Texas Enterprise Zone Benefits for Poor Prove Elusive

By Wenhua Di and Daniel Millimet

ABSTRACT: The Texas Enterprise Zone Program does not appear to benefit the financial well-being of residents. An examination of the state program suggests that at best, there is a modest positive impact on the repayment of retail loans.

The Texas Enterprise Zone Program, established in the late 1980s, is intended to aid economic development and create and retain jobs in impoverished locations. Projects in designated areas receive tax breaks and other assistance intended to help businesses expand and increase employment.

Ultimately, it is expected that the additional jobs will raise household income and improve residents' financial well-being.

The actual results are mixed. One independent, academic study of the Texas Enterprise Zone Program found that in areas with a roughly 20 percent poverty rate, five to six resident jobs were added annually per designated census block group—a cluster of blocks with 600 to 3,000 people within a census tract.[1] Employment effects were greater for lower-paying jobs in construction, manufacturing, retail and wholesale trade industries. Median house values in the zones also increased, while home vacancies decreased.

Another study, written by the authors of this article, asked whether enterprise zone improvements in labor and housing markets resulted in better financial outcomes for residents.[2] It found little evidence of a beneficial effect on measures such as residents' credit scores, bankruptcy filings and consumer loan performance.

The Texas Economic Development Bank administers and monitors the state enterprise zone program, providing loans and tax incentives to communities and businesses. In the bank's annual reports, the program is said to have created 40,248 jobs and retained 219,860 jobs since 2006. Capital investment in enterprise zones by business totaled $7.3 billion in fiscal 2014 and $9 billion last year.[3]

The state's estimated subsidies—in the form of refunds of sales and use taxes—were $42.2 million in fiscal 2014 and $30.3 million last year. Support from local jurisdictions—principally municipalities and counties—provides other incentives as well as favorable rules and regulations for qualified projects.

Texas Zones and Incentives

Forty-four U.S. states have implemented enterprise zone programs. These place-based programs generally provide incentives by subsidizing distressed areas in the hope of creating jobs for residents and reducing geographical economic inequality. Place-based programs are often criticized because they can be more successful in simply moving economic activity from one locale to another rather than increasing overall economic activity.

A census block group in Texas qualifies as an enterprise zone if it has a poverty rate exceeding 20 percent in the latest decennial census.[4] In addition, areas designated as a federal empowerment zone, renewal community or enterprise community also qualify.[5] As of 2005, a census block group can also gain the designation under the program if it is located in a distressed county.[6] An amendment of the Texas Enterprise Act in 2015 added qualified military installations and facilities.[7]

The 2014–15 zone designation was based on the 2010 census (*Chart 1*). The areas in blue are in the program solely because their poverty rates exceed 20 percent.

Once a census block group is a designated enterprise zone, the local government may nominate businesses as enterprise projects for state approval. State incentives depend on the capital investment in the businesses and the number of full-time-equivalent jobs projected to be created or retained.[8] Qualifying projects are entitled to tax benefits for up to five years. The state approves a maximum of 105 projects per two-year period.

Unlike other similar state and federal programs, Texas' program does not require enterprise zone projects to locate strictly inside the boundary of a zone. This likely reduces the displacement effect but makes the program's effects harder to measure. Moreover, more jobs must be filled by economically disadvantaged individuals at projects outside the zone for those projects to qualify.[9]

Fewer than half of enterprise zone projects were located within zones; the outsiders accounted for about 29 percent of total capital investment and 48 percent of estimated total maximum tax refunds from 2004 to 2014 (*Table 1*).

Residents' Debt Behavior

Enterprise zone residents' financial well-being can be measured by consumption and debt patterns. For example, if the program brings an expectation of improved earnings, residents may increase purchases of durable goods or take out retail or credit card loans. Higher land values can increase the demand for mortgages while boosting homeowner equity.

