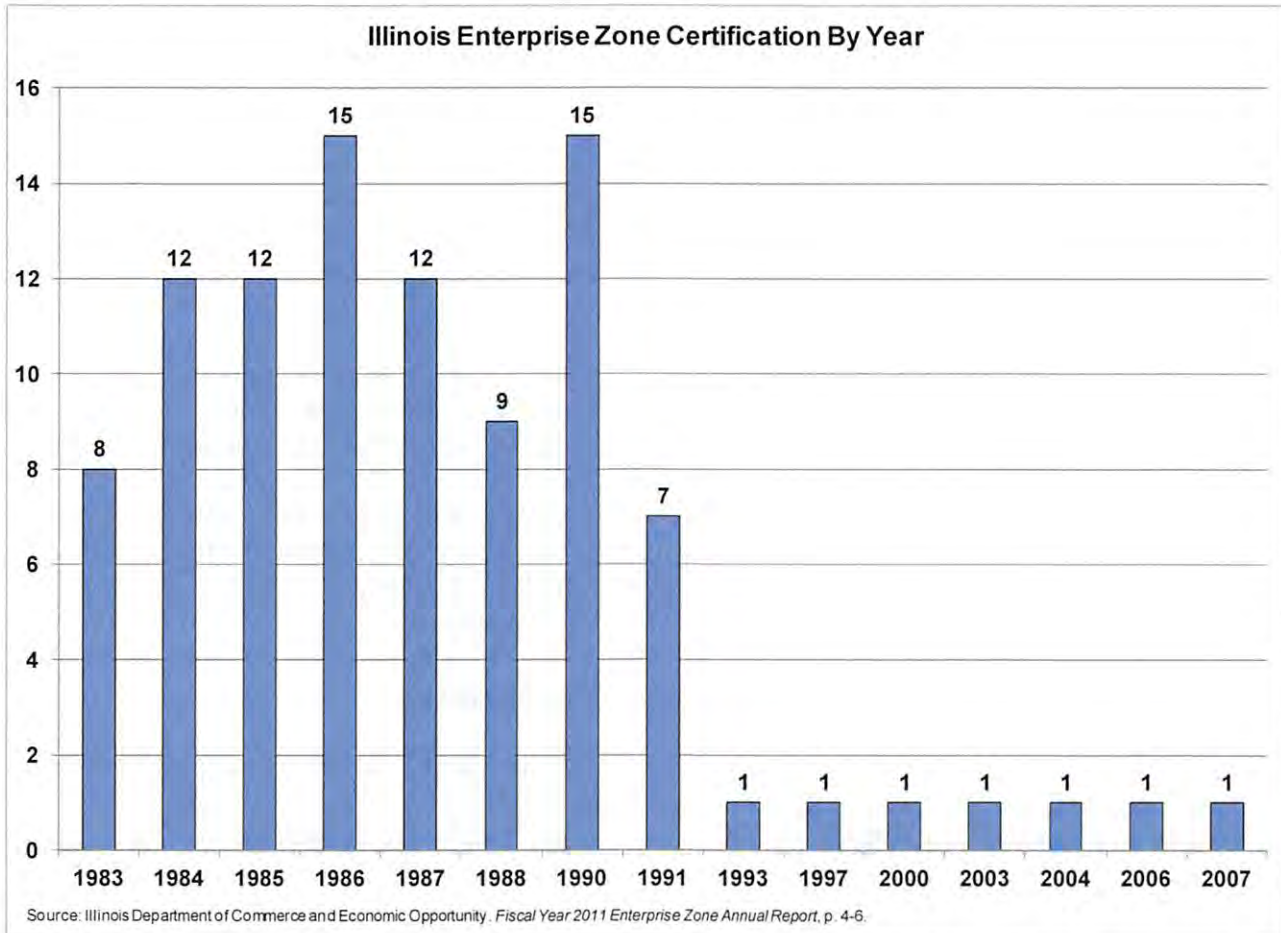
⁴¹ Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.

⁴² Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 1.

⁴³ Illinois Department of Commerce and Economic Opportunity. Illinois Enterprise Zones, March 2010 at http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/Enterprise-Zone.htm.

⁴⁴ City of Chicago at http://www.cityofchicago.org/city/en/depts/dcd/supp_info/enterprise_zone_program.html.

The next exhibit shows when the various enterprise zones in Illinois were established. Between 1983 and 1988, 68 of the enterprise zones were established. Twenty-four were founded in the 1990s and five have been established since 2000.



ILLINOIS ENTERPRISE ZONE FISCAL AND ECONOMIC PERFORMANCE

There are two primary sources of fiscal and economic performance data for State authorized enterprise zones in Illinois. The Illinois Comptroller’s Office annually publishes a report that provides the dollar value of each of the various tax expenditures provided in the zones. The Illinois Department of Commerce and Economic Opportunity annually publishes a report providing statistical information on the state’s enterprise zones including the dollar value of investments and the number of jobs created or retained in each zone. There is no reporting requirement or central database of information for local enterprise zone incentive programs.

Value of Illinois Enterprise Zone Tax Expenditures

Tax expenditures are exemptions, credits or abatements given to individuals, corporations or other organizations. As noted previously, enterprise zone tax credits and exemptions are intended to stimulate private sector economic development activity. The Illinois Comptroller’s Office annually publishes a

report that provides the dollar value of each of the various tax expenditures provided. The following table shows the value of various enterprise zone tax expenditures for the past five years for which data are available: FY2006 through FY2010. The total value of these tax expenditures was \$104.2 million in FY2010, a \$33.1 million, or 45.0%, increase from five years before.

| State of Illinois Enterprise Zone Tax Expenditures FY2006-FY2010 | | | | | | | |
|--|----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------|
| | FY2006 | FY2007 | FY2008 | FY2009 | FY2010 | 5 YR \$ CHG | 5 YR % CHG |
| Corporate Income Tax Credits | | | | | | | |
| Enterprise Zone & River Redevelopment Zone Investment Credit* | \$ - | \$ 7,442,000 | \$ 10,281,000 | \$ 11,738,000 | \$ 7,169,000 | \$ 7,169,000 | |
| Dividend, Interest & Charitable Contribution Deductions** | \$ 1,678,000 | \$ 4,000 | \$ 1,888,000 | \$ 1,827,000 | \$ 1,505,000 | \$ (173,000) | 8.9% |
| Jobs Tax Credit*** | \$ 716,000 | \$ 11,000 | \$ - | \$ - | \$ - | \$ - | |
| Subtotal Corporate Income Tax Credits/Deductions | \$ 2,394,000 | \$ 7,457,000 | \$ 12,169,000 | \$ 13,565,000 | \$ 8,674,000 | \$ 6,996,000 | 282.3% |
| Individual Income Tax Credits | | | | | | | |
| Enterprise Zone Investment Credit | \$ 97,000 | \$ 786,000 | \$ 1,397,000 | \$ 1,511,000 | \$ 417,000 | \$ 320,000 | 329.9% |
| Jobs Tax Credit*** | \$ 1,000 | \$ 1,000 | \$ 20,000 | \$ 62,000 | \$ 652,000 | \$ 651,000 | 65100.0% |
| Subtotal Individual Income Tax Credits | \$ 98,000 | \$ 787,000 | \$ 1,417,000 | \$ 1,573,000 | \$ 1,069,000 | \$ 971,000 | 990.8% |
| Sales and Use Tax | | | | | | | |
| Building Materials within Enterprise Zone | \$ 4,419,000 | \$ 5,780,000 | \$ 6,700,000 | \$ 4,700,000 | \$ 4,400,000 | \$ (19,000) | -0.4% |
| Designated Tangible Personal Property w/n EZ | \$ 24,077,000 | \$ 36,921,000 | \$ 36,900,000 | \$ 26,000,000 | \$ 21,000,000 | \$ (3,077,000) | -12.8% |
| Subtotal Sales Tax Exemptions | \$ 28,496,000 | \$ 42,701,000 | \$ 43,600,000 | \$ 30,700,000 | \$ 25,400,000 | \$ (3,096,000) | -10.9% |
| Utility Tax Exemptions**** | | | | | | | |
| Electricity Excise Tax | \$ 39,196,000 | \$ 45,675,000 | \$ 52,009,000 | \$ 37,411,000 | \$ 44,835,000 | \$ 5,639,000 | 14.4% |
| Gas Revenue Tax | \$ 1,661,000 | \$ 1,445,000 | \$ 1,514,000 | \$ 13,034,000 | \$ 12,783,000 | \$ 11,122,000 | 669.6% |
| Telecommunications Excise Tax | \$ 29,000 | \$ 33,000 | \$ 2,060,000 | \$ 11,489,000 | \$ 11,458,000 | \$ 11,429,000 | 39410.3% |
| Subtotal Utility Tax Exemptions | \$ 40,886,000 | \$ 47,153,000 | \$ 55,583,000 | \$ 61,934,000 | \$ 69,076,000 | \$ 28,190,000 | 68.9% |
| Grand Total | \$ 71,874,000 | \$ 98,098,000 | \$ 112,769,000 | \$ 107,772,000 | \$ 104,219,000 | \$ 33,061,000 | 45.0% |

* Includes value of the River Edge Redevelopment Zone Site Remediation Tax Credit.

