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Abstract

In 2017 the US Congress passes and President Donald J. Trump signs the 2017 Tax Cuts and Jobs Act. Part of the legislation allows states to create economic opportunity zones (EOZs), census tracts which will be targeted for business investment and economic development through federal tax incentives. In Louisville, Kentucky, as in other jurisdictions throughout the US over the last several decades, special district "zones" have been used by local, state, and/or the federal government(s) to try to revive low-income, deteriorated, and blighted areas. These have been typically urban areas but sometimes have included semi-rural and rural areas. Whether named enterprise zones, empowerment zones, or currently, economic opportunity zones, such programs have received mixed reviews over the years. This paper looks at the current EOZs in Louisville, and similar to other studies looking at EOZs, finds only slight improvement at best so far in results. The exception is an area of the city that has been undergoing a great deal of gentrification already. With this in mind, and with the shortcomings chronicled on the old Louisville enterprise zone (EZ) that exists from 1983 to 2003, this paper speculates on and offers some reasons for why such economic development efforts, despite their mixed reviews, persist.

JEL Codes: B50, R11, R28

Keywords: economic opportunity zones, empowerment zones, enterprise zones, monopoly capital

Introduction

For at least the last several decades, local, state, and federal government policies and programs have tried to address the social and economic problems of different US areas and regions that are considered underdeveloped, low-income, blighted and with high unemployment rates. This paper focuses on efforts to rehabilitate and develop economically these areas through the use of special districts, or zones, which offer some type of tax and/or regulatory relief to investors and/or new businesses that invest and/or locate in the targeted areas. These policies are usually undertaken to help promote job creation or retention, higher residential housing, and commercial property occupancy and property ownership rates, and to eliminate the blighted appearance of these areas. These zones have some things in common with tax incremental financing districts (TIFs), although TIFs, in order to benefit a targeted region, usually see public works and/or commercial property upgrading undertaken in the district based on the expectation that the improvements will help boost future tax revenues (sales, property taxes, etc.) in the area that can and will be used to pay for the projects later. In a TIF, the greater the projected sales and/or property appreciation in the district, the greater the investment amount that can be plowed back into the area through refurbishing and improving and/or putting in new public infrastructure and/or new or rehabilitated commercial property (Lambert 2022). With a zone, reliance is on direct tax and regulatory relief through lower taxes and streamlined regulation (e.g., making it easier to get building permits and waiving some fees), and there is supposed to be very little reliance on direct public spending. Zones are usually initiated with letting private sector entities lead the way in redevelopment (Peters and Fisher 2002). They are also different from what are known as Foreign Trade Zones (FTZs), a federal program, in that FTZs only grant tax relief for export and import operations of different companies and are not really primarily used for local economic redevelopment (Min and Lambert 2010).

The precursor to today's US EOZs probably dates back to the early 1980s when President Ronald Reagan tries but fails to have a national enterprise zone (EZ) program similar to the one started earlier by Parliament and Prime Minister Margaret Thatcher in the UK. Because no federal program is enacted, individual US states decide to start their own EZ programs mostly due to the severity of the 1981-82 Recession and the concurrent high levels of unemployment. Federal aid to cities is also rolled back under the Reagan Administration, and so many governors and state legislatures with the support of many mayors try to come up with ways to make up for federal budget cutbacks (Lambert 1997, Peters and Fisher 2002). In Kentucky, several EZs are allowed to start in 1983, and one is in the largest city of the state, Louisville. Tax relief is mostly for state taxes such as sales taxes, property taxes, state capital gains taxes, and tax credits on income taxes for hiring a certain number of workers who live within the zone. Regulatory relief is mostly granted by local government through the streamlining of commercial property inspections, permits, and licensing, and many local government fees are either reduced or waived (Lambert 1997, Lambert and Coomes 2001). After 20 years of existence, the Louisville EZ is allowed to expire because there does not appear to be a lot of evidence to show that it has worked that well regarding employment and poverty goals (Lambert 2020) and because much of the tax benefits have gone to the largest corporations (Ford Motor, General Electric Corporation, and United Parcel Service) within its expanding boundaries over the years which ends at 80 square miles in 2003 after starting at around only 4 square miles in 1983 (Office of the State Budget Director 2002, Lambert and Coomes 2001, Lambert 2003, Lambert 2020).