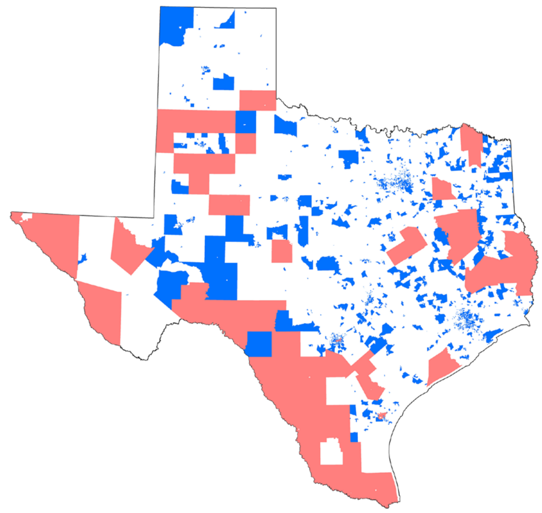
Jobs becoming available in or near the zones can alter residents' commuting situations, affecting their need for cars and car loans. And in an improving labor market, consumers are more likely to repay loans, resulting in fewer delinquencies and defaults. However, with higher incomes and more opportunities, residents may take more risk when borrowing, fail to repay loans and ultimately file for bankruptcy.

The direction and magnitude of the impact in designated enterprises zones can be assessed using data from the Federal Reserve Bank of New York Consumer Credit Panel/Equifax.[10]

Determining Program Impact

Individuals' consumer debt situations vary between areas with and without enterprise zone benefits. Differences, however, cannot all be attributed to the program. Prior to enterprise zone designation, Texas block groups in higher poverty areas contained larger shares of minority groups and smaller working-age populations. There were also lower homeownership rates, median incomes and home values (*Table 2*). Residents in these areas had lower credit scores, lower bankruptcy rates and higher delinquency rates. Residents were likely to make different consumption and debt decisions than people in less-poor areas.

Chart 1 Texas Enterprise Zones Reflect 2010 Census Data



Distressed County/Federal Enterprise Zones/Federal Renewal Communities
Texas Enterprise Zones

NOTE: Zone designation for 2014–15.

SOURCES: Economic Development and Tourism Office, Texas Governor's Office; U.S. Department of Housing and Urban Development.

Table 1 Most Texas Enterprise Programs Outside Designated Areas

	Number of new projects			Capital investment by businesses		Estimated state maximum tax refund	
Year	Total	Located in zone	Number of announced new jobs	Total ($mil)	Located in zone ($mil)	Total ($mil)	Located in zone ($mil)
2004	41	28	4,904	2,549	2,108	11.8	8.5
2005	23	10	4,831	3,364	1,139	15.0	7.6
2006	44	20	8,717	3,779	661	19.1	10.8
2007	15	11	3,097	387	249	5.9	4.2
2008	36	15	7,746	2,277	752	15.0	5.2
2009	53	20	5,322	3,496	823	12.4	3.7
2010	70	26	6,167	13,557	1,847	13.6	8.3
2011	38	20	3,473	5,633	1,270	10.7	3.7
2012	38	13	2,286	5,858	2,028	9.4	4.6
2013	56	25	1,920	5,532	744	10.0	3.7
2014	48	24	3,087	7,283	4,193	23.1	9.5
Total	**462**	**212**	**51,550**	**53,714**	**15,815**	**146**	**70**

NOTE: It is unclear whether the state ensures that the number of announced new jobs are created and filled according to the guidelines.

SOURCES: Economic Development and Tourism Office, Texas Governor's Office; authors' calculations.