**Includes a mix of corporate and individual income tax deductions - they are listed in the Comptroller's Reports as corporate tax deductions.

*** There is no disaggregation for total Jobs Tax credit figures for enterprise zones.

**** The Enterprise Zone and Foreign Trade Zone High Economic Impact Business Exemption.

Sources: Illinois Comptroller Tax Expenditures Report, various years.

The value of Illinois enterprise zone tax expenditures as a percentage of all state tax expenditures ranged from a low of 1.1% in FY2006 to a high of 1.6% in FY2009 and FY2010. It is important to note that a few large tax expenditures such as the state sales tax exemption on food and drugs, income tax deductions for retirement and social security, the standard deduction for individual income taxes and property tax credits for individual income taxes consumed nearly 60% of all Illinois tax expenditures in FY2010.⁴⁵

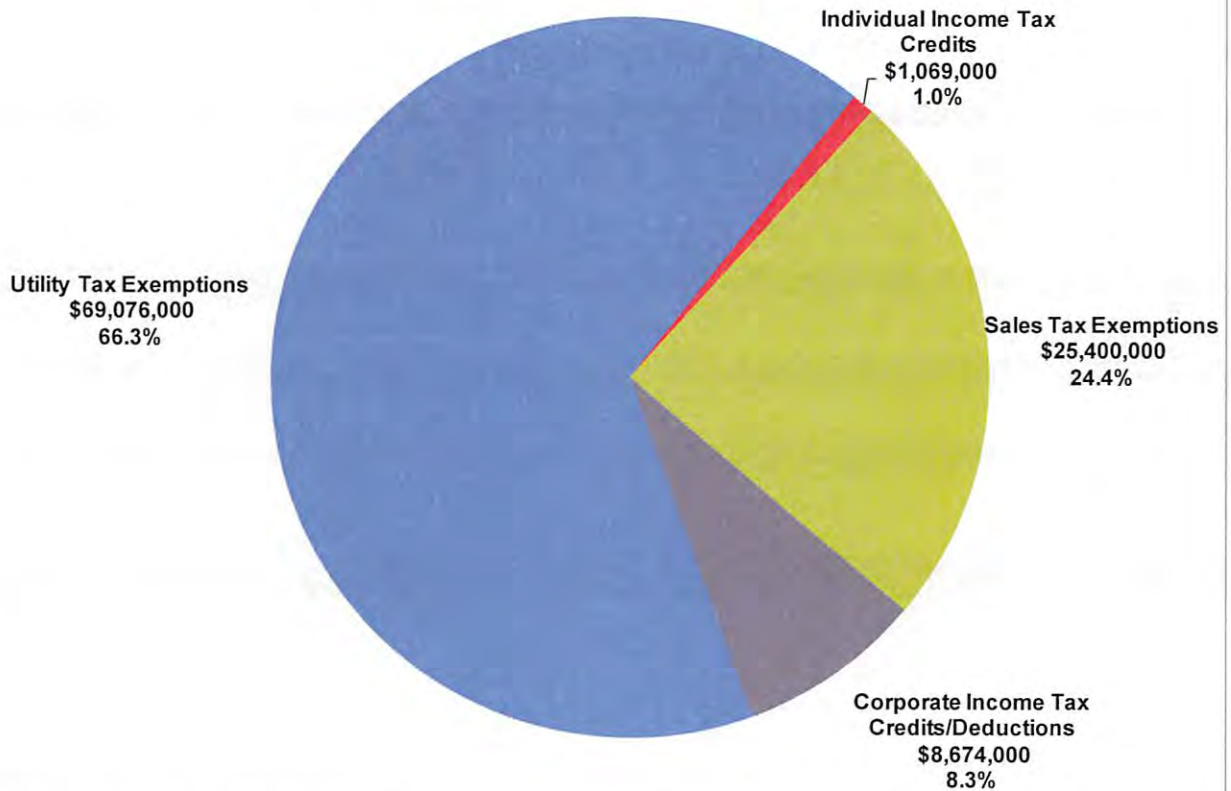
| State Enterprise Zone Tax Expenditures as a Percentage of Total State Tax Expenditures | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|
| | FY2006 | FY2007 | FY2008 | FY2009 | FY2010 |
| Total State Enterprise Zone Tax Expenditures | \$ 71,874,000 | \$ 98,098,000 | \$ 112,769,000 | \$ 107,772,000 | \$ 104,219,000 |
| Total State Tax Expenditures | \$ 6,571,575,000 | \$ 7,184,747,000 | \$ 6,592,727,000 | \$ 6,626,514,000 | \$ 6,594,165,000 |
| Enterprise Zone Tax Expenditures as a % of Total Tax Expenditures | 1.1% | 1.4% | 1.7% | 1.6% | 1.6% |

Sources: Illinois Comptroller, Tax Expenditures Report, various years.

The next exhibit shows the proportion of Illinois Enterprise Zone tax expenditures per type of credit, exemption or deduction in 2010. Approximately 66.3% of the \$104.2 million in tax expenditures were for utility tax exemptions, 24.5% for sales tax exemptions, 8.3% for corporate income tax credits and deductions and just 1.9% for individual income tax credits.

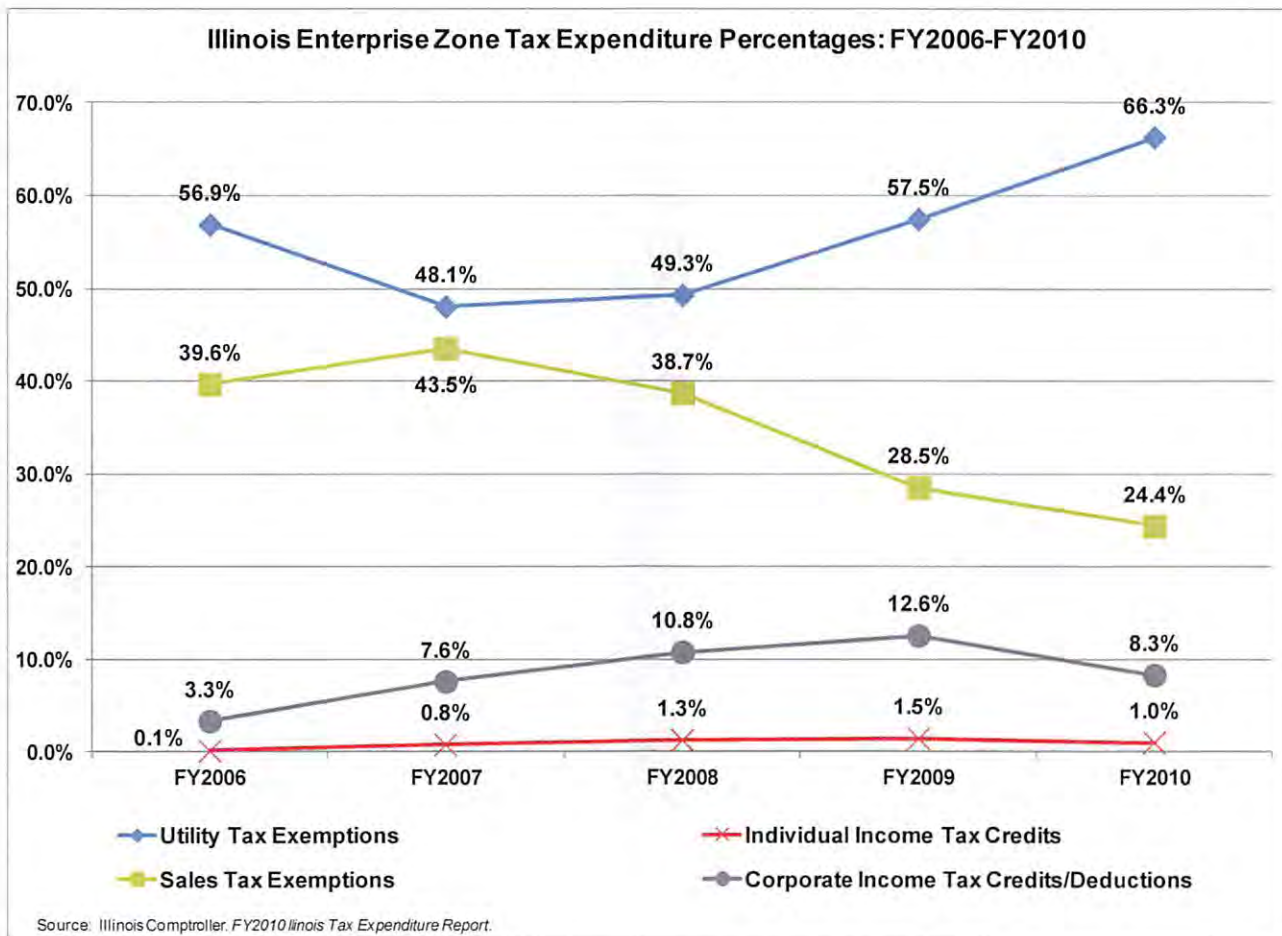
⁴⁵ Illinois Comptroller, FY2010 Tax Expenditures Report, p. 7.

Illinois Enterprise Zone Tax Expenditures FY2010



Source: Illinois Comptroller. FY2010 Tax Expenditure Report.

