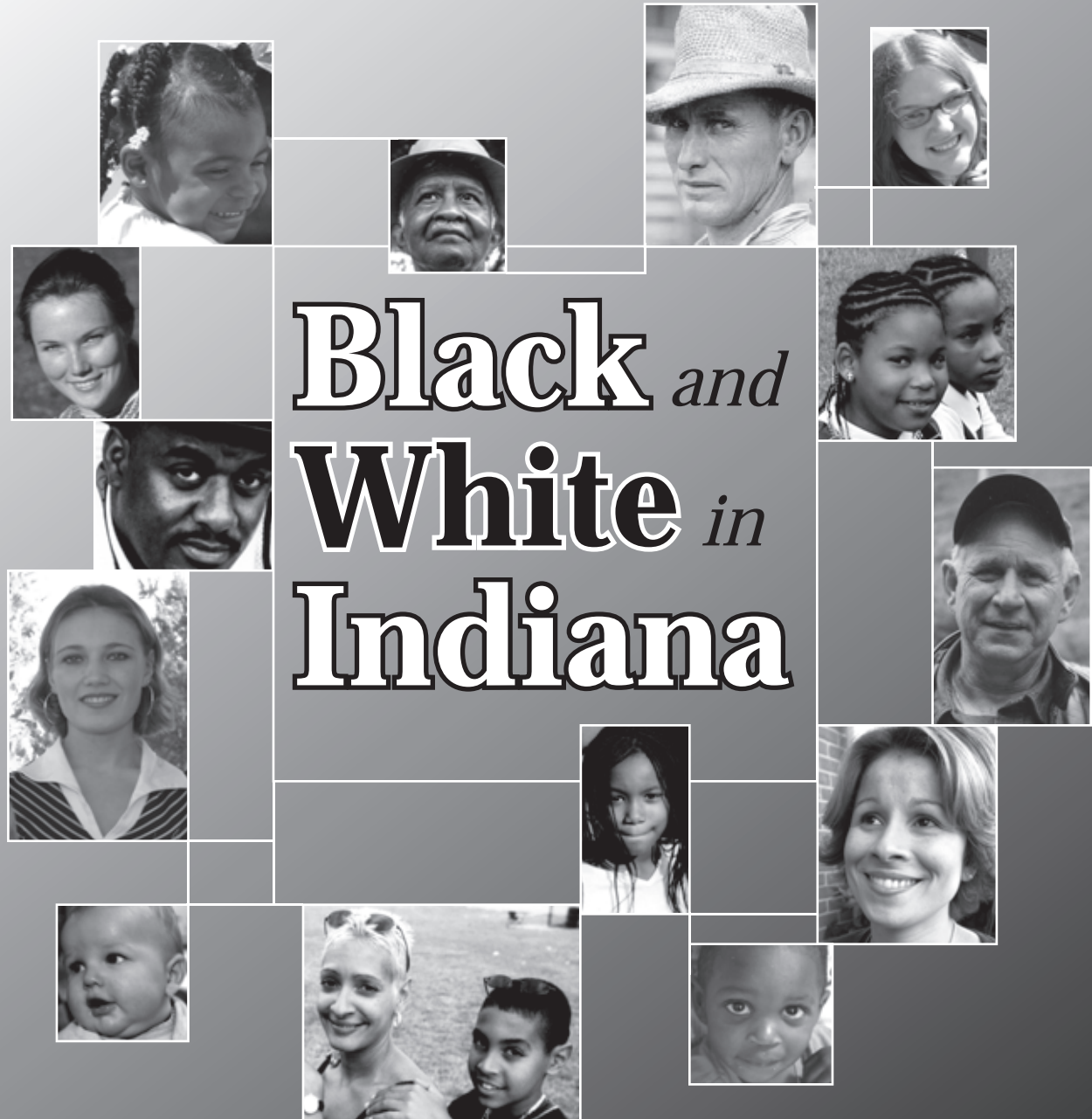


Business Review



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Black and White in Indiana

Carol O. Rogers
Associate Director, Indiana Business Research Center, Kelley School of Business, Indiana University

Statistics and emotions do not generally coincide, but the innocuous looking documents titled working papers numbers 56 and 76 from the U.S. Census Bureau contain a chilling reminder of the early decades in our national and state history. The plain blue covers and inexpensive binding display lengthy titles generally reflective of research tomes, *Historical Census Statistics on Population Totals by Race, 1790 to 1990, and by Hispanic Origin, 1790 to 1990*. The working papers, written and compiled by one of the Census Bureau’s talented and knowledgeable statisticians, Campbell Gibson, provide us with two important historical documents. These documents comprise a numerical history lesson, documenting the changing structure of race in our states and larger cities since the first census of the United States was conducted, as constitutionally mandated, in 1790.

A Compelling Reminder of American History
In 21st century America, we are far removed from the ways of life of the founding Americans. But one look at a simple table reveals how people

living in the United States of America were counted by federal officials. It also serves as an uncomfortable reminder of the ways we were then able to define human beings as being free or slave and in later decades, attempting to numerically define how black a person was if their lineage was of mixed races. While Indiana has offered hope to African Americans, some believe that the latest census in 2000 harkened back to those times by including the new option for checking all races that apply, again bringing up the question of how much of a race someone is with a numbing array of 164 racial combinations being possible.

As we can see in **Table 1**, the black or African American population prior to the Civil War was counted specifically by census takers in three ways. First, it was determined if the persons were black (or negro in the terminology of the times). Then, those persons were determined to be either free or slave. It is important to note here that such questions were not asked of the individuals and this is true even today. Rather, the question was posed to the head of the household. The head of the household told the census taker how many

people were part of his household (since generally it was a male to whom the census taker turned for responses) and to indicate what their status was—wife, child, other relation, or slave. In the case of so-termed free blacks, the head of their household was interviewed by the census taker, unless they were workers living on a householder’s land.

Defining Black
The American decennial census has long been a mirror of the society it counts and since race questions have changed with almost every census during our history, we can see the way America continues to grapple with the issue of race.

In the early censuses of 1790 to 1840, the term negro was the only racial identifier for blacks, with the concept of being free or slave as an additional characteristic. However, in later censuses, as Gibson writes, “enumerators were instructed to identify Mulattoes (and Quadroons and Octoroons in 1890) among the Black population.” Since, as the author further notes, such delineations were of dubious accuracy, they were not included in the reports cited here. Indeed, over much of this country’s history of defining race, the issue of who is black became a mathematical formula, once based on the notion that each person consists of 128 parts and the combination of white and black in those parts would determine how much a negro someone was and ergo, such terminology as mulatto or quadroon.

Black and White Population Trends in Indiana
While Indiana has been home to African Americans since the time of the Indiana territory (which under the 1787 Northwest Territory Ordinance was free), the state had few blacks who were counted as slaves; by 1830

Table 1
Black Population Prior to the Civil War, as Counted by the Census

Year	Indiana			Midwest*			United States		
	Total	Free	Slave	Total	Free	Slave	Total	Free	Slave
1860	11,428	11,428	0	184,239	69,291	114,948	4,441,830	488,070	3,953,760
1850	11,262	11,262	0	135,607	48,185	87,422	3,638,808	434,495	3,204,313
1840	7,168	7,165	3	89,347	30,743	58,604	2,873,648	386,293	2,487,355
1830	3,632	3,629	3	41,543	15,664	25,879	2,328,642	319,599	2,009,043
1820	1,420	1,230	190	18,260	6,931	11,329	1,771,656	233,634	1,538,022
1810	630	393	237	6,934	3,630	3,304	1,377,808	186,446	1,191,362
1800	115	87	28	635	500	135	1,002,037	108,435	893,602
1790	n/a	n/a	n/a	n/a	n/a	n/a	757,208	59,527	697,681

* The Midwest includes Indiana, Illinois, Iowa, Michigan, Missouri, Ohio, and Wisconsin
Source: IBRC, using U.S. Census Bureau data

and 1840, only three such individuals were counted in the entire state. Indiana historians indicate that many black pioneers settling in Indiana were farmers from Virginia and North Carolina, likely fleeing subjugation in those states.¹ By the time of the Civil War, no slaves were enumerated in the Hoosier State. The same cannot be said for the United States as a whole, in which the vast majority of blacks were slaves—nearly four million were counted just prior to the war. Between 1800 and 1860, a majority of blacks

were also enslaved in the Midwestern states (see **Figure 1**).