In the 1990s, the Clinton administration introduces Empowerment Zones and Enterprise Communities (EZ/ECs) as part of a regionally targeted revitalization program (Clinton Presidential Libraries 2024). Some are used in rural communities throughout the nation, although most are deployed in urban areas. In Louisville, an EC is designated, but since these programs carry less monetary funding (only several million dollars compared to the $100 million or more in funding for EZs), money is not really earmarked for specific areas within Louisville or Jefferson County but instead is used to fund a community development bank, expand bus services, and offer other services to low income residents and potential entrepreneurs who want to open businesses in low income neighborhoods (Liebschutz 1995, Hebert, Vidal, Mills, James, and Gruenstein 2001).

The 2017 Tax Cuts and Jobs Act has created the latest round of zones targeted to help distressed areas. The legislation allows states to create economic opportunity zones (EOZs) based in census tracts which will be targeted for business investment and development through federal tax incentives through economic opportunity funds (Coyne and Johnson 2023). Basically, capital gains on property (stocks, real property, etc.) can either be deferred or eliminated if invested long enough if used for investment in an EOZ by an investor whether the investor is an individual, partnership, or corporation (Coyne and Johnson 2023). Capital gains rates currently hover around 20%, and Congress is considering extending the EOZ program beyond 2026, the year it is scheduled to sunset and expire. The most important goals of the program are to stimulate job creation and greater levels of investment and reduce poverty levels in low-income communities (LICs). Yet so far, most evaluations of EOZs in the US shows mixed results at best (Coyne and Johnson 2023, Sage, Langen, and van de Minne 2023). Most of the investment being done by individual investors is by those in the top 1% of the income distribution, and most funding is going to tracts that are showing signs of progress of redevelopment before the EOZ legislation is passed (Tax Policy Center of Urban Institute and Brookings Institution 2024). Five percent of the tracts are getting 78% of funding, and these have lower unemployment and poverty rates than their cohort EOZs. This implies that many of the tracts in which the greatest investment has taken place so far are those that have been experiencing gentrification before the 2017 legislation. These tracts also have a higher portion of college graduates, higher levels of income, higher home values, and lower percentages of blacks yet higher percentages of Hispanics than other zones (Tax Policy Center of Urban Institute and Brookings Institution 2024). Barth, Sun and Zhang (2021) raise questions about whether the most deserving census tracts are actually chosen to participate, and Freedman, Khanna, and Neumark (2023) find little evidence that EOZ initiatives are working. However, it could be too early to judge program results since the program only goes back to 2017, and two years of the program, 2020 and 2021, are affected by the Covid-19 Pandemic, and some claim that the program actually has opened up many low-income neighborhoods for investment (Fikri and Glasner 2023).

In Kentucky in 2018, Governor Matt Bevin identifies around 79 similar low-income census tracts as LICs in Louisville-Jefferson County as eligible for the EOZ program, of which 19 are approved and finalized for EOZ participation (City of Louisville 2024). The other 60 tracts are not to participate in the program, yet they can serve for analytic purposes as a "control group" to compare against the other 19 tracts which become some type of "experimental" or "treatment" group. Comparing the two groups thusly is somewhat similar to how Papke (1994) and Boarnet and Bogart (1996) evaluate Indiana and New Jersey EZs respectively started by each state government in the 1980s. In the Papke paper, Indiana EZ designation appears to lower unemployment claims in targeted regions versus similar "non-zones." Yet in the Boarnet and Bogart paper, EZs do no better than similar areas eligible but not participating in the New Jersey

EZ program, and the authors conclude that the New Jersey EZ program is ineffective despite the tax and other incentives offered.