Between FY2006 and FY2010, utility tax exemptions represented the largest share of enterprise zone tax expenditures. The proportion of total enterprise zone tax expenditures attributable to utility tax exemptions rose from 56.9% in FY2006 to 66.3% five years later. Sales tax exemption tax expenditures fell from 39.6% of all tax expenditures in FY2006 to 24.4% in FY2010; during that same period corporate income tax credits and deductions increased from 3.3% to 8.3%. Individual income tax credits taken were a relatively small percentage of all enterprise zone tax expenditures, averaging 0.9%.



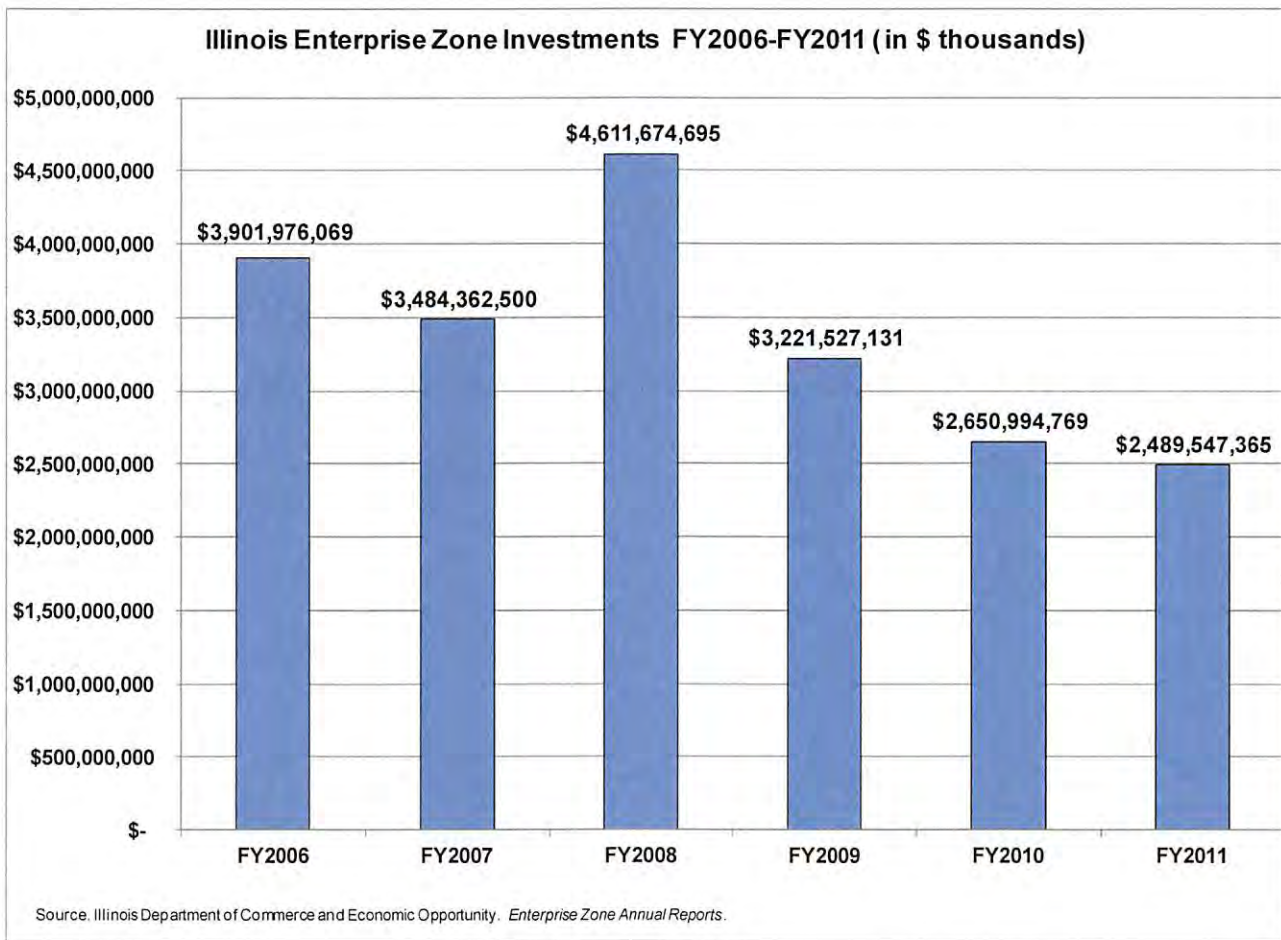
Value of Investments in Illinois Enterprise Zones

The DCEO annual enterprise zone report lists the total dollar amount of enterprise zone private sector investments. The economic activity reported is based on data submitted to DCEO by local enterprise zone administrators. The data reflect economic activity submitted after the issuance of a building permit or a certificate of eligibility obtained from the local zone administrator. Investments not requiring a building permit or certificate of eligibility are not reported.⁴⁶

The total dollar amount of Illinois enterprise zone investments increased from \$3.9 billion in FY2006 to \$4.6 billion in FY2008 before dropping to nearly \$2.5 billion in FY2011.⁴⁷ The drop in investments after FY2008 is due in part of the effects of the recession. Over the six-year period reviewed, enterprise zone investment fell by \$1.4 billion or 36.2%.

⁴⁶Investment is not broken for new versus retained jobs, so calculations cannot be made for those categories. Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.

⁴⁷ Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.



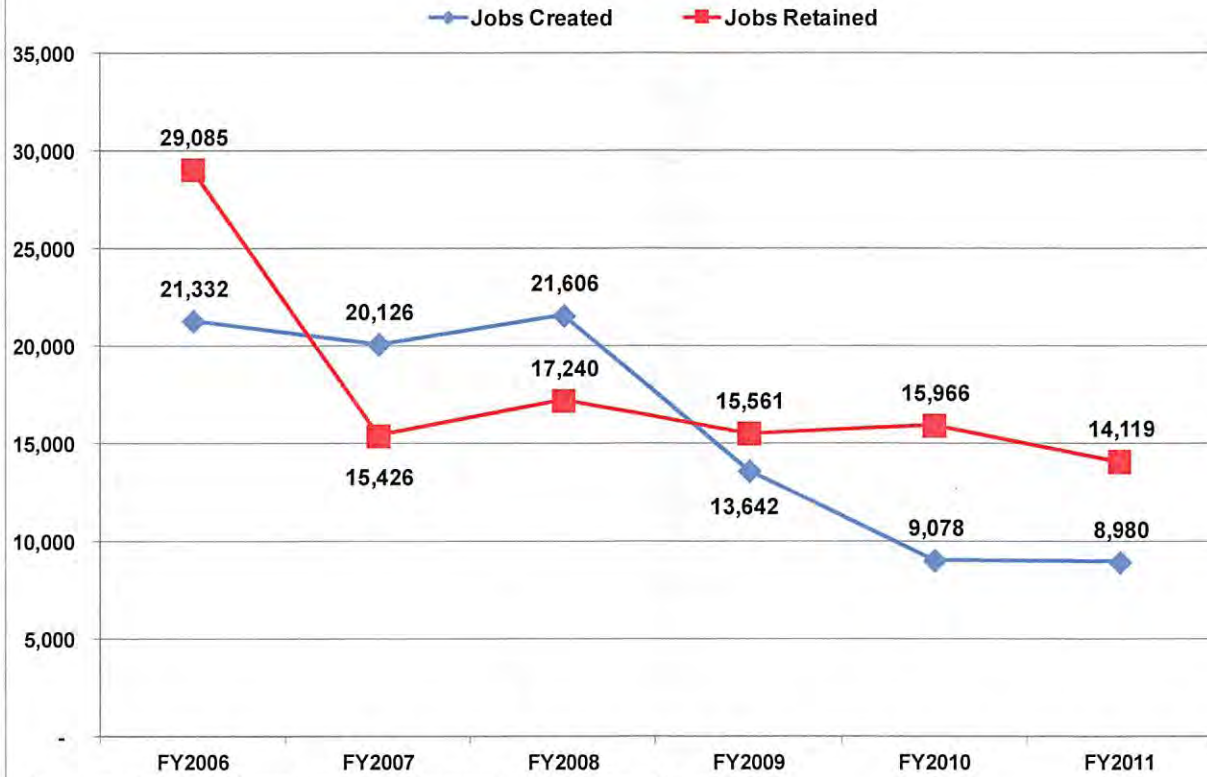
Jobs Created and Retained in Illinois Enterprise Zones

The annual DCEO annual enterprise zone report also provides information on job retained or created in each zone. Multiple investments by a firm occurring throughout a fiscal year may retain the same jobs.⁴⁸

The total number of jobs created and retained in Illinois enterprise zones fell by 54.2% between FY2006 and FY2010. This was a drop from 50,417 to 23,099. The number of jobs created fell from 21,332 to 8,980; this is a decrease of 57.9%. Jobs retained decreased by 51.5% or from 29,085 to 14,119.