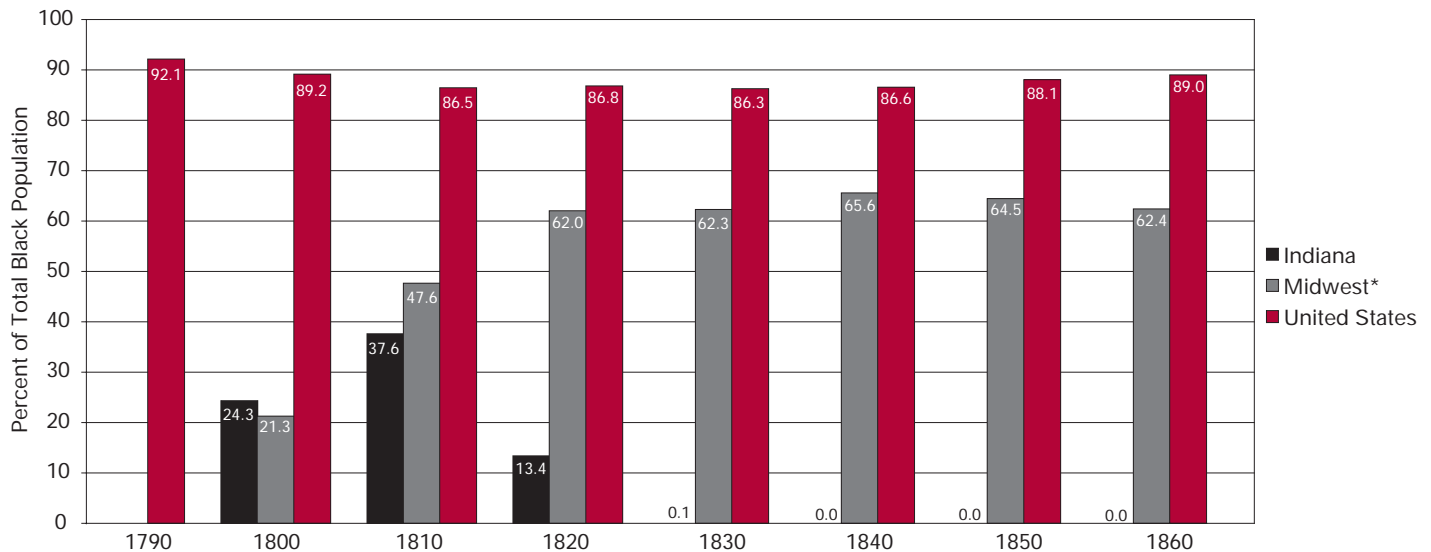
However, lest we believe Indiana was immune to these issues, the Indiana Constitution of 1851 had an exclusionary clause (Article 13) that restricted blacks from settling in Indiana (invalidated in 1866).² We see direct evidence of this in the census counts. The black population in Indiana was more than doubling each decade between 1820 and 1850 by the addition of at least 2,000 persons. Suddenly, between 1850 and 1860,

there was growth of only 200 black persons.

Post-Civil War Trends

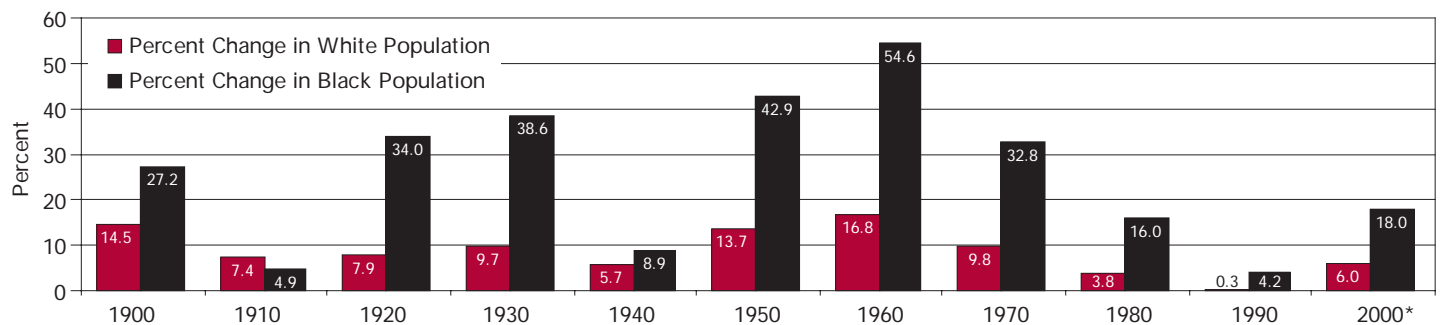
Indiana's black population growth was slow but steady during the decades after the war. African Americans continued to settle in Indiana throughout the 1900s, with growth rates in percentage terms consistently higher than those of whites (see **Figure 2**). The exception was the time period between 1900 and 1910, when the growth in population

Figure 1
Slave Population as a Percent of the Total Black Population Prior to the Civil War



*The Midwest includes Indiana, Illinois, Iowa, Michigan, Missouri, Ohio, and Wisconsin
Source: IBRC, using U.S. Census Bureau data

Figure 2
Percent Change in Black and White Populations in Indiana, 1900 to 2000



*Census 2000 figures are based on those reporting one race only
Source: IBRC, using U.S. Census Bureau data

was 7.4 percent for whites and only 4.9 percent for blacks.

By 1930, the count of African Americans moved past the 100,000 person mark, and by 1960, there were 269,000 counted as residents. This 1960 count nearly doubled by Census 2000, to more than 500,000 blacks (see **Figure 3**).

Mostly Urban

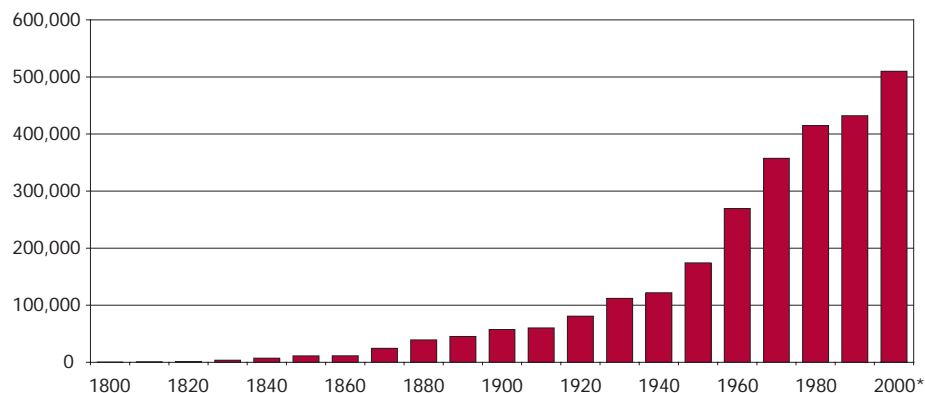
While early African American settlers were predominantly farmers, the greatest population growth of this group over time was in the urban areas of the state. Between censuses, the percentage growth of seven of Indiana's largest cities and towns (as included in the Census Bureau publication cited) was often considerable.

Some examples include the 1,402 percent increase in the black population of Evansville between 1860 and 1870 and a 1,284 percent increase in the black population of the new city of Gary between 1910 and 1920, driven largely by the new steel mills in that part of the state (see **Table 2**). New Albany, on the other hand, was the only one of these seven large cities to lose black population prior to the 1990 Census. Between 1910 and 1940, a period of significant migration of blacks to more northern industrial areas, New Albany lost hundreds of blacks each year, although its African American population has been relatively consistent with between 1,200 and 2,200 people. Indianapolis has the largest African American population in the state, with more than 200,000 counted in Census 2000.