This paper proceeds as follows. The next section gives a description of and does an analysis of the Louisville EOZ "experimental" and "control" (eligible but not participating) census tracts. This type of evaluation is an improvement over the quasi-experimental method employed by Lambert (1997, 2020), Cummings and Lambert (1997), Lambert and Coomes (2001), Lambert and Nelson (2002), and Lambert and Bewley (2015) in which control groups are not available and instead "comparable" or roughly similar tracts have to be employed to reach some type of conclusions. Finally, a discussion and conclusion section recaps the results of the analysis and offers some comments and speculation on why EOZs have not lived up to their expectations so far just as their EZ predecessors are not considered that successful either.

Analysis

(Insert Figures 1 and 2 around here)

Figure 1 displays which Louisville and Jefferson County tracts are eligible and chosen to participate in the EOZ program (EOZ tracts) as well as those that are eligible but not chosen (non-EOZ tracts). All of the EOZ tracts are ones that are either in or near the city's central business district (CBD) and that are composed of older neighborhoods immediately to the east, west, and south of the CBD. Most of the CBD corresponds to tract 49 and some of 59 which are mostly composed of commercial real estate including large office towers and complexes. There also is some low income and public housing and newly gentrified neighborhoods interspersed among the commercial property in these tracts and others near them. The non-EOZ tracts are mostly in relatively newer neighborhoods but are considered far from high income or affluent, and so they are considered eligible to participate by being similar enough to those in and immediately surrounding the CBD. The current 19 EOZ tracts are far fewer than those that make up the old Louisville EZ, as shown in Figure 2, but there is some overlap between the tracts designated in that program and those in both the EOZ and non-EOZ tracts. It is in 1997 that the old Louisville EZ is expanded for the final time and takes in almost 80 square miles of the county including the CBD. As several writings on the Louisville EZ cited in this paper note, census tracts added to the EZ program after the original "poor and blighted" 1983 EZ tracts (designated as "Original" in Figure 2) are chosen are also considered typically low and moderate income but not nearly as distressed as the original ones from 1983. The latter are west of the CBD. Including new tracts with each succeeding expansion, however, basically fails to make EZ tract improvements look better when compared to comparable and similar areas of Jefferson County which are not part of the EZ. In a quasi-experimental research design, these comparable areas perform better than the EZ no matter which version of the EZ or which decade of its existence is examined (Lambert 2020). Only an analysis by Zhang (2015, 2019) which uses regression analysis and mostly focuses solely upon job growth has a different conclusion.

(Insert Tables 1to 6 around here)

For this paper, and in the spirit of something closer to a true experimental design as employed by Papke (1994) and Boarnet and Bogart (1996), differences among the EOZ and non-EOZ tracts are evaluated. Table 1 shows the starting points for each set of tracts in 2017 regarding unemployment rates of those 16 years of age and older, percentage 16 and older not in labor force (NLF), poverty rates for families and individuals 18 years and older, and median value of owner occupied housing units (US Census Bureau 2017 to 2022). It appears that the EOZ tracts are slightly worse off than non-EOZ tracts with the exception of housing values.

Table 2 displays the differences between the two areas between the two years of 2017 and 2022 according to these variables. Changes in housing values are used as some type of indication regarding changes in tract level wealth.[1] Using a Welch's t-test or t-test for the mean of two samples with unequal variances, and using an alpha of 5% as the cutoff for statistical significance, the table indicates not much difference between EOZ and non-EOZ tracts when it comes to the changes in each variable from 2017 to 2022 with the exception of the percentage decrease of NLF. And when it comes to see if there is any improvement for EOZ tracts alone from 2017 to 2022, Table 3 illustrates t-tests of paired differences ("before and after" test of values across tracts) using an alpha of 5% that show improvements for three of the four variables between 2017 and 2022. Poverty rates do not show much improvement. In doing some rank ordering, some of the biggest improvements in housing values (top 5 tracts in order) are in tracts 24, 59, 62, 65 and 53; the top 5 tracts in order with the biggest decreases in unemployment are in tracts 24, 30, 2, 6, and 59; the top 5 biggest decreases in NLF are in tracts 49, 51, 59, 15, and 2 in order; and the top 5 biggest decreases in poverty rates are, in order, tracts 30, 71, 65, 53, and 35. The tract 59 shows up most frequently of all of these with 3 appearances on the 4 lists (housing values, NLF, and unemployment rates). This is an area which contains a neighborhood which has undergone a great deal of gentrification and has been benefited from government spending and intervention over the last 25 years or so and has been nicknamed Louisville's NuLu (for