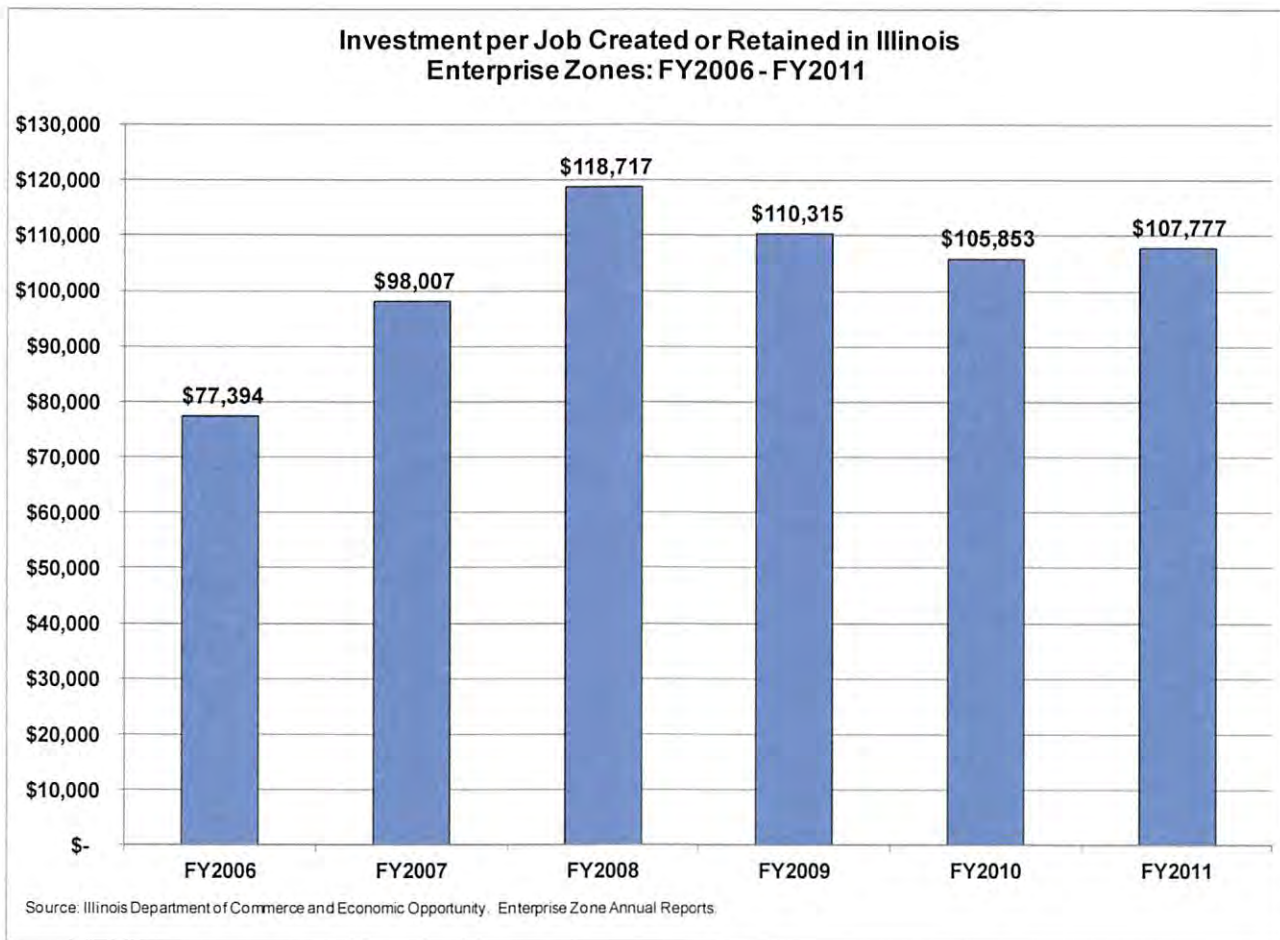
⁴⁸Illinois Department of Commerce and Economic Opportunity. *Enterprise Zone Fiscal Year 2011 Annual Report*, p. 11.

**Jobs Created and Retained in Illinois Enterprise Zones:
FY2006-FY2011**



Source: Illinois Department of Commerce and Economic Opportunity. Enterprise Zone Annual Reports.

The dollar investment per job created and retained is shown in the next exhibit. This statistic takes the dollar amount of enterprise zone investments per year and divides that amount by the number of jobs retained and created. The investment per job rose from \$77,394 to \$118,717 between FY2006 and FY2008 before dropping to \$107,777 in FY2011. Over the six-year period reviewed the investment per job rose by 39.3%, or \$30,383.



REVIEW OF THE POLICY LITERATURE ON ENTERPRISE ZONES

There have been a number of empirical and policy studies of the effectiveness of enterprise zone programs. In addition, states frequently conduct reviews of enterprise zone programs, particularly when the programs are under consideration for reauthorization. This section presents a brief overview of the findings of several of these studies.

Empirical Studies

The empirical literature presents a mixed picture on whether enterprise zones generate jobs and create new businesses or retain existing businesses.

A 2002 study of state enterprise zone programs used statistical models to measure the value of enterprise zone programs and to evaluate whether the programs work by generating new local growth. The researchers evaluated incentive packages provided in 75 enterprise zone programs in 13 states with significant manufacturing employment from 1990 to 1994 as well as changes in manufacturing

establishments within these zones from 1989 to 1995.⁴⁹ The authors concluded that the zones have little or no impact on the growth of business establishments or employment growth. This could be because many enterprise zones are located in economically distressed areas where tax incentives are not likely to make a big difference given problems of poor worker training, inadequate infrastructure and crime. The authors do suggest that large enterprise zones may be effective if they are targeted appropriately and managed correctly. They pointed to Michigan's Renaissance Zone as an example, where the incentives were so large as to be effective.⁵⁰

In a 2005 review of 10 major empirical studies of enterprise zones in various states using regression analysis, Hirasuna and Michael found mixed results.⁵¹

- Four studies found no impact on employment.⁵²
- Four studies found some positive impact on employment. Of these, two studies found some reductions in unemployment rates⁵³ or a temporary increase in employment.⁵⁴ Another study found that employment increased faster within the enterprise zone than in areas not included in the zone.⁵⁵
- One study found an increase in the number of business establishments within enterprise zones.⁵⁶ A second study also found an increase in the creation of businesses but a decrease in the retention of existing businesses.⁵⁷

Ian Pulsipher noted in a 2008 article for the National Conference of State Legislatures status report on enterprise zones that the zones are rarely considered the sole factor in the relocation, hiring or investment decisions of firms. But they are considered an important tool by state officials and businesses in attracting or retaining business activity. However, academic reviews of enterprise zone

⁴⁹ Alan H. Peters and Peter S. Fisher. *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo W.E. Upjohn Institute for Employment Research, 2002), pp. 3-5.

⁵⁰ Alan H. Peters and Peter S. Fisher. *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo W.E. Upjohn Institute for Employment Research, 2002), pp. 225-226.

⁵¹ Don Hirasuna and Joel Michael. *Enterprise Zones: A Review of the Economy Theory and Empirical Evidence*. Policy Brief: Minnesota House of Representatives, January 2005.

⁵² Marlon G. Boarnet and William T. Bogart, "Enterprise Zones and Employment: Evidence from New Jersey," *Journal of Urban Economics* 40, no. 2 (1996): 198-215; John Engberg and Robert Greenbaum, "An Evaluation of State Enterprise Zone Policies," *Policy Studies Review* 17, no. 2-3 (2000): 29-46; Daniele Bondonio and John Engberg, "Enterprise Zones and Local Employment: Evidence from the States' Programs," *Regional Science and Urban Economics* 30, no. 5 (2000): 519-49; and Peter S. Fisher and Alan H. Peters, "The Cost of Enterprise Zone Incentives and an Alternative Use of the Money" (presentation, National Tax Association: Proceedings of the 93rd Annual Conference, 2000): 67-73.

⁵³ Leslie E. Papke, "Tax Policy and Urban Development: Evidence from an Enterprise Zone Program" (working paper 3945, National Bureau of Economic Research, 1991) and Kala Seetharam Sridhar, "The Incentive Programs and Unemployment Rate," *Review of Regional Studies* 30, no. 3 (1999): 275-98.

⁵⁴ Suzanne O'Keefe, "Job Creation in California's Enterprise Zones: A Comparison Using a Propensity Score Matching Mode," *Journal of Urban Economics* 55, no. 1 (2004): 131-50.

⁵⁵ Frank D. Beck, "Do State-designed Enterprise Zones Promote Economic Growth?" *Sociological Inquiry* 71, no. 4 (2001): 508-32.

⁵⁶ William S. Moore, "Enterprise Zones, Firm Attraction and Retention: A Study of the California Enterprise Zone Program," *Public Finance and Management* 3, no. 3 (2003): 376-92.

⁵⁷ Robert T. Greenbaum and John B. Engberg, "The Impact of State Enterprise Zones on Urban Manufacturing Establishments," *Journal of Policy Analysis and Management* 23, no. 2 (2004): 315-39.

programs, particularly those employing econometric or other economic analyses, have usually not found evidence that the zones produce positive results in regard to job creation or increased community investment.⁵⁸

The Effectiveness of Enterprise Zone Policy Administration and Reporting

The Pew Center on the States published a report in 2012 titled “Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth.” It was an evaluation of how well states collected and evaluated data on the effectiveness of economic development incentive programs to help guide decision making by policymakers. Researchers reviewed hundreds of policy documents and interviewed over 175 policymakers, experts and agency officials.⁵⁹ Researchers gave each state a rating based on two criteria:⁶⁰

1. **Scope:** Does the state evaluate all of its economic development incentive programs and does it use the results of evaluations to inform decision making. Illinois was one of 35 states that did not review all major tax incentives or use data to inform choices.
2. **Quality:** Do state-conducted evaluations examine the impact of incentives on the state’s economy and draw clear conclusions about whether the incentives are achieving the state’s goals and/or how performance might be improved? Illinois was one of 29 states that did not either conduct any evaluations or whose best evaluations did not draw conclusions about whether incentives were meeting goals or if performance could be improved.