Conclusion

Census data help us to quantify our population and are reflective of societal trends in our country, states, and communities. However, while the numbers provide us with indications of the effects of our customs and laws as enforced at the time, we must explore further into our

Figure 3
Indiana's Black Population, 1800 to 2000



*Census 2000 figures are based on those reporting one race only
Source: IBRC, using U.S. Census Bureau data

Table 2
Percent Change in Black Population, Early 1800s to 1990

Year	Evansville	Fort Wayne	Gary	Hammond	Indianapolis	New Albany	South Bend
1990	4	16	-13	29	8	17	10
1980	14	32	16	28	14	4	13
1970	9	62	34	92	37	11	37
1960	10	124	76	111	54	28	59
1950	24	107	92	81	25	6	129
1940	5	7	14	2	16	-5	4
1930	2	62	238	355	27	-11	170
1920	2	154	1,284	243	59	-9	110
1910	-17	107	n/a	135	37	-17	6
1900	35	27	n/a	143	74	0	104
1890	105	75	n/a	n/a	40	42	31
1880	90	377	n/a	n/a	122	12	193
1870	1,402	n/a	n/a	n/a	489	90	7
1860	20	n/a	n/a	n/a	23	59	278
1850	n/a	n/a	n/a	n/a	232	78	n/a
1840	n/a	n/a	n/a	n/a	n/a	116	n/a

Source: IBRC, using U.S. Census Bureau data

own experiences and the research of historians to gain deeper insights. ■

Notes

1. Campbell Gibson and Kay Jung, *Historical Census Statistics on Population Totals by Race, 1790 to 1990, and by Hispanic Origin, 1970 to 1990, for Large Cities and Other Urban Places in the United States*, Working Paper No. 76, prepared by the Population Division, U.S. Census Bureau (Washington, D.C., February 2005). Available at <http://www.census.gov/population/www/documentation/twps0076.html>.
2. Campbell Gibson and Kay Jung, *Historical Census Statistics on Population Totals by Race, 1790 to 1990, and by Hispanic Origin, 1970 to 1990, for the United States, Regions, Divisions, and States*, Working Paper No. 56, prepared by the Population Division, U. S. Census Bureau (Washington, D.C., September 2002). Available at <http://www.census.gov/population/www/documentation/twps0056.html>.
3. Indiana Historical Bureau, *Black Settlers in Indiana* (1993). Available at <http://www.statelib.lib.in.us/www/ihb/publications/7015.pdf>.
4. The Constitution of 1851 (original). Available at www.statelib.lib.in.us/www/ihb/resources/constarticle13.html.

Projecting Reapportionment

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When our country's forefathers penned the U.S. Constitution, one of the first things they established was that our population would be enumerated every ten years.¹ Their motivation was to create a fair basis for allocating the seats of the House of Representatives to individual states. Today, this imperative continues to bestow upon the U.S. Census Bureau its foremost purpose.

The results of the 2000 Census led to the loss of one House seat for Indiana—a decrease from ten representatives to nine. Regardless of the fact that Indiana gained population during the 1990s, we lost that seat because many other states outpaced our growth, especially in the southern and western regions of the nation. This is part of a trend over recent decades where states in the Northeast and Midwest have lost seats, and states in the South and West have gained seats. There are no indications that this trend will change anytime soon. In light of this, how might Indiana's representation change in the coming decades, and what shifts in representation can we expect between regions? This article explores these two questions.

Allocating Seats

The House of Representatives is fixed at 435 seats and has been since the reapportionment following the 1910 Census (with the exception of temporarily having 437 seats when Alaska and Hawaii joined the nation). Each state is guaranteed at least one seat. The remaining 385 seats are allocated via an approach called the *method of equal proportions*.² Congress adopted this method in 1941, and it has been applied to the results of every census since 1940.

The first step of this method is to calculate a set of multipliers, each associated with a particular House

seat beyond the first guaranteed seat (i.e., a separate multiplier for any state's second seat, third seat, etc.). In general, the following formula gives the multiplier for a state's n^{th} House seat:

$$\frac{1}{\sqrt{n(n-1)}}$$

Therefore, the multiplier for a state's second House seat would be $1/\sqrt{2(2-1)}$ or 0.707. It is necessary to create enough multipliers to accommodate the most populous state, California, which currently holds fifty-three seats. Based on existing population growth trends, we would expect to need more than fifty-three multipliers in the coming decades.

In the next step, each state's apportionment population is multiplied by each multiplier to create a list of priority values. Note that the apportionment population includes the overseas population, consisting of federal employees (military and civilian), as well as their dependents, who can be allocated to their home state based on administrative records. After the priority values are calculated for all states, they are combined into a single list and sorted from high to low. The top 385 priority values determine where House seats fifty-one through 435 will be assigned. (Recall that the first fifty House seats are assigned one per state, regardless of population.)

After Census 2000, the highest priority value was for California's second seat (the House's fifty-first seat), calculated as $0.707(33,930,798) = 23,992,697$. Texas was the next state to obtain its second seat with a priority value of 14,781,356. Indiana picked up its second seat (the eightieth House seat) with a priority value of 4,306,833.³

As noted, in recent decades the relative shift of population growth

from the Midwest and Northeast to the South and West regions has tipped the scales of representation. This not only affects our representation in Congress, but also our relative voice in presidential elections (each state's number of electoral votes is equal to its number of representatives and senators). This leads many citizens in our area of the country to wonder what is in store for us as time goes on.

Projecting Reapportionment

To project future reapportionment, we began with the Census Bureau's projections of state-level resident populations through 2030, released in April 2005.⁴ To find the projected apportionment populations, we first created our own projections of the overseas population for each state (recall that apportionment population = resident population + overseas population). For this step, we calculated the ratio of the overseas population to the resident population for each state according to the 2000 Census; then we simply multiplied those ratios by the Census Bureau's state resident population projections for 2010, 2020, and 2030 to project the overseas populations in those years.

Projections for the national overseas population were generated in the same manner and served as controls for the state-level overseas population projections. As a result, the state-level projections for each year were adjusted so that their sum would equal the national projection. The controlled projections were then added to the respective state resident population projections to arrive at the projected apportionment populations.

This approach rests on the assumption that a state's overseas population will change in proportion to the changes in its resident population, which is a tenuous assumption at best. In 2000, however, the U.S. overseas population was only

Table 1
Seats on the Bubble, 2010 to 2030

	State	State Seat	Priority Value	House Seat
2010	Pennsylvania	18	720,549	431
	Texas	35	716,311	432
	Louisiana	7	713,539	433
	California	54	712,800	434
	Georgia	14	712,560	435
	Alabama	7	711,452	436
	New York	28	708,215	437
	Ohio	17	703,223	438
	Florida	28	702,201	439
	Massachusetts	10	701,622	440
2020	Texas	37	786,527	431
	Washington	10	785,324	432
	Indiana	9	782,304	433
	Oregon	6	779,439	434
	Virginia	12	778,558	435
	Pennsylvania	17	776,568	436
	California	55	775,802	437
	Nevada	5	773,392	438
	Florida	31	769,732	439
	New York	26	769,008	440
2030	California	55	853,690	431
	Kansas	4	850,397	432
	North Carolina	15	845,675	433
	Texas	40	845,617	434
	Minnesota	8	843,729	435
	California	56	838,307	436
	Florida	35	833,924	437
	Kentucky	6	833,166	438
	Georgia	15	831,341	439
	New York	24	830,232	440

Source: IBRC

0.2 percent of the resident population, and the highest percentage at the state level was 0.4 percent (Hawaii). Hence, this component of the analysis has a negligible impact on our reapportionment projections. If we were to completely ignore the overseas population, we would obtain nearly identical results.

Hoosier Representation

How will Indiana's representation fare in the coming decades? We are pretty well assured of keeping our ninth seat in 2010. However, in 2020, Indiana is "on the bubble," and it is uncertain whether we will retain our ninth seat. By the time the 2030 Census results are tallied, it seems very likely that Indiana will be left with only eight seats.