Table 2

Selected Census Block Group Characteristics in Texas

	Block groups with poverty rate between 18% and 22%		All block groups	
	Enterprise zones	Non-enterprise zones	Enterprise zones	Non-enterprise zones
2000 block group demographics				
Poverty rate (%)	20.9	19.0	30.8	7.8
Average population	1,659	1,632	1,653	2,171
White (%)	58.5	61.7	49.8	76.8
Black (%)	17.3	17.4	25.4	9.2
Hispanic (%)	39.7	32.7	42.3	18.5
Age 18–64 (%)	61.6	61.5	61.2	63.3
Owner occupied (%)	47.6	51.1	41.2	66.4
Renter occupied (%)	43.3	39.3	48.9	26.9
Median household income ($)	30,909	32,268	25,260	53,989
Median value of housing units ($)	59,563	62,700	53,492	107,098
2002 consumer finance measures				
Median Equifax risk score	625	631	611	675
Average Chapter 7 bankruptcy (%)	2.4	2.8	2.1	3.2
Average Chapter13 bankruptcy (%)	1.3	1.7	1.4	1.9
Average auto balance delinquent (%)	4.9	4.8	5.4	3.3
Average credit card balance delinquent (%)	22.1	21.7	25.6	15.2
Average mortgage balance delinquent (%)	8.3	7.4	9.4	5.8
Average retail loan balance delinquent (%)	37.5	35.2	40.3	31.1

NOTES: Data are weighted by number of individuals in the block group. There were 3,012 enterprise zones and 8,678 non-enterprise zones in all block groups in Texas and 445 enterprise zones and 555 non-enterprise zones in block groups with poverty rates between 18 percent and 22 percent. Chapter 7 eliminates unsecured debts; Chapter 13 reorganizes debts into a repayment plan.

SOURCES: 2000 census; Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

If the program simply relocates existing economic activity from nearby areas to the zone, the spillover effect is negative—the improvement in the zone is offset by the loss in nearby areas.

Assessing zones and non-zones that are otherwise similar helps show how regions respond to the program's incentives. For example, consider two block groups prior to the designation of one as an enterprise zone. The poverty rate in one is just above the 20 percent poverty threshold; the other just below.[11] Demographics and consumer debt behaviors were similar prior to the zone designation.

Enterprise zones are supposed to improve conditions for residents. The comparison between areas with and without enterprise zones that are within a small window of the poverty threshold shows that improvement may not result.

From 2002 (prior to zone designation) to 2006 (before the economic downturn), mortgage and retail borrowing, Chapter 13 bankruptcy filings and auto loan delinquencies increased more in the census block groups with enterprise zones than those without them (*Table 3*).[12] A possible explanation is that personal earnings cannot keep up with the increase in financial demands or transportation needs among low-income workers in the zones who take new jobs.

Retail borrowing increased in enterprise zone areas when the comparison was extended to 2009. Retail loan delinquencies decreased but mortgage delinquencies increased in areas that qualified for enterprise zone designation. There was little difference between zones and non-zones in other measures, such as median Equifax risk score, Chapter 7 bankruptcy filings, number of borrowers and credit card performance.

Place-based programs such as the Texas Enterprise Zone Program can affect surrounding areas in various ways. If the program simply relocates existing economic activity from nearby areas to the zone, the spillover effect is negative—the improvement in the zone is offset by the loss in nearby areas.

Table 3
Texas Program Affects Resident Debt Behaviors Little; Minimal Impact Detected Before, After Recession

	Changes between 2002 and 2006	Changes between 2002 and 2009
Median Equifax risk score	0	0
Chapter 7 bankruptcy (pct. point change)	0	0
Chapter 13 bankruptcy (pct. point change)	1	0
Auto loans		
Balance delinquent (pct. point change)	3	0
Median balance ($)	0	0
Credit cards		
Balance delinquent (pct. point change)	0	0
Median balance ($)	0	0
Mortgage loans		
Balance delinquent (pct. point change)	0	9.7
Median balance ($)	255	0
Retail loans		
Balance delinquent (pct. point change)	0	–11.4
Median balance ($)	3	3

NOTES: Chapter 7 eliminates unsecured debts; Chapter 13 reorganizes debts into a repayment plan.
SOURCES: Federal Reserve Bank of New York Consumer Credit Panel/Equifax; authors' calculations.

If the program also improves the well-being of those living nearby but outside the target area, the spillover effect is positive. For example, workers commute from other places and still gain from the tax incentives, or economic activity improves near the zones because of the positive changes in the zones.