The Pew Center found that no state rigorously and regularly tests or evaluates whether tax incentives are meeting their stated policy goals. Overall, 13 states were determined to be doing a good job in evaluating tax incentives, 12 had mixed results and 25 states plus the District of Columbia failed to meet criteria for scope or quality of evaluation.⁶¹

Many states review their enterprise zone programs on a regular or occasional basis. The reviews are often conducted prior to a renewal of enterprise zone authorization. In 2004, the New York State Comptroller’s Office conducted a review of the effectiveness of eight Empire (enterprise) Zones. The study reviewed data from 1999 to 2002 to evaluate the following issues:⁶²

- Do Empire Zones achieve their stated goals and objectives?
- Do quantifiable benefits received exceed program costs?
- Are reported program costs and benefits accurate and supported?
- Are Empire Zones designing and implementing adequate systems to continuously monitor and evaluate Zone performance and effectiveness?
- Are Empire Zones adequately addressing any performance shortfalls?

⁵⁸ Ian Pulsipher. Evaluating Enterprise Zones. NCSL/Annie E. Casey Partnership on Economic Success. February 26, 2008 at <http://www.ncsl.org/issues-research/econ/evaluating-enterprise-zones.aspx>.

⁵⁹ The Pew Center for the States. Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth. 2012. p. 9.

⁶⁰ The Pew Center for the States. Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth. 2012. p. 11.

⁶¹ The Pew Center for the States. Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth. 2012. p. 11.

⁶² Office of the New York State Comptroller. *The Effectiveness of Empire Zones*, March 2004, p. 5.

- Are Empire Zones designing and modifying their goals, objectives and boundaries to achieve specific and measurable results that align with the program's goals?

The report found that the boards administering the Empire Zones did not have adequate procedures in place to effectively monitor the progress or effectiveness of the program. Six of the eight Empire Zones' annual reports were either inaccurate and/or incomplete. The employment results were less than promising:⁶³

- The 375 businesses surveyed increased their full-time employees by 4,303 but had 2,380 fewer full-time employees (36 %) than they had projected when they applied for the Program.
- Twenty-three percent of the surveyed businesses had reduced staffing.
- Only 30% of 375 businesses surveyed met or exceeded their full-time job creation goals while 47% did not meet their goals but increased staffing.

There were also issues regarding the tax incentives provided to businesses in the Empire Zones:⁶⁴

- Thirty-two businesses reported receiving tax breaks that surpassed the benefits provided by the businesses by an aggregate of approximately \$3.6 million in 2002. The amounts per business averaged approximately \$112,500.
- Thirty-four businesses that reduced jobs also apparently improperly claimed certain tax breaks totaling approximately \$2.4 million.

New York sun sunsetted its Empire Zone program in 2010, shifting economic development resources to more targeted efforts.⁶⁵

Policy Evaluation of Enterprise Zone Effectiveness

California's enterprise zones have been the subject of several policy studies from the state legislature's research office and independent organizations.

The California Legislative Analyst's Office (LAO) reported to the California Legislature in 2005 that overall the zones and related programs had little or no impact on the generation of economic activity or employment. However, enterprise zones were effective in generating economic activity within smaller geographic areas such as metropolitan areas when businesses decide where to locate.⁶⁶ In 2011 the LAO conducted another study of enterprise zones and concluded that the state's enterprise zone program was not effective because research had demonstrated that it did not create a net increase in jobs or increase the rate of job creation. The report noted that even if a particular enterprise zone had a positive impact on jobs locally, the incentives offered might just move jobs around the state.⁶⁷

In a 2009 study, the Public Policy Institute of California, a nonprofit, nonpartisan thinktank evaluated the effect of enterprise zones on employment in each year from 1992 through 2004. The report found

⁶³ Office of the New York State Comptroller. *The Effectiveness of Empire Zones*, March 2004, p. 6.

⁶⁴ Office of the New York State Comptroller. *The Effectiveness of Empire Zones*, March 2004, p. 6.

⁶⁵ See <http://esd.ny.gov/businessprograms/empirezones.html>.

⁶⁶ Legislative Analysts's Office. *California's Enterprise Zone Program*. December 5, 2005, p. 6.

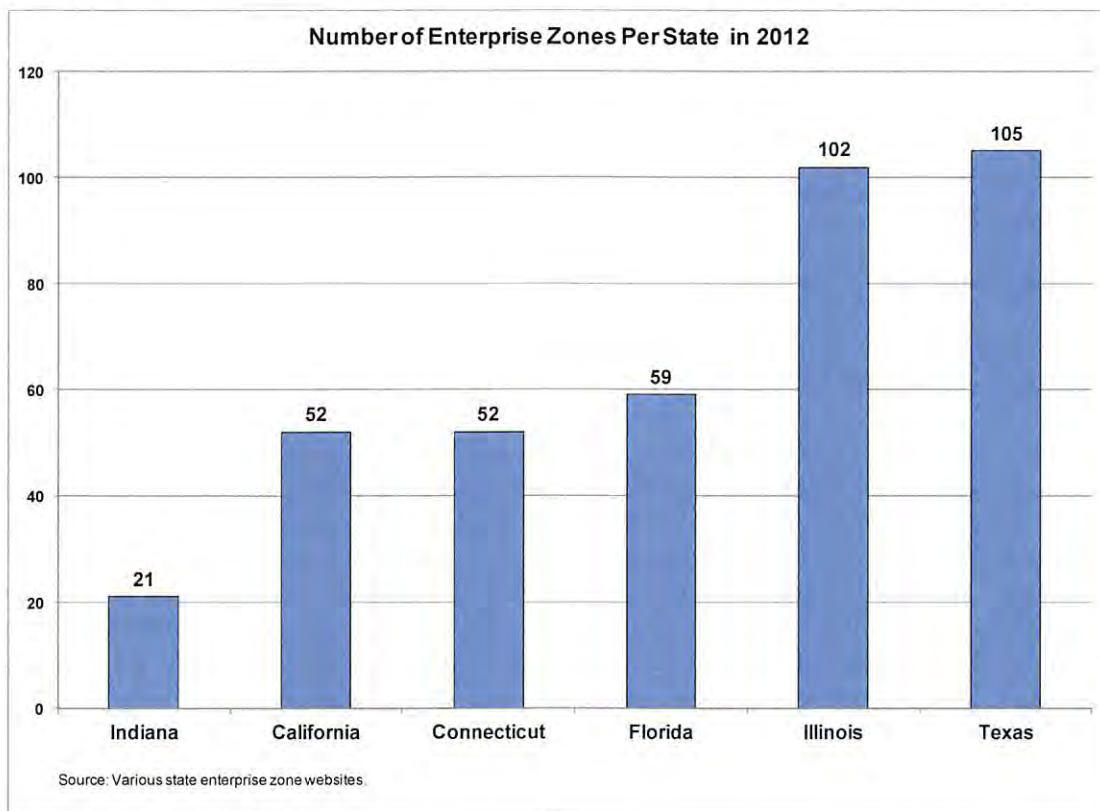
⁶⁷ Legislative Analysts's Office. *California's Enterprise Zone Program*. February 7, 2011, p. 5.

that on average the zones have had no impact on job creation or business development. However, the effectiveness of the zones varied, with a more favorable effect on job creation in zones with smaller share of manufacturing and zones where administrators utilized greater marketing and outreach activities.⁶⁸

Governor Jerry Brown cited the two studies described above as well as the Peters and Fisher book *State Enterprise Zone Programs: Have They Worked?* as evidence that the zones are not effective in his 2011 proposal to eliminate enterprise zone tax incentives. This was part of his plan to help close the state's then FY2012 \$25 billion budget deficit. The Legislature did not approve this proposal but it may resurface for the 2013 budget.⁶⁹

ENTERPRISE ZONES IN SELECTED STATES

This section of the report compares the operation of enterprise zones in a representative sample of states: Indiana, California, Connecticut, Florida and Texas. The number of enterprise zone and related areas located in each of these states and Illinois is shown below. The Illinois figure will be operative in 2013, reflecting recent passage of legislation increasing the number of zones.



⁶⁸ Jed Kolko and David Neumark. "Do California's Enterprise Zones Create Jobs?," Public Policy Institute of California. June 2009, p. 1 at <http://www.ppic.org/main/publication.asp?i=742>.

⁶⁹ Governor Brown was successful in eliminating the state's local redevelopment agencies and re-directing funds to address the state's FY2012 budget deficit. Michael Shaw. "Enterprise Zones Brace for Change." *Sacramento Business Journal*. February 3, 2012.