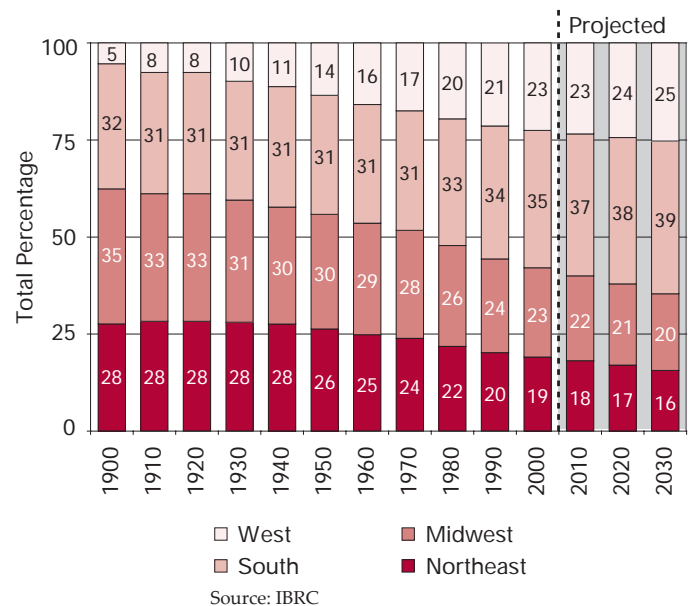
Who is projected to be on the bubble after the 2010 Census? **Table 1** shows the last five states projected to

bubble at House seat number 414, with a priority value of 754,588. We have considerable confidence in this projection due to its short-term nature.

Projections for seats on the bubble in 2020 include Indiana at House seat number 433. While it seems our ninth seat will be in jeopardy, our eighth seat comes in safely at House seat number 377 with a priority value of 887,050.

California appears twice for seats on the bubble in 2030 and is likely to end up with anywhere from fifty-four to fifty-six seats. A ninth seat for Indiana appears to be out of the question after Census 2030, as that seat is projected to be well beyond the bubble at number 455 with a priority value of 803,907. At least our eighth seat seems secure, coming in at the 401st House seat with a priority value of 911,545.

Figure 1
Projected Change in House Seats, 1900 to 2030



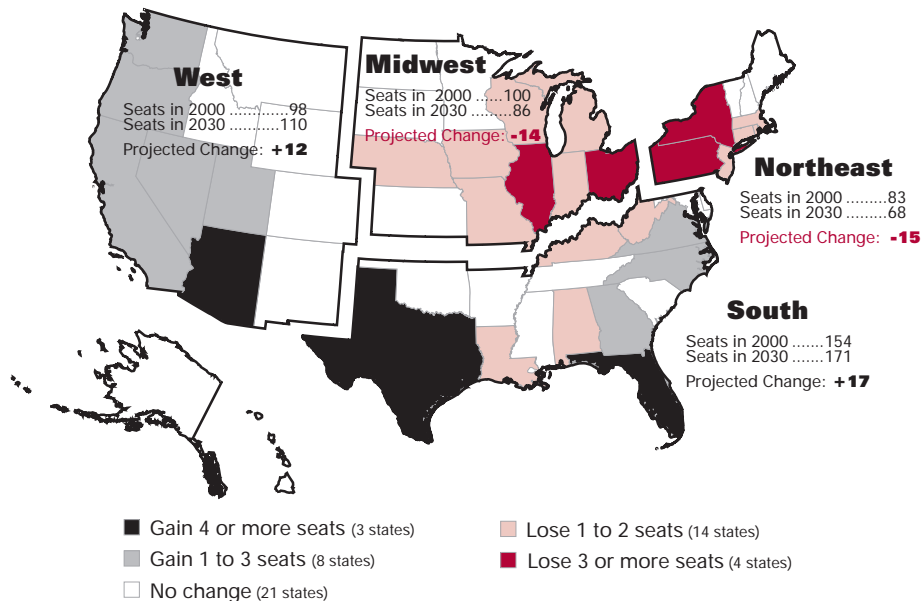
pick up seats, as well as the next five states in line for a seat. For the 2010 projection year, Indiana's ninth seat is well away from the

Musical Chairs

How has the geographic concentration of representation changed over the past century, and what is the expected magnitude of future shifts? **Figure 1** shows the percentage breakdown of House seats by region since 1900, as well as the projected breakdowns through 2030. The South and West regions combined currently account for 58 percent of House seats, whereas that figure was only about 37 percent one hundred years earlier. Note that this combined area is expected to account for about 64 percent of House seats in 2030, meaning it will account for about the same percentage of seats as the combined Northeast and Midwest regions had after the 1900 Census.

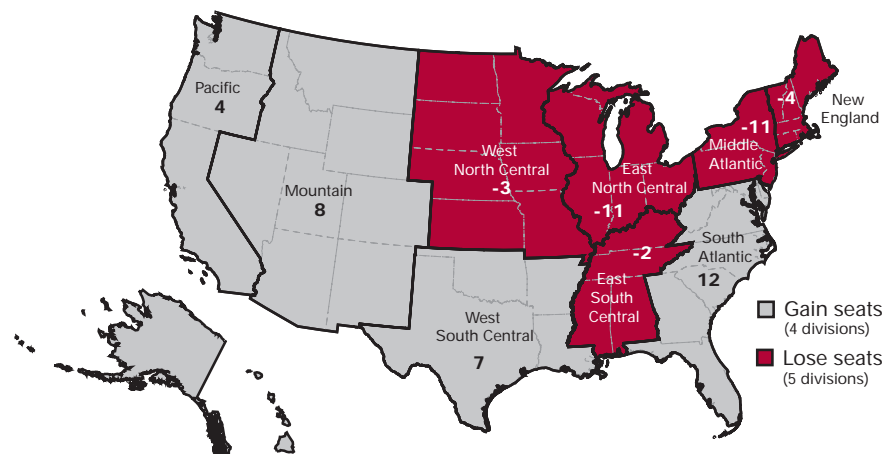
Figure 2 shows the expected shifts in representation from Census 2000 to Census 2030. Over the thirty-year period, the South and West regions combined are expected to gain twenty-nine seats from the combined Northeast and Midwest regions. The West is the only region where none of the individual states are expected to lose any seats. In contrast, none of the states in the Northeast and Midwest regions are expected to gain seats.

Figure 2
Expected Shifts in Representation, 2000 to 2030



Source: IBRC

Figure 3
Shifts of Seats between Census Divisions, 2000 to 2030



Source: IBRC

Figure 3 shows the shifts of seats between Census divisions (subsets of the regions shown in **Figure 2**). Note that not all divisions in the South region are expected to gain seats—the East South Central division is expected to lose two seats. A total of four Southern states are expected to lose one seat each.

Time to Reevaluate the Procedure?

One of the reasons the West and South regions have such high population growth, aside from warm weather, is their relatively high levels of immigration. Perhaps some are not aware that noncitizens, including illegal aliens, are counted as part of

the apportionment population. Is this fair to voters in states that have relatively low immigration, such as Indiana? Notable testimony related to that question comes from the Center for Immigration Studies, which reported that Indiana would not have lost its tenth House seat in 2000 if illegal aliens had been excluded from the apportionment population.⁵

According to Census Bureau estimates, California's noncitizens comprised about 16 percent of the state's population in 2000, whereas that figure was only about 2 percent for Indiana. The estimate for the nation is 6.6 percent, so the ten states that exceed that mark gain a "political voice premium" at the expense of the states below it. Is it fair for citizens of states such as California, Texas, and Florida to have an increased influence on presidential elections due to the relative prominence of noncitizens in those states? Should noncitizens have representation in Congress? Excluding them is not as straight-forward as it sounds, however, and would likely result in litigation ending up in the Supreme Court. Although we will not dig further into these questions here, suffice it to say we believe they will need to be more adequately addressed at some point. ■

Notes

1. You may view the relevant language within Article 1, Section 2, Clause 3 of the U.S. Constitution at www.house.gov/Constitution/Constitution.html.
2. Details regarding the calculations are presented online at www.census.gov/population/www/censusdata/apportionment/computing.html.
3. For more details about the reapportionment for Census 2000, see *More Hoosiers, Less Representation* in the Spring 2001 issue of this publication, available at www.ibrc.indiana.edu/ibr/2001/spring01/02.pdf.
4. The Census Bureau's state population projections are available for download from www.census.gov/population/www/projections/projectionsagesex.html.
5. The Center for Immigration Studies has the full report posted at www.cis.org/articles/2003/back1403.html.

In the Zone: A Look at Indiana's Enterprise Zones

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Over the past several decades, state and local governments have become more active in promoting economic development, and Enterprise Zones (EZs) have become a common tool.¹ Forty-three states currently provide incentives for businesses to locate or expand in these distressed and blighted areas, which are often traditional downtown areas or old industrial and manufacturing areas that have gone through a protracted period of decline.