Taking out block groups adjacent to the zones in the comparison yields more Chapter 13 bankruptcy filings and improvement in retail loan performance in the zones, a mixed spillover effect.

Rethinking Place-Based Policies

Despite the long history of place-based policies playing a prominent role in regional economic development, the impact of such policies on welfare depends on their effects on investment and employment growth as well as labor mobility and the cost of living.

Consumer finance aspects of these policies have long been overlooked but represent an important measure of individual financial well-being and, thus, provide an additional measure of program effectiveness.

The Texas Enterprise Zone Program appears to have modestly improved residents' repayment of retail loans, though there is an increase in mortgage delinquencies and Chapter 13 bankruptcy filings in enterprise zones that just meet the zone designation threshold. There is no evidence of overall improvement in the financial well-being of the residents of targeted locations.

Even if jobs and wages increase, the additional economic activity increases land values where housing supply is limited, benefiting businesses and landowners who don't necessarily reside in the zones.

Di is a senior research economist in the Research Department of the Federal Reserve Bank of Dallas. Millimet is a professor in the Department of Economics at Southern Methodist University and was a visiting scholar at the Federal Reserve Bank of Dallas during this research.

Notes

[1] "Targeted Business Incentives and Local Labor Markets," by Matthew Freeman, *Journal of Human Resources*, vol. 48, no. 2, 2013, pp. 311–44.

[2] "Targeted Business Incentives and the Debt Behavior of Households," by Wenhua Di and Daniel Millimet, Federal Reserve Bank of Dallas, Working Paper no. 1602, 2016. Also, in *Empirical Economics* (forthcoming).

[3] Based on Texas Economic Development Bank Reports for fiscal 2015 and 2014, https://texaswideopenforbusiness.com/sites/default/files/bank_annual_report_fy2015.pdf and https://texaswideopenforbusiness.com/sites/default/files/bank_annual_report_fy2014.pdf. Fiscal years are the 12-month periods ended Aug. 31.

[4] The amendment of the Texas Enterprise Act in 2003 defined most of the zone designation rules in use. For more details, see Texas State Government Code, Title 10, Subtitle G, Chapter 2303, www.statutes.legis.state.tx.us/Docs/GV/htm/GV.2303.htm.

[5] The federal government introduced the empowerment zone, renewal community and enterprise community designations in 1993. The three are no longer in effect, though they affected the designation of earlier Texas enterprise zones. Enterprise community designations expired in 2004, while renewal community designations expired at year-end 2009. Empowerment zone designations received several extensions during the Great Recession but were allowed to expire on Dec. 31, 2014. For a Q&A on the tax incentives, see: http://portal.hud.gov/hudportal/documents/huddoc?id=19170_taxincentivesqa.pdf.

[6] A county is identified as distressed on an annual basis if its poverty rate exceeds 15.4 percent, more than 25.4 percent of the population has less than a high school education and the unemployment rate exceeds 4.9 percent in each of the five preceding years.

[7] The Defense Base Development Authorities are defined in Local Government Code, Title 12, Subtitle A, Chapter 379B, www.statutes.legis.state.tx.us/Docs/LG/htm/LG.379B.htm.

[8] The annual Texas state incentive schedule for enterprise projects is available at https://texaswideopenforbusiness.com/services/tax-incentives.

[9] See the definition for "economically disadvantaged individual" in Government Code, Title 10, Subtitle G, Sec 2303.402 (c), www.statutes.legis.state.tx.us/Docs/GV/htm/GV.2303.htm.

[10] The Federal Reserve Bank of New York Consumer Credit Panel/Equifax is a quarterly dataset that follows a representative sample of individuals with a credit report and Social Security number.

[11] Neither municipalities nor counties could manipulate the designation based on the single poverty threshold from the decennial census prior to the designation.

[12] Federal zones, or "distressed counties," are excluded from the comparison because of different qualification criteria. Chapter 7 eliminates unsecured debts; Chapter 13 reorganizes debts into a repayment plan.