The states offer a wide variety of state and local enterprise zone incentives to qualifying businesses and individuals. These are summarized in the table below. Illinois offers the greatest types of incentive and is the only state to offer utility tax incentives.

| Enterprise Zone Financial Incentives | | | | | | |
|---|----------|---------|------------|-------------|---------|-------|
| | Illinois | Indiana | California | Connecticut | Florida | Texas |
| Corporate Income Tax Credit or Abatement | X | X | X | X | X | |
| State Individual Income Tax Credit or Refund* | X | X | X | | | |
| State Sales and Use Tax Credit or Exemption | X | | X | | X | X |
| State Utility Tax Exemptions | X | | | | | |
| State Insurance Premium Tax Credit | | | | | | X |
| Local Property Tax Incentives | X | X | X | X | | X |

Illinois will eliminate this incentive in 2013 per P.A. 97-0905.

Sources: State Enterprise Zone Websites.

The stated purpose of enterprise zone programs in different states is shown below. All note that the intent of these programs is to remediate blight. However, they emphasize different ways to achieve that goal ranging from stimulating business development job creation to improving the quality of life.

| Purpose of State Enterprise Zone Programs | |
|---|--|
| California | Stimulate business investment and job creation for qualified disadvantaged individuals in state-designated economically distressed areas |
| Connecticut | Stimulate economic development in economically distressed communities |
| Florida | Encourage economic growth and investment in specific geographic areas by providing tax incentives to businesses within those areas |
| Illinois | Stimulate economic growth and revitalize neighborhoods in economically depressed areas |
| Indiana | Improve the quality of life in blighted areas through community and business redevelopment initiatives |
| Texas | Promote job creation and economic development in economically distressed areas of the state |

California

The California Department of Housing and Community Development states the purpose of the state's enterprise zones as being the stimulation of "business investment and job creation for qualified disadvantaged individuals in state-designated economically distressed areas."⁷⁰ The state provides certain tax incentives and there are also a variety of locally provided incentives and benefits.

There are four different types of enterprise zone in California:

1. **Enterprise Zones**, which provide tax incentives to qualified businesses.

⁷⁰ California Department of Housing and Community Development. "California Enterprise Zones," at <http://www.hcd.ca.gov/fa/ez/>.

2. **Local Agency Military Base Recovery Areas (LAMBRAs)** provide incentives to businesses locating in closed military facilities; LAMBRAs include either an entire closed military base or a portion of it. There are seven LAMBRAs.
3. **Manufacturing Enhancement Areas (MEAs)** are two areas in Imperial County that provide incentives to manufacturing businesses engaged in the lines of business described in Standard Industrial Classification Codes 2011 to 3999. These areas expire December 31, 2012.⁷¹
4. The one **Targeted Tax Area (TTA)** in Tulare County offer incentives to companies engaged in a trade or business within the following Standard Industrial Codes: food processing; trucking and warehousing; air transportation; transportation services, communications and wholesale trade; and certain other manufacturing enterprises. This area expires December 31, 2012.⁷²

Year Established: California's enterprise zone program was established in 1984. Manufacturing enhancement areas and targeted tax areas were added in 1998 while the local agency military base recovery areas were added in 1993.⁷³

Locations: Enterprise zones are permitted in counties, municipalities or former military installations.

Administration: The California Department of Housing and Community Development oversees the state's enterprise zone program. Each zone is administered by its local jurisdiction.

Term: Enterprise zones are designated for 15 years. However, zones designated prior to 1990 can be extended for five additional years for a total of 20 years.⁷⁴ A LAMBRA designation is binding for a period of eight years.⁷⁵

Number: There are a total of 52 state-sponsored economic development incentive programs in California. They include:

- 42 enterprise zones;
- 7 Local Agency Military Base Recovery Areas;
- 2 Manufacturing Enhancement Areas; and
- 1 Targeted Tax Area.

Tax Incentives:

Enterprise zones: Individuals or businesses located in an enterprise zone may be eligible for the following program benefits:

- **Hiring Credits** - Firms can earn \$37,440 or more in state income tax credits for each qualified employee hired;

⁷¹ http://www.hcd.ca.gov/fa/ez/manufac_enhance/.

⁷² http://www.hcd.ca.gov/fa/ez/tax_area/.

⁷³ Legislative Analyst's Office. *California's Enterprise Zone Program*, December 5, 2005, p. 1.

⁷⁴ California Codes. Government Code Section 7073 (d) (1) (2).

⁷⁵ <http://www.hcd.ca.gov/fa/ez/lambra/>.

- Up to 100% Net Operating Loss (NOL) carry-forward for state income tax liability. NOL may be carried forward for 15 years (it was suspended for tax years 2002 and 2003);
- Up-front expensing of certain depreciable property. Lenders to Zone businesses may receive a net interest income deduction on state income taxes;
- Corporations can claim a credit equal to the sales or use tax paid or incurred on the purchase of qualified property not to exceed \$20 million. Individuals and partnerships can receive the credit for up to \$1 million;
- Unused tax credits can be applied to future tax years, stretching out the benefit of the initial investment; and
- Enterprise Zone companies also can earn preference points on state contracts.

LAMBRAs: Businesses located in a LAMBRA Zone are eligible for program benefits. The tax incentives provided include:

- Up to 100% Net Operating Loss (NOL) carry-forward. The NOL may be carried forward 15 years. Firms can earn \$31,544 or more in state tax credits for each qualified employee hired up to \$2 million per year;
- Corporations can earn sales tax credits on purchases of \$20 million per year of qualified machinery and machinery parts;
- Businesses are eligible for up-front expensing of certain depreciable property, up to \$40,000 annually from state income taxes; and
- Unused tax credits can be applied to future tax years, stretching out the benefit of the initial investment.

LAMBRA communities also are eligible for local community incentives as a part of a business attraction package. The incentives may include the use of machinery, tools or office equipment left behind by the military.

Manufacturing Enhancement Areas (MEAs): Businesses in the MEAS are eligible for:

- Streamlined local regulatory controls;
- Reduced local permitting fees; and
- Up to \$29,234 or more in state income tax credits for each qualified employee hired.⁷⁶

Targeted Tax Areas (TTA): Businesses in a TTA may be eligible for:

- Tax credits for sales and use taxes paid on certain machinery, machinery parts and equipment;
- Income Tax credits for hiring qualified employees; and
- A fifteen year net operating loss carry-forward.⁷⁷

Reporting: All enterprise zones are required to submit reports to the Department of Housing and Community Development describing progress made toward goals and objectives in the original application for designation for the two prior fiscal years.

⁷⁶ http://www.hcd.ca.gov/fa/ez/manufac_enhance/.

⁷⁷ http://www.hcd.ca.gov/fa/ez/tax_area/.

The Department submits to the Legislature a report every five years that evaluates the enterprise program's effect on employment, investment and incomes and on state and local tax revenues in designated enterprise zones. The Franchise Tax Board provides the department and the Legislature aggregate information on the dollar value of enterprise zone tax credits that are claimed each year by businesses.⁷⁸

Connecticut

Connecticut was the first state to implement an enterprise zone program in the United States. The purpose of the state's enterprise zone program is to stimulate economic development in economically distressed communities. There are several different programs available, including enterprise zones, the urban jobs program and enterprise corridors.⁷⁹

1. **Enterprise Zones:** Connecticut enterprise zones consist of primary or secondary census tracts plus contiguous tracts within a community. The census tracts must contain certain socio-economic conditions. Primary census tracts must have a poverty rate of at least 25%, an unemployment rate of two times the state average, and at least 25% of the tract's population must receive public assistance. Secondary census tracts must have a poverty rate of at least 15%, an unemployment rate of one and a half times the state average, and at least 15% of the tract's population must receive public assistance. Municipalities containing an enterprise zone are classified as Targeted Investment Communities.⁸⁰

Three enterprise zones, in East Hartford, Groton and Southampton, were designated as enterprise zones even though they did not meet the socio-economic requirements because they have experienced severe cutbacks in defense industry related employment.

State statute only allows municipalities to have one enterprise zone. However, municipalities that are Targeted Investment Communities can designate additional areas which can receive the equivalent of enterprise zone benefits. These include Entertainment Districts, Qualified Manufacturing Plants and Railroad Depot Zones.

There are also several other designations that allow eligible projects in designated facilities to be eligible for the same benefits as projects located in enterprise zones in targeted investment communities.

- The Contiguous Municipality Zone provides for the designation of one or more census tracts, or portions of such census tracts.
- The Defense Plant Zone encompasses any municipality with a former defense manufacturing plant that was vacant on July 1, 1998.

⁷⁸ California Codes. Government Code Section 7085.

⁷⁹ The information in this section about Connecticut enterprise zones is directly from Connecticut Department of Community and Economic Development. "Enterprise Zone Guide" at <http://www.ct.gov/ece/cwp/view.asp?a=1099&q=249762>.

⁸⁰ Connecticut Department of Community and Economic Development. "Enterprise Zone Guide" at <http://www.ct.gov/ece/cwp/view.asp?a=1099&q=249762>.

- The Manufacturing Plant Zone designation is available to any municipality with a population less than 20,000 that is contiguous to a Targeted Investment Community.
- The Bradley Airport Development Zone located around Bradley International Airport includes specified census blocks within the towns of East Granby, Suffield, Windsor and Windsor Locks.
- The Bioscience Enterprise Corridor Zone is for eligible businesses that do not have more than three hundred employees at any time during the preceding twelve months and are engaged in bioscience, biotechnology, pharmaceutical or photonics research, development or production.