Typically, EZ incentives consist of tax instruments, such as property tax abatements, income tax deductions and credits for employment creation, capital investment, and income creation in the EZs. At the present time, Indiana has twenty-five municipal EZs and three EZs located on closed military bases (see **Figure 1**).

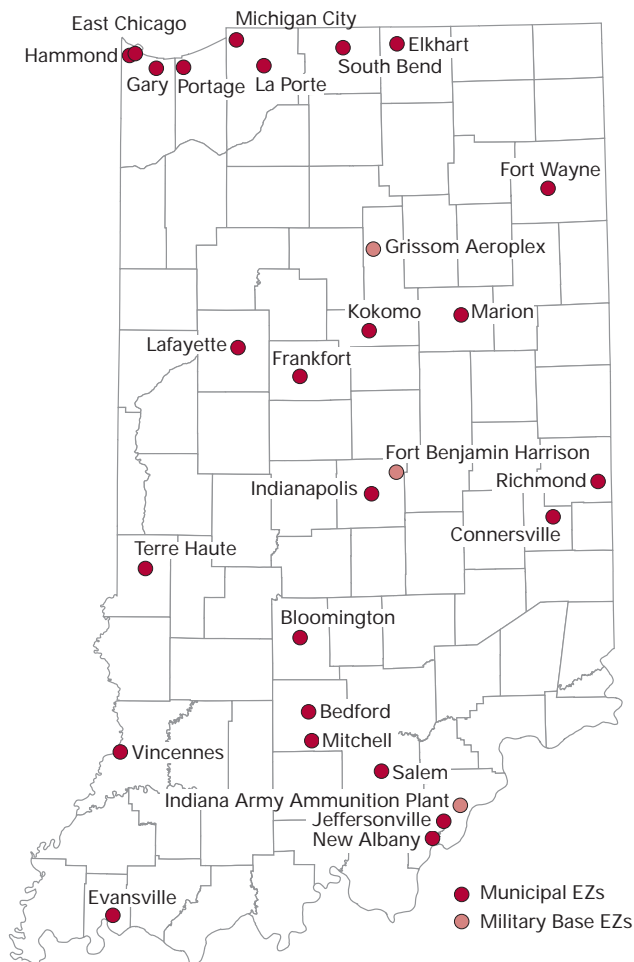
EZ Designation

Indiana's Enterprise Zone (EZ) program was established in 1983 and

allows EZs to be located in municipalities or on closed military bases.

The Indiana Economic Development Corporation (IEDC) administers the EZ Program and has the power to review and approve applications for proposed EZs, renew existing EZs, and monitor EZ operations and incentive use. EZs are designated based on demographic, socioeconomic, and geographic size criteria. The initial designation period

Figure 1
Indiana EZ Locations



Source: Indiana Department of Commerce, Indiana Enterprise Zone Handbook, June 2003

Table 1
Indiana EZ Designation Dates

Municipal EZs	Designation Date
Evansville*	1984
Fort Wayne*	1984
Michigan City*	1984
Richmond*	1984
South Bend*	1984
Gary	1985
Hammond	1985
East Chicago	1989
Indianapolis	1990
Kokomo	1990
Bloomington	1992
Marion	1992
Bedford	1993
Lafayette	1993
Terre Haute	1994
Connersville	1995
Elkhart	1999
Jeffersonville	2000
New Albany	2000
Mitchell	2001
Portage	2001
La Porte	2002
Vincennes	2002
Frankfort	2003
Salem	2003
Military Base EZs	Designation Date
Grissom Aeroplex	1996
Fort Benjamin Harrison	1997
Indiana Army Ammunition Plant	1998

*Redesignated in 2004

Source: Indiana Department of Commerce, Indiana Enterprise Zone Handbook, June 2003

Table 2
Incentives and Fees for EZ Businesses, 1995 to 2002^a

Year	Inventory Tax Credit	Gross Income Tax Exemption	Employment Expense Credit	Loan Interest Credit	Registration Fees ^b	Participation Fees
1995	\$42,654,659	\$1,297,915	\$898,200	\$1,297,345	\$326,507	\$6,485,367
1996	\$28,588,356	\$1,178,927	\$739,842	\$664,105	\$305,886	\$6,055,162
1997	\$37,568,042	\$1,042,632	\$829,977	\$958,072	\$413,442	\$7,505,983
1998	\$35,468,381	\$1,177,453	\$628,743	\$769,758	\$359,246	\$8,233,816
1999	\$32,912,218	\$1,174,444	\$638,185	n/a	\$345,675	\$8,766,965
2000	\$39,504,435	\$1,155,607	\$827,998	\$1,398,076	n/a	n/a
2001	n/a	\$1,120,360	\$709,336	\$828,869	n/a	n/a
2002	\$34,772,526	\$1,891,614	\$783,855	\$1,749,923	\$487,255	\$9,103,253

^aAnnual Data on the Investment Cost Credit was not available

^bEZ business registration fee totals are as reported by Indiana Department of Commerce to the Enterprise Zone Study Commission, September 1, 2004
Source: Indiana Department of Commerce, Enterprise Zone Business Registration (EZB-R) forms

for an EZ is ten years, with EZs eligible for two five-year renewals based on performance reviews by the IEDC Board. In addition, EZs that have operated for a full twenty-year period may be redesignated for a new term with an initial ten-year designation period by the IEDC Board.² The IEDC Board is currently authorized to designate two new municipal EZs each year until December 31, 2015. **Table 1** shows Indiana EZs and the year each was initially designated.

EZ Incentives

The following describes the tax incentives, which serve as recruitment tools for the EZs. Note that the Employment Expense Credit and the Loan Interest Credit are applicable to three state taxes: income tax, financial institutions tax, and insurance premiums tax. The Investment Cost Credit, however, is only applicable to the state income tax.

Inventory Tax Credit: This credit eliminates the property tax on wholesale or retail merchandise being held for resale as well as finished goods maintained by a business in an EZ. Before 2004, it also eliminated property tax on work-in-process and raw materials incorporated in finished goods for shipment out of state. Such inventory was exempted from property tax statewide beginning in 2004. More importantly, the credit will be inoperative beginning in 2007,

once the inventory tax is eliminated statewide through the 100 percent inventory deduction.

Investment Cost Credit: This is a state tax credit for equity investment in an EZ business. The credit is equal to a maximum of 30 percent of the price of the ownership interest purchased by the taxpayer. The allowable credit percentage, up to 30 percent, varies depending upon the type of investment, the type of business, and the number of jobs created by the investment.

Employment Expense Credit: This is a state tax credit for incremental wages paid by an EZ business to employees who are EZ residents. At least 90 percent of the employee's services must be directly related to the EZ business, and at least 50 percent of the employee's time must be spent working at the EZ business. The credit is equal to 10 percent of the additional wages paid to qualified employees during the year, up to \$1,500 per qualified employee.

Loan Interest Credit: This is a state tax credit for interest income earned by a taxpayer from a loan that directly benefits an EZ business, increases EZ property values, or is used to rehabilitate, repair, or improve an EZ residence. The credit is equal to 5 percent of the loan interest received during the year.

Property Tax Investment Deduction: This is a new deduction enacted during the 2005 legislative

session, and it became effective July 1, 2005. It is a property tax deduction for the increased value of an EZ business property due to real and personal property investment by the business. The added valuation may be deducted for up to ten years. Qualified investment at an EZ location includes: (1) purchase of a building, new manufacturing or production equipment, or new computers and related office 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.

Gross Income Tax Exemption: Historically, this incentive was utilized more than any except for the Inventory Tax Credit, but it no longer exists.

Incentive Savings

Table 2 reports annual savings from these tax incentives as reported to the Indiana Department of Commerce (IDOC). Since 1995, the reported savings from the Inventory Tax Credit averaged about \$35.9 million per year. Next was the Gross Income Tax Exemption with annual savings averaging only about \$1.3 million. During this period, the Inventory Tax Credit accounted for about 92 percent of incentive dollars. In 2002 (the most

recent year available), the Inventory Tax Credit, totaling about \$34.8 million, generated 88.7 percent of the incentive savings.

EZ Administration and Funding

Businesses receiving more than \$1,000 in EZ tax incentives must pay an annual registration fee (equal to 1 percent of the incentives received during the year) to the state to participate. Since 1995, business registration fees paid to the state have averaged about \$373,000 annually. In 2002, registration fees totaled about \$487,000, also shown in **Table 2**.

