The West Eugene Enterprise Zone: The Impact Of Tax Incentives on Firm Growth

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The City of Eugene

- Social Pressures
- Business owner morale
- High unemployment
Enterprise Zones

- First E-Zone established in 1979
- Goal to increase employment and business development in economically lagging areas
- Variations of benefits
- Problems with Enterprise Zones:
  - Set up to fail
  - Not monitored well
  - Site selection
Our Mission

- Determine the effectiveness of the West Eugene Enterprise Zone
- Measure employment levels from 1985-1996
- Compare employment growth between firms in the enterprise zone with those outside the boundaries.
Using a Control Group

- **What:** Group of firms that did not have access to enterprise zone benefits
- **Why:** Minimizes impact of other variables
  - Economic trends
  - Industry fluctuations
  - Ease of comparison
Company Distribution by Number of Employees

Number of Employees

- 1 to 5
- 6 to 10
- 11 to 20
- 21 to 50
- 51 to 100
- 101 to 200
- 201 to 500
- 501 to 1000
- 1001+

- 1985
- 1996
Data

- Dunn & Bradstreet Regional Business Guide
- Oregon Directory of Manufacturers
- Obtained several pieces of data:
  - Firm size in Eugene in 1985 and 1996
  - Address & Zip
  - SIC Codes
  - Business status (branch, single location, etc.)
Issues

- Small sample size
  - Had to go outside of Eugene to build quality sample size
    - Sampled:
      - The rest of Lane County
      - Benton County
      - Linn County
      - City of Bend

- Reliability of sources
  - Assume there is a variation
Statistical Analysis

- Examine the effects of geographic inclusion in the enterprise zone on employee growth
- Other controls in analysis to control for other factors affecting growth (suggested by previous literature)
  - Initial size of firm – smaller firms grow faster
  - Branch plant or not
  - Industry controls (Wholesale, Manufacturing, etc.)
  - Other area controls (Bend, Lane, etc.)
Results

- **Industry effects**
  - No strong evidence that one industry grew faster than another in the West Eugene Enterprise Zone or outside the West Eugene Enterprise Zone
    - Tells us that no one particular industry took advantage of tax incentive plan more than another

- **Size Effects**
  - Smaller firms grew employment faster than larger firms
    - Both in and out of enterprise zone
Results (cont.)

- **Employment Effect**
  - Based upon our data it does appear that firms inside the West Eugene Enterprise Zone grew faster than firms outside of the enterprise zone.
  - Estimated growth was 66% for firms that were located in the enterprise zone.
Results (cont.)

- Employment effects on different firm sizes:

<table>
<thead>
<tr>
<th>Firm Size in 1985:</th>
<th>Growth Rate:</th>
<th>Confidence:</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>146%</td>
<td>92%</td>
</tr>
<tr>
<td>10</td>
<td>112%</td>
<td>88%</td>
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<tr>
<td>25</td>
<td>70%</td>
<td>71%</td>
</tr>
<tr>
<td>100</td>
<td>4%</td>
<td>4%</td>
</tr>
</tbody>
</table>
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Comparison of 1985 and 1996 distribution.
Final Results

- **Big Business perceptions**
  - Small firms seemed to have taken advantage the most

- **Zone promoted growth**
  - Firms in the zone grew faster than those outside

- **No evidence of supporting claim that branch plants take advantage of the tax incentives more than single location firms**
Suggestions

- Find a system appropriate for Eugene
- Address public concerns through education
- Explore different incentives
- Use control group to measure results
Questions?
Recap

- Further research may provide more significant results
- Perception of tax breaks
  - People tend only to look at the breaks given; however, few look at the taxes paid
- Enterprise zones can be effective if executed properly