2. **Urban Jobs Program:** Connecticut has an Urban Jobs Program that provides benefits to eligible companies that are located in a Targeted Investment Community but outside of the Enterprise Zone, and which are not impacted by any of the additional enterprise zone-level benefit areas. Urban Jobs benefits are lesser benefits than Enterprise Zone-level benefits but the same qualifying criteria generally apply.

3. **Enterprise Corridor Zones:** Benefits for eligible projects in an Enterprise Corridor Zone are identical to those in an Enterprise Zone, and subject to similar qualifying terms and conditions. However, these municipalities are not classified as Targeted Investment Communities, and are therefore not eligible to extend Urban Jobs Program benefits. Enterprise Corridor Zones are located along Route 8 South and Route 8 North in the state's Naugatuck Valley and Interstate 395 in the eastern region of the state. Projects in fifteen communities qualify for those programs.

Year Established: 1982.

Locations: Municipalities.

Administration: The state's enterprise zone program is administered by the Connecticut Department of Economic and Community Development.

Term: Various enterprise zone tax incentives have differing terms (see below).

Number: Connecticut has 17 enterprise zones, 20 areas offering enterprise zone type incentives and 15 enterprise corridor zones.

Tax Incentives: Connecticut provides a variety of property tax and corporate business tax incentives for enterprise zone businesses.

Enterprise Zones: *Qualified businesses* in enterprise zones are eligible for several tax incentives:

- A five-year, 80% abatement of local property taxes on all qualifying real and personal properties that are new to the municipal tax rolls as a direct result of a business relocation, expansion or renovation project.
- A 10-year, 25% or 50% credit on that portion of the Connecticut Corporate Business Tax that is directly attributable to the business's business relocation, expansion or renovation project as determined by the Connecticut Department of Revenue Services. Qualifying for the 50% credit requires that at least 30% of new employees are residents of the municipality and are eligible under the federal Workforce Investment Act.

- Exemption from the real estate conveyance tax.

Newly formed corporations located in a zone qualify for a 100% corporate tax credit for their first three taxable years and a 50% tax credit for the next seven taxable years. The corporation must have: (1) at least 375 employees, of which at least 40% are either zone residents or are residents of the municipality and who qualify for the Workforce Investment Act, or (2) has less than 375 employees, at least 150 of which are zone residents or are residents of the municipality and who qualify for the Workforce Investment Act.

Any businesses engaged in *biotechnology, pharmaceutical, or photonics research, development or production*, with not more than three hundred employees, are eligible for Enterprise Zone benefits if they are located anywhere in a municipality with (1) a major research university with programs in biotechnology, pharmaceuticals or photonics and (2) an Enterprise Zone. Benefits are subject to the same conditions as those for businesses located in an Enterprise Zone.

Residential and commercial property owners are also eligible for fixed property assessments for improvements made during the time an area is designated as an enterprise zone. The fixed assessment is for a seven year period. The amount of deferral on increased assessments due to improvements is 100% in years one and two, 50% in year three, then declining 10% per year through year seven. These benefits are provided at the local level.

Urban Jobs Program: Urban Jobs Program benefits include:

- A five-year, 80% property tax abatement.
- A ten-year, 25% corporation business tax credit to qualified manufacturing businesses.
- A five-year, 80% property tax abatement for real estate and/or equipment for qualifying *service facilities*, provided on a sliding scale basis. The minimum investment is \$20 million to qualify for a five-year, forty percent tax abatement. This benefit increases to an eighty percent, five-year tax abatement for projects with an investment greater than \$90 million. The equipment qualifies only if it is installed in a facility that has been newly constructed, substantially renovated or expanded.
- A ten-year corporate business tax credit for or qualifying *service facilities* on a sliding scale basis based on new full-time jobs created. The minimum tax credit of 15% is allowed for service companies creating 300 or more but less than 599 new jobs. The benefit increases to 50% for such companies creating 2,000 or more new jobs at the eligible facility.

Reporting: The Connecticut Department of Economic and Community Development prepares an annual report that includes information on the state's enterprise zone program. Specifically, summary data are provided on the number of jobs retained and created, the number of companies certified for participation in the program and the amount of square footage leased, purchased, expanded or removed with the assistance of enterprise zone incentives.⁸¹

⁸¹ Connecticut Department of Economic and Community Development. *Annual Report for Fiscal Year 2010-2011*, February 1, 2012, p. 177.

Florida

Florida enterprise zones are designed to encourage economic growth and investment in specific geographic areas by providing tax incentives to businesses within those areas. Enterprise zones are designated as either urban or rural zones. An enterprise zone is eligible for a rural designation if it is in a:

- Nominating county with a population of 75,000 or less;
- Nominating county with a population of 100,000 or less and is contiguous to a county with a population of 75,000 or less;
- Nominating municipality that is located in a county with a population of 75,000 or less ; or
- Nominating municipality that is located in a county with a population of 100,000 or less and is contiguous to a county with a population of 75,000 or less.⁸²

Year Established: The state of Florida established its enterprise zone program in 1982. The program was reformed in 1994 and a sunset provision set for 2005. In that year, the program was extended for an additional 10 years.⁸³

Locations: Counties and municipalities.

Administration: The Division of Strategic Business Development within the state Department of Economic Opportunity administers the Florida Enterprise Zone Program. The Division receives, reviews and approves enterprise zone applications and reports on enterprise zone outcomes to the legislature. The Florida Department of Revenue processes enterprise zone tax incentive applications. Enterprise Zone Development Agencies administer individual zones at the local level.

Term: There are variable terms for different tax incentives. These are for both urban and rural zones.⁸⁴

Number: There are 59 Florida enterprise zones. Of that number, 30 are rural enterprise zones and 29 are urban enterprise zones.

⁸² http://floridaenterprisezones.com/Pageview.asp?edit_id=8.

⁸³ See http://floridaenterprisezones.com/Pageview.asp?edit_id=8.

⁸⁴ Florida Enterprise Zone Program Tax Incentive Fact Sheets for Urban Enterprise Zones and Florida Enterprise Zone Program Tax Incentive Fact Sheets for Rural Enterprise Zones. See http://floridaenterprisezones.com/Pageview.asp?edit_id=167

Tax Incentives: Florida provides a variety of enterprise one incentives, including sales and use tax, corporate income tax and credits, exemptions and refunds.⁸⁵ Local communities also offer a variety of incentives.

Sales and Use Tax

Jobs Tax Credit - Rural Enterprise Zones: Allows a business located within a Rural Enterprise Zone to take a sales and use tax credit for 30 or 45 percent of wages paid to new employees who live within a Rural County. To be eligible, a business must create at least one new job. The Sales Tax Credit cannot be used in conjunction with the Corporate Tax Jobs Credit.

Jobs Tax Credit - Urban Enterprise Zones: Allows a business located within an Urban Enterprise Zone to take a sales and use tax credit for 20 or 30 percent of wages paid to new employees who reside within an enterprise zone. To be eligible, a business must create at least one new job. The Sales Tax Credit cannot be used in conjunction with the Corporate Tax Jobs Credit).

Business Equipment Sales Tax Refund - Rural and Urban Enterprise Zones: A refund is available for sales taxes paid on the purchase of certain business property, which is used exclusively in an Enterprise Zone for at least 3 years.

Building Materials Sales Tax Refund - Rural and Urban Enterprise Zones: A refund is available for sales taxes paid on the purchase of building materials used to rehabilitate real property located in an Enterprise Zone.

Sales Tax Exemption for Electrical Energy - Rural and Urban Enterprise Zones: A 50% sales tax exemption is available to qualified businesses located within an Enterprise Zone on the purchase of electrical energy, if the municipality has reduced the municipal utility tax by at least 50%.

Corporate Income Tax Credits

Jobs Tax Credit - Rural Enterprise Zones: Allows a business located within a Rural Enterprise Zone to take a corporate income tax credit for 30 or 45 percent of wages paid to new employees who reside within a Rural County. To be eligible, a business must create at least one new job. The Corporate Tax Credit cannot be used in conjunction with the Sales Tax Credit.

Jobs Tax Credit - Urban Enterprise Zones: Allows a business located within an Urban Enterprise Zone to take a corporate income tax credit for 20 or 30 percent of wages paid to new employees who reside within an enterprise zone. The Corporate Tax Credit cannot be used in conjunction with the Sales Tax Credit.

Property Tax Credit - Rural and Urban Enterprise Zones: New or expanded businesses located within an enterprise zone are allowed a credit against Florida corporate income tax equal to 96% of ad valorem taxes paid on the new or improved property.

⁸⁵ The information about enterprise zone tax incentives is from http://floridaenterprisezones.com/Pageview.asp?edit_id=15

Choice of Corporate Income Tax, Insurance Premium Tax or Sales Tax Credits

Community Contribution Tax Credit Program - Rural and Urban Enterprise Zones: Allows businesses a 50% credit on Florida corporate income tax, insurance premium tax, or sales tax refund for donations made to local community development projects. Businesses are not required to be located in an enterprise zone to be eligible for this credit.

Property Tax Exemption

Property Tax Exemption for Childcare Facilities - Rural and Urban Enterprise Zones: Provides an exemption from ad valorem property tax for licensed childcare facilities operating in areas designated as enterprise zones.