The day-to-day operation of each EZ is managed by a local nonprofit entity called an Urban Enterprise Association (UEA). Each business that obtains EZ tax incentives must contribute to the local UEA through a business participation fee equal to a percentage of the incentives received during the year. Thus, the tax incentives serve as both a business recruitment tool and the source of funding for the UEAs, thereby determining the funding available for various community and economic development programs that may be pursued by the association. The participation fee imposed by UEAs across the state ranges from a low of 20 percent to a high of 49 percent (see **Figure 2**). Since 1995, participation fees paid to the UEAs have averaged about \$7.7 million annually. With the Inventory Tax Credit accounting for nine-tenths of incentive dollars, it has been the primary source of UEA funding. In 2002, participation fees totaled \$9.1 million.

EZ Residents

Almost 200,000 people, or about 3.3 percent of Indiana's population, reside in the twenty-eight EZs, with household units in the EZs (about 78,000) representing a similar share of the state total. The proportion of family units in the EZs is lower, with almost 45,000 family households

representing only about 2.8 percent of the state total. Racial and ethnic minorities comprise a much higher proportion of the EZ population than of the statewide population. Blacks comprise 22.5 percent of the EZ population (almost triple the statewide share), and Hispanics comprise 11.1 percent of the EZ population (more than tripling the statewide share). The composition of families in EZs is also quite different than it is statewide. The share of EZ families containing married couples (32.4 percent) is almost 40 percent below the statewide share (53.6 percent), and the percentage of single mothers in EZ families (12.5 percent) is almost twice as high as the statewide percentage (6.9 percent).

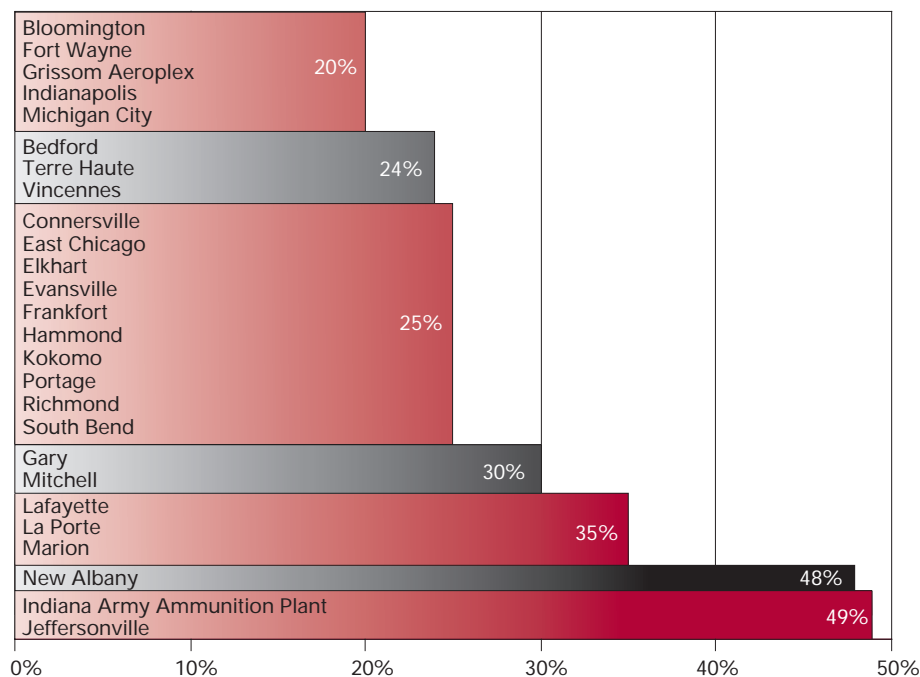
Table 3 confirms that EZs are located in the economically distressed and blighted areas they were intended to serve. While 9.5 percent of persons statewide live below the federal poverty level, the share of EZ residents living in poverty is two and

a half times higher at 23.8 percent. Although about 3.3 percent of the state population resides in the twenty-eight EZs, almost 6.8 percent of the statewide population living below the federal poverty level resides in EZs. Likewise, the unemployment rate for EZ residents (10.3 percent) is more than twice the statewide rate (4.9 percent), representing about 5.2 percent of the state's unemployed, according to Census 2000. Compared to the population and household unit representation of EZs, only about 2.1 percent of the owner-occupied housing in Indiana is located in EZs. Furthermore, the portion of owner-occupied housing in EZs (45.3 percent) is substantially lower than the statewide share (71.4 percent), suggesting a much higher potential for blight.

Business Characteristics

Indiana's twenty-eight EZs contain almost 6,400 businesses in five industry sectors (the totals exclude

Figure 2
Indiana EZ Participation Fees, 2002



Data for Salem and Fort Benjamin Harrison were not available.
Source: Indiana Department of Commerce, Indiana Enterprise Zone Handbook, June 2003

Table 3
Demographic and Socio-Economic Characteristics of Indiana and Indiana EZs, 2000

Characteristic	EZs	Indiana
Population		
Total Population	199,521	6,080,485
Percent White Alone, Not Hispanic	63.5%	87.5%
Percent Black Alone	22.5%	8.4%
Percent Hispanic (of any race)	11.1%	3.5%
Percent Eighteen to Sixty-four	61.5%	61.7%
Households		
Total Households	78,496	2,336,306
Average Household Size	2.42	2.53
Family Households	44,757	1,602,501
Average Family Size	3.16	3.05
Percent Married Couples	32.4%	53.6%
Percent Single Mothers	12.5%	6.9%
Housing		
Total Housing Units	90,432	2,532,319
Occupied Housing Units	78,496	2,336,306
Percent Occupied	86.8%	92.3%
Owner Occupied	35,548	1,669,162
Percent Owner Occupied	45.3%	71.4%
Labor Force		
Civilian Labor Force	77,081	3,117,897
Unemployed	7,966	152,753
Unemployment Rate	10.3%	4.9%
Education		
Population Twenty-five and Older	98,352	3,893,278
Percent with High School Diploma Only	36.6%	37.2%
Percent with Some College or More	30.5%	44.9%
Poverty Status		
Persons Living Below Poverty	37,956	559,484
Percent Persons Living Below Poverty	23.8%	9.5%

Source: U.S. Census Bureau, Census 2000, Summary Files 1 and 3; and IBRC

Table 4
Indiana Businesses by Industry Sector, 2002

Industry	EZ Businesses		Indiana Businesses	
Agriculture and Mining	7	0.1%	1,598	1.1%
Construction	521	8.2%	17,098	11.5%
Manufacturing	673	10.6%	9,710	6.5%
Service	3,622	56.8%	85,907	57.7%
Trade	1,554	24.4%	34,664	23.3%
Total	6,377		148,977	

Source: U.S. Department of Labor, Quarterly Census of Employment and Wages, July through September, 2002

Table 5
Rural and Urban EZ Businesses by Industry Sector, 2002

Industry	Rural EZ Businesses		Urban EZ Businesses	
Agriculture and Mining	2	0.1%	5	0.1%
Construction	85	6.0%	436	8.8%
Manufacturing	107	7.5%	566	11.4%
Service	844	59.4%	2,778	56.1%
Trade	384	27.0%	1,170	23.6%
Total	1,422		4,955	

Source: U.S. Department of Labor, Quarterly Census of Employment and Wages, July through September, 2002

government and nonprofit entities).³ This comprises about 4.3 percent of the statewide total number of businesses in these five industry categories (see **Table 4**). The EZs contain heavy concentrations of service and trade businesses, which account for about 80 percent of the EZ business total.

The deviation between the EZ and statewide business distributions arises in the construction and manufacturing industries. The EZs have a heavier concentration of manufacturing businesses with a 10.6 percent share (the manufacturing share statewide is only about 6.5 percent). More notable is that EZ manufacturing businesses (673 establishments) account for almost 7 percent of the statewide total manufacturing businesses (9,710 establishments). In contrast, construction is less concentrated in EZs at about 8.2 percent to a statewide share of about 11.5 percent. This discrepancy makes sense, as the EZs tend to be concentrated in older industrial/manufacturing areas of cities such as East Chicago, Elkhart, Evansville, Fort Wayne, Hammond, Indianapolis, and South Bend. The high incidence of manufacturing and trade businesses in the EZs (presumably with large amounts of raw materials, unfinished and work-in-process goods, and inventory held for resale) likely explains the comparatively high utilization of the Inventory Tax Credit.