Reporting: The Division of Strategic Business Development receives progress reports from local enterprise zones as well as reports from the Florida Department of Revenue and prepares an Annual Report to the Governor and the Florida Legislature. The report includes data on the number of incentives approved, the value of state and local incentives, funding resources accessed and contact information for individual enterprise zone administration.⁸⁶

Indiana⁸⁷

Indiana's enterprise zones are designed to improve the quality of life in blighted areas through community and business redevelopment initiatives.⁸⁸

Year Established: Indiana's enterprise zone program was established in 1983.⁸⁹

Locations: Enterprise zones are permitted in municipalities or on former military installations.

Administration: The Indiana Economic Development Corporation (IDEC) administers the enterprise zone program and the operation of enterprise zones. The DEC is a public-private partnership. The IDEC Board, chaired by the Governor, approves applications for enterprise zones, renews existing zones, monitors operations and the use of incentives.

Term: The initial term for enterprise zones was 20 years. The initial designation is for 10 years with eligibility for two 5-year renewals based on performance reviews conducted by the IDEC Board. Zones that have operated or a full 20 years can be re-designated by the Board for a new term with an initial 10-year period. The Board can designate two new municipal enterprise zones annually through 2015.

Number: There are currently 21 municipal and former military installation enterprise zones.

⁸⁶ See Florida Department of Economic Opportunity. *Florida Enterprise Zone Program Annual Report*, March 1, 2012.

⁸⁷ This discussion is drawn from Indiana Legislative Services Agency. "Fiscal Issue Brief: Indiana's Geographically Targeted Development Programs: Enterprise Zones," September 27, 2010, pp. 1-4.

⁸⁸ <http://www.aiez.org/news.html>.

⁸⁹ P.L. 23-1983 [IC 5-28-15].

Tax Incentives: Indiana provides three state business tax incentives in enterprise zones: the employment expense credit, the investment cost credit and the loan interest credit. It also provides an employee income tax deduction and a property tax investment credit.

Employment Expense Credit

A state tax credit equal to 10% of the additional wages paid to qualified employees up to a maximum of \$1,500. At least 90% of the employee's services must be directly related to the enterprise zone business, and at least 50% of the employee's time must be spent working at the enterprise zone business. Unused credits may be carried forward for up to 10 years or carried back for up to three years. The credit may be applied against the individual or corporate adjusted gross income taxes, the financial institutions tax or the insurance premiums tax liabilities.

Investment Cost Credit:

A state tax credit for equity investment in an enterprise zone business equal to a maximum of 30% of the price of the ownership interest purchased by the taxpayer. The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. This credit may be applied against individual or corporate adjusted gross income tax liability.

Loan Interest Credit:

This is a state tax credit for interest income earned by a taxpayer from a loan that directly benefits an enterprise zone business, increases enterprise zone property values, or is used to rehabilitate, repair, or improve an enterprise zone residence. The credit is equal to 5% of the loan interest received during the year. The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. The credit may be applied against the individual or corporate adjusted gross income taxes, the financial institutions tax or the insurance premiums tax liabilities.

Employee Income Tax Deduction:

Qualified employees in an enterprise zone may deduct half of the adjusted gross income tax liability earned during the year up to a maximum deduction of \$7,500. This can result in a \$255 reduction in state income tax liability for a qualified employee. A qualified employee is an individual who lives in an enterprise zone and is also employed within that zone. To qualify for the deduction at least 90% of the employee's services must be directly related to the enterprise zone business and at least 50% of the employee's time must be spent working at the enterprise zone business.

Indiana also provides for reduction in property taxes at the local level.

- *Property Tax Investment Deduction:* This is a property tax deduction for the increased value of an enterprise zone business property due to real and personal property investment by the business. The added valuation may be deducted for up to 10 years. Qualified investment at an enterprise zone location includes the following: (1) purchase of a building, new manufacturing or production equipment; (2) costs associated with the repair, rehabilitation, or modernization of an existing

building and related improvements; (3) onsite infrastructure improvements; (4) construction of a new building; and (5) costs associated with retooling existing machinery.

Reporting: There do not appear to be any regular public reporting requirements for Indiana economic development zone.

Texas

The purpose of the enterprise zone program in Texas is to promote job creation and economic development in economically distressed areas of the state. Economically distressed areas include:

- *Any block group with a poverty rate of 20% or more*, as determined by the U.S. Census Bureau. The block group remains an enterprise zone until it no longer qualifies, as a result of a subsequent decennial census.
- *Any distressed county*. A distressed county is one that has a poverty rate above 15.4 percent based on the most recent decennial census; in which at least 25.4 percent of the adult population does not hold a high school diploma or high school equivalency certificate based on the most recent decennial census; and that has an unemployment rate that has remained above 14.9 percent during the preceding five years, based on Texas Workforce Commission data.
- *Any federally designated empowerment zone, enterprise community or renewal community* is also a State enterprise zone, for the duration of the federal designation.

Projects may be physically located in or outside of an Enterprise Zone. If located within a zone, companies must commit that at least 25 percent of their new employees will meet economically disadvantaged or enterprise zone residence requirements. If located outside of a zone, the companies must commit that at least 35 percent of their new employees will meet economically disadvantaged or enterprise zone residency requirements. In addition, an enterprise project designation may be granted for job retention.⁹⁰

Local communities must offer incentives to a proposed enterprise zone project for it to be considered. These incentives include such as tax abatement, tax increment financing and one-stop permitting.⁹¹

Year Established: 1983 by agency rule. The Legislature codified the program by statute in 1993.

Locations: Any municipality or county in the State of Texas may participate in the enterprise zone program.

Administration: The Texas Enterprise Zone Program is managed by the Economic Development Bank in the Office of the Governor.

Term: The designation period for enterprise zones is determined by the Economic Development Bank located in the Governor's Office. The zones can last for a period of up to 5 years.

⁹⁰ Office of the Governor. Economic Development and Tourism. *Tax Incentives* at <http://www.texaswideopenforbusiness.com/incentives-financing/tax/tez.php>.

⁹¹ Office of the Governor. Economic Development and Tourism. *Tax Incentives* at <http://www.texaswideopenforbusiness.com/incentives-financing/tax/tez.php>.

Number: The number of projects allowed is limited to no more than 105 projects per legislative biennium.⁹² Currently there are 305 funded enterprise zone projects.⁹³ Municipalities or counties with a population of 250,000 or more are eligible for up to nine enterprise project designations during a state biennium based upon availability. Municipalities or counties with a population of less than 250,000 are eligible for up to six enterprise project designations during a state biennium based upon availability.⁹⁴

Tax Incentives:

Approved enterprise projects are eligible to apply for state sales and use tax refunds on qualified expenditures. The level and amount of refund is related to the capital investment and jobs created at the site.⁹⁵

| Level of Capital Investment | Maximum number of jobs allocated | Maximum potential refund | Maximum refund per job allocated |
|---|---|---------------------------------|---|
| \$40,000 to \$399,999 | 10 | \$25,000 | \$2,500 |
| \$400,000 to \$999,999 | 25 | \$62,500 | \$2,500 |
| \$1,000,000 to \$4,999,999 | 125 | \$312,500 | \$2,500 |
| \$5,000,000 to \$149,999,999 | 500 | \$1,250,000 | \$2,500 |
| Double Jumbo Project \$150,000,000 to \$249,999,999 | 500 | \$2,500,000 | \$5,000 |
| Triple Jumbo Project \$250,000,000 or more | 500 | \$3,750,000 | \$7,500 |

Each project is limited to a maximum refund of \$250,000 per year for five years for a regular enterprise project designation, \$500,000 per year for five years for a double jumbo enterprise project and \$750,000 per year for five years for a triple jumbo enterprise project.

Reporting: Each October 1, the nominating body of a project or activity designated as an enterprise project must submit to the Economic Development Bank a report that includes:⁹⁶

- A list of local incentives for community development available in the jurisdiction of the governmental entity nominating the enterprise project;

⁹² Office of the Governor. Economic Development and Tourism. *Texas Enterprise Zone Program: Frequently Asked Questions*. See http://governor.state.tx.us/files/ecodev/ez_faq.doc.

⁹³ There are also 93 projects funded by the Texas Enterprise Fund. Office of the Governor. Economic Development and Tourism. *Texas Enterprise Zone Program*.

⁹⁴ Office of the Governor. Economic Development and Tourism. *Texas Enterprise Zone Program: Frequently Asked Questions*. See http://governor.state.tx.us/files/ecodev/ez_faq.doc.

⁹⁵ See Office of the Governor. Economic Development and Tourism. *Texas Enterprise Zone Program: Frequently Asked Questions*. See http://governor.state.tx.us/files/ecodev/ez_faq.doc.

⁹⁶ Texas Government Code. Title 10. General Government, Subtitle G. Economic Development Programs Involving Both State And Local Governments. Chapter 2303. Enterprise Zones. Subchapter A. General Provisions. Section 2303.205 Annual Report (a)(b)(c).

- The use of local incentives described by the nominating body in the ordinance or order nominating the enterprise project and the effect of those incentives on revenue;
- The number of businesses assisted, located, and retained in the jurisdiction of the governmental entity nominating the enterprise project due to the existence of the enterprise zone program; and
- A summary of all industrial revenue bonds issued to finance enterprise projects located in the jurisdiction of the governmental entity nominating the enterprise project.