The conceptual basis and practical application of EZ programs has typically centered on the redevelopment of economically distressed and blighted urban areas. However, nine of Indiana's EZs are situated in more rural settings:⁴ Bedford, Connersville, Frankfort, Marion, Mitchell, Richmond, Salem, Vincennes, and Grissom Aeroplex. As shown in **Table 5**, a total of 1,422 businesses are located in the rural area EZs (about 22 percent of the total for all EZs). The service and trade sectors account for almost 87 percent

of the rural area EZ businesses. This is about 8 to 9 percentage points higher than both the statewide and urban area EZ service and trade sector shares. In contrast, the rural area EZs exhibit construction and manufacturing shares that are roughly 3 to 4 percentage points lower than in the urban area EZs. Interestingly, the agriculture and mining industry shares for rural area and urban area EZs are essentially the same.

Employment: Total business employment in Indiana's twenty-eight EZs is almost 135,000, or about 3.6 percent of the statewide total of about 3.7 million.⁵ The firm level employment measures suggest that the average EZ business is somewhat smaller in terms of employment than are businesses generally in Indiana. However, the mean, median, and quartile measures suggest that EZ businesses are not markedly different than Indiana businesses overall in terms of their employment scale (see **Table 6**). An interesting facet of the firm level employment statistics is, however, the extent to which mean employment is positively skewed. It is quite clear that reliance on the mean would provide a rather distorted view of the employment levels.

Table 6
Employment and Wage Levels of Indiana and EZ Businesses

	EZ Businesses	Indiana Businesses
Total Employment	134,915	3,709,790
Firm Level Employment		
Mean	21.2	25.0
1st Quartile	2.0	1.0
Median	6.0	5.0
3rd Quartile	15.0	13.0
Total Wages	\$4,731,048,692	\$119,156,349,324
Firm Level Wage		
Mean	\$24,685	\$29,402
1st Quartile	\$10,880	\$13,006
Median	\$20,391	\$22,466
3rd Quartile	\$31,273	\$35,286

Source: U.S. Department of Labor, Quarterly Census of Employment and Wages, July through September, 2002

Actually, half of the EZ businesses employ fewer than six people and 75 percent employ fewer than fifteen people. This distribution mirrors the distribution of business employment statewide and suggests that the majority of EZ businesses are rather small-scale businesses. Thus, local UEAs must be acutely aware that much of their clientele does not have large numbers of administrative, accounting, and financial support personnel to facilitate application and reporting processes that tend to accompany economic development incentive programs. The more effective incentive programs

may be those that minimize or simplify paperwork and reporting requirements and rely less on offsetting net income tax liabilities.

The dominant industry sectors for employment in Indiana's EZs are, by far, the manufacturing and service sectors (see **Table 7**). The manufacturing sector accounts for almost 55,500 EZ jobs or about 41 percent of total employment in the EZs. The service sector accounts for 50,000 EZ jobs, 37 percent of the EZ total. Firm level employment for EZ businesses does not vary markedly among the industry sectors except for the manufacturing sector. On average, EZ businesses in the agriculture and mining, construction, service, and trade sectors employ fewer than twenty people.

Conversely, the manufacturing employment measures indicate the presence of some large-scale production facilities, with a mean firm level employment of eighty-two employees and the top 25 percent of manufacturers exceeding forty-four employees. The manufacturing totals also reveal a sizeable number of surprisingly small manufacturing establishments in the state, with 50 percent having fewer than sixteen employees.

Wages: Annual wages earned by employees of EZ businesses total about \$4.7 billion, accounting for

Enterprise Zones around the Nation

Forty-three states currently operate EZ programs, comprising approximately 3,600 EZs. The state EZ totals range from a low of one EZ in New Mexico to over 1,700 EZs in Louisiana. However, most state EZ programs comprise less than fifty EZs.

From: Ian Pulsipher, National Conference of State Legislatures, *Evaluating Enterprise Zones*, NCSL/Annie E. Casey Partnership on Family Economic Success (Denver, Colorado, May 6, 2005).

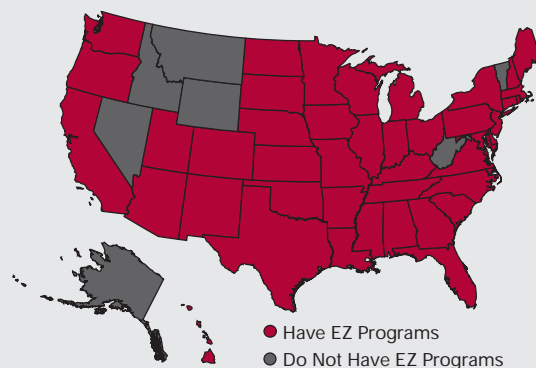


Table 7
Employment and Wage Levels of EZ Businesses by Industry Sector

	Agriculture and Mining	Construction	Manufacturing	Service	Trade
Total Employment	79	9,300	55,455	50,000	20,081
Firm Level Employment					
Mean	11.3	17.9	82.4	13.8	12.9
1st Quartile	4.0	3.0	5.0	2.0	3.0
Median	7.0	8.0	16.0	5.0	6.0
3rd Quartile	15.0	18.0	44.0	12.0	13.0
Total Wages					
	\$2,554,652	\$378,345,388	\$2,580,036,648	\$1,266,236,184	\$503,875,820
Firm Level Wage					
Mean	\$39,389	\$27,687	\$30,818	\$24,031	\$22,477
1st Quartile	\$24,872	\$17,011	\$20,669	\$9,600	\$11,160
Median	\$29,469	\$26,810	\$29,487	\$18,200	\$18,501
3rd Quartile	\$35,025	\$36,000	\$38,135	\$29,236	\$28,894

Source: U.S. Department of Labor, Quarterly Census of Employment and Wages, July through September, 2002

about 4 percent of the statewide total of approximately \$119.2 billion. The firm level measures suggest that the average EZ business pays about 16 percent less than businesses statewide—an average of \$24,685 in EZs to \$29,402 statewide. The firm level wage measures reveal a positive skew to wages overall and for EZ businesses, albeit less pronounced for EZ businesses. The median and quartile measures are, again, informative. While EZ businesses, on average, pay just under \$25,000, the other measures indicate that half of the firms pay wages, on average, of less than \$20,391 (see **Table 6**). The EZ wage is less than the statewide wage by anywhere from about 9 percent on the median to about 16 percent on the mean.

Employees of EZ manufacturing firms earn far better salaries, over the entire wage distribution, than is generally the case in the other industry sectors (see **Table 7**). However, at the top end of the wage distribution, construction does appear to fall more into line with manufacturing wages. The measures also highlight the much lower wage structures present in the service and trade sectors. Seventy-five percent of service and trade sector businesses in the EZs have a firm level average wage of less than \$18,500. At the same time, 75 percent of manufacturers

in the EZs have a firm level wage exceeding \$20,000; and 75 percent of construction businesses have a firm level wage exceeding \$17,000.

Conclusions

Over the 1995 to 2002 period, the average incentive savings from the credits and exemptions available to EZ businesses was \$38.9 million. The average registration fee paid to the state and participation fee paid to the local UEA was \$373,000 and \$7.7 million, respectively. An EZ resident is substantially more likely to be a racial or ethnic minority, live in a household headed by a single female, rent, be unemployed, and live in a household with income below the poverty level than a resident of the state as a whole. EZ businesses are also more concentrated in the manufacturing and trade sectors than is the case statewide. The average level of employment and average wages in EZ businesses are lower than those of the state as a whole. Among EZ businesses, the manufacturing sector employs the most workers followed by the service sector. Also, the agriculture and mining sector (albeit comprising a very small share of EZ employment) has the highest average wage level followed by the manufacturing and construction sectors. ■

Notes

1. This article was derived from a Fiscal Issue Brief published by the Indiana Legislative Services Agency, and is available at www.in.gov/legislative/pdf/FISCAL_ISSUE_BRIEF_-_INDIANAS_ENTERPRISE_ZONES.PDF. It results from the Enterprise Zone Fiscal Impact Project. The study and its maps can be accessed at www.in.gov/legislative/pdf/INDIANA_ENTERPRISE_ZONE_FISCAL_IMPACT_PROJECT.PDF.
2. In 2004, EZs in Evansville, Ft. Wayne, Michigan City, Richmond, and South Bend were redesignated after completing a twenty-year term.
3. The construction industry category and the manufacturing industry category are each two-digit NAICS industry sectors, while the trade industry category combines the two-digit NAICS retail trade and wholesale trade industry sectors. The agriculture and mining industry category combines the two-digit agriculture, forestry, fishing and hunting NAICS industry sector with the two-digit mining NAICS industry sector. The service industry category combines thirteen two-digit NAICS industry sectors: (1) utilities; (2) transportation and warehousing; (3) information; (4) finance and insurance; (5) real estate and rental and leasing; (6) professional, scientific and technical services; (7) management of companies and enterprises; (8) administrative and support and waste management and remediation services; (9) educational services (for-profit only); (10) health care and social assistance (for-profit only); (11) arts, entertainment, and recreation (for-profit only); (12) accommodation and food services; and (13) other services (except public administration).
4. To delineate these EZs, we use the U.S. Census definition for an urbanized area; this includes a large, central area and a densely populated surrounding area, which must have a combined total of at least 50,000 people.
5. Government and nonprofit organizations are excluded from the employment and wage totals.

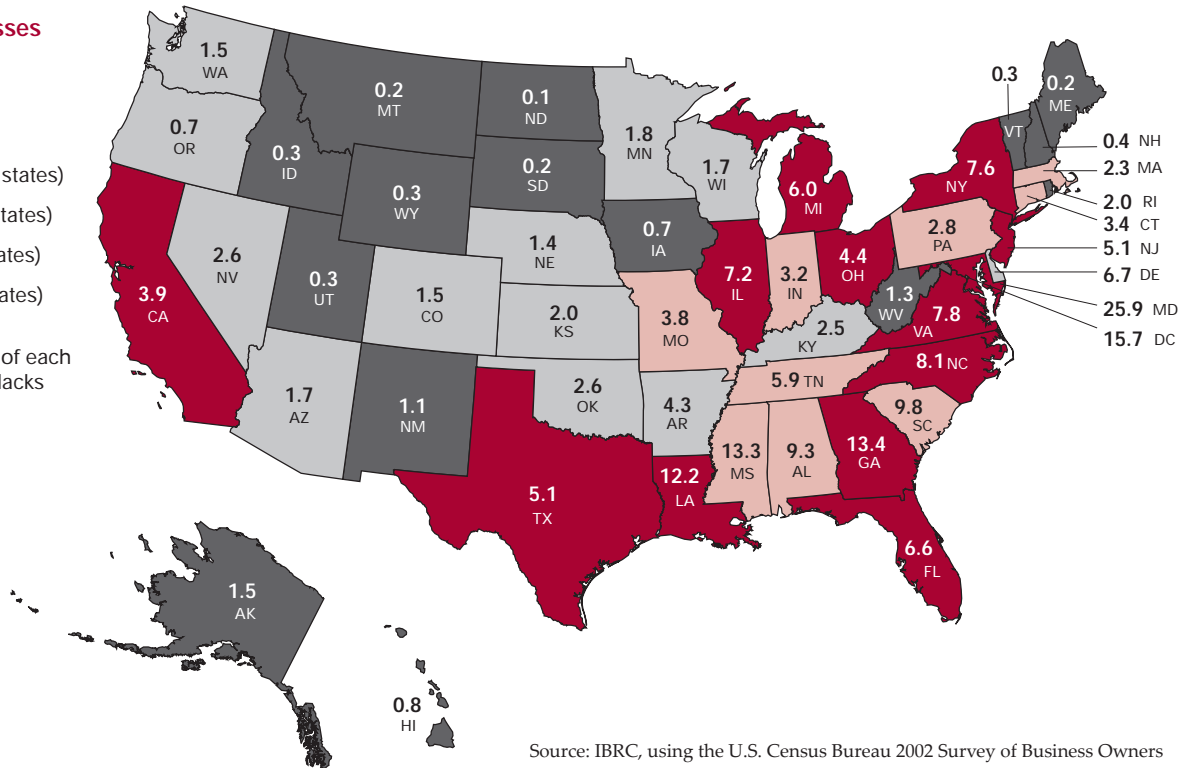
Business Ownership by State and Race, 2002

Black-Owned Businesses

U.S. Total = 1,197,988
Indiana Total = 14,062

- 30,001 to 130,000 (13 states)
- 10,001 to 30,000 (10 states)
- 2,001 to 10,000 (13 states)
- Less than 2,000 (15 states)

Labels show the percent of each state's firms owned by blacks



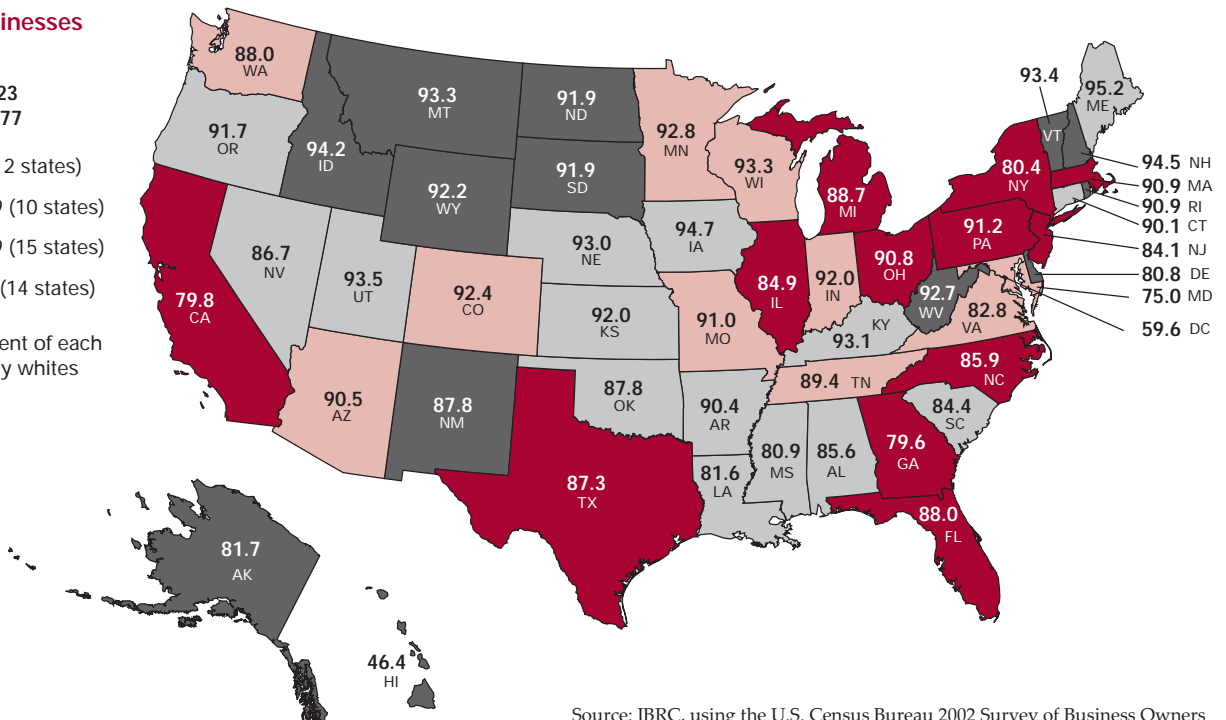
Source: IBRC, using the U.S. Census Bureau 2002 Survey of Business Owners

White-Owned Businesses

U.S. Total = 19,894,823
Indiana Total = 399,277

- 500,000 or More (12 states)
- 300,000 to 499,999 (10 states)
- 125,000 to 299,999 (15 states)
- Less than 125,000 (14 states)

Labels show the percent of each state's firms owned by whites



Source: IBRC, using the U.S. Census Bureau 2002 Survey of Business Owners

Inside...



Black and White in Indiana



Projecting Reapportionment



In the Zone: A Look at Indiana's Enterprise Zones



Business Ownership by State and Race

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