[1] For the 2020 Census, some of the original 19 tracts are subdivided in to two tracts to make 24 total tracts. Therefore, when comparing some of the 2020 tracts to the old tracts defined according to the 2010 Census, changes in tract values are estimated by taking the lower of the two values for the new tracts for unemployment, not-in-labor force rates, and poverty rates and then subtracting from them the value from the old/original/parent tract for 2017. The higher of the two housing values for the subdivided tracts is used as the 2022 value for the original tract. This method of estimation tends to favor and gives the benefit of any doubts to the EOZ tracts more so than taking the average of the new tracts and subtracting from them the values of the parent tracts for 2017. There are 60 non-EOZ tracts for both time periods and no changes or subdivisions in these tracts.

"New Louisville") District or East Market District (Louisville Tourism 2024, NuLu Business Association 2024). Near it are two other neighborhoods (Butchertown and Phoenix Hill) in tract 59 which also have seen gentrification during the same time period, although perhaps to a lesser degree. More on this is to be discussed in a following section of the paper. Table 4 displays the changes for each EOZ tract from 2017 to 2022 according to each of these variables. Still, those tracts which show the greatest improvements do not yield strong enough results to distinguish the EOZ tracts from the non-EOZ tracts except for the NLF dimension.

Next, Community Reinvestment Act data from the US Federal Reserve and kept on the Federal Financial Institutions Examination Council (FFIEC) site (US Federal Reserve 2018 to 2022) is used to examine how much small business lending has taken place from 2018 to 2022 in the two sets of tracts. Nagpal (2022) has used this data to evaluate EOZ effectiveness in Chicago, Illinois. Cumulative amounts of the originations of loans to small businesses that have up to $1million of revenues are used as a gauge of cumulative business activity and as some type of proxy for business investment and economic development in the tracts from the launch of the EOZ program to the most recent available data for 2022. Table 5 displays that there is no statistically significant difference at 5% alpha between the sets of tracts using a t-test of means with unequal variances, although there would be significance at alpha 10%. However, there are big differences among the EOZ tracts when it comes to lending amounts with tracts 49 (most of the CBD) and 59 (the remainder of the CBD which includes the NuLu, Phoenix Hill and Butchertown neighborhoods) receiving the greatest amount of loans. See Table 6. These two areas skew the average, cumulative loan amount upward for the EOZ tracts.

(Insert Tables 7 and 8 around here)

Although the portion of residents classified as NLF has declined in both areas with EOZ tracts doing better, it is also interesting to try to determine if employers have increased the number of jobs in both areas since residents could be looking for jobs anywhere within the Louisville area and since one goal of EOZs is to increase job creation within designated tracts. Unfortunately employer based data is only available at the zip code level, and zip areas do not correspond exactly with census tract boundaries, although rough approximations can be made. Most EOZ tracts mostly correspond to zip codes 40202 and 40203 whereas the non-EOZ tracts mostly overlap with those of zip codes 40210, 40211, and 40212. Table 7 shows the changes in the number of jobs, inflation adjusted payroll (2017 based), and number of establishments from 2017 to 2021 (2022 data is not yet available) from the Census Bureau's County Business Patterns site (2017, 2021). Neither area performs well, although the EOZ areas do hemorrhage less payroll and show more gains in establishments despite losing more jobs.

Finally, to determine if commercial property values have risen in these zip codes, data from the Louisville and Jefferson County Property Valuation Administration (PVA) is used to see if there is significant commercial property value appreciation in the EOZ zip codes from 2017 to 2023 (Jefferson County Property Valuation Administration 2017 and 2023). Unfortunately commercial property value data is not available at the tract level. Table 8 displays average and median commercial property values for the EOZ zip codes of 40202 and 40203 and the non-EOZ zip codes of 40210, 40211, and 40212. After adjusting 2023 values for inflation for seven years, the results for the two areas are mixed with median values perhaps showing a more accurate depiction of typical commercial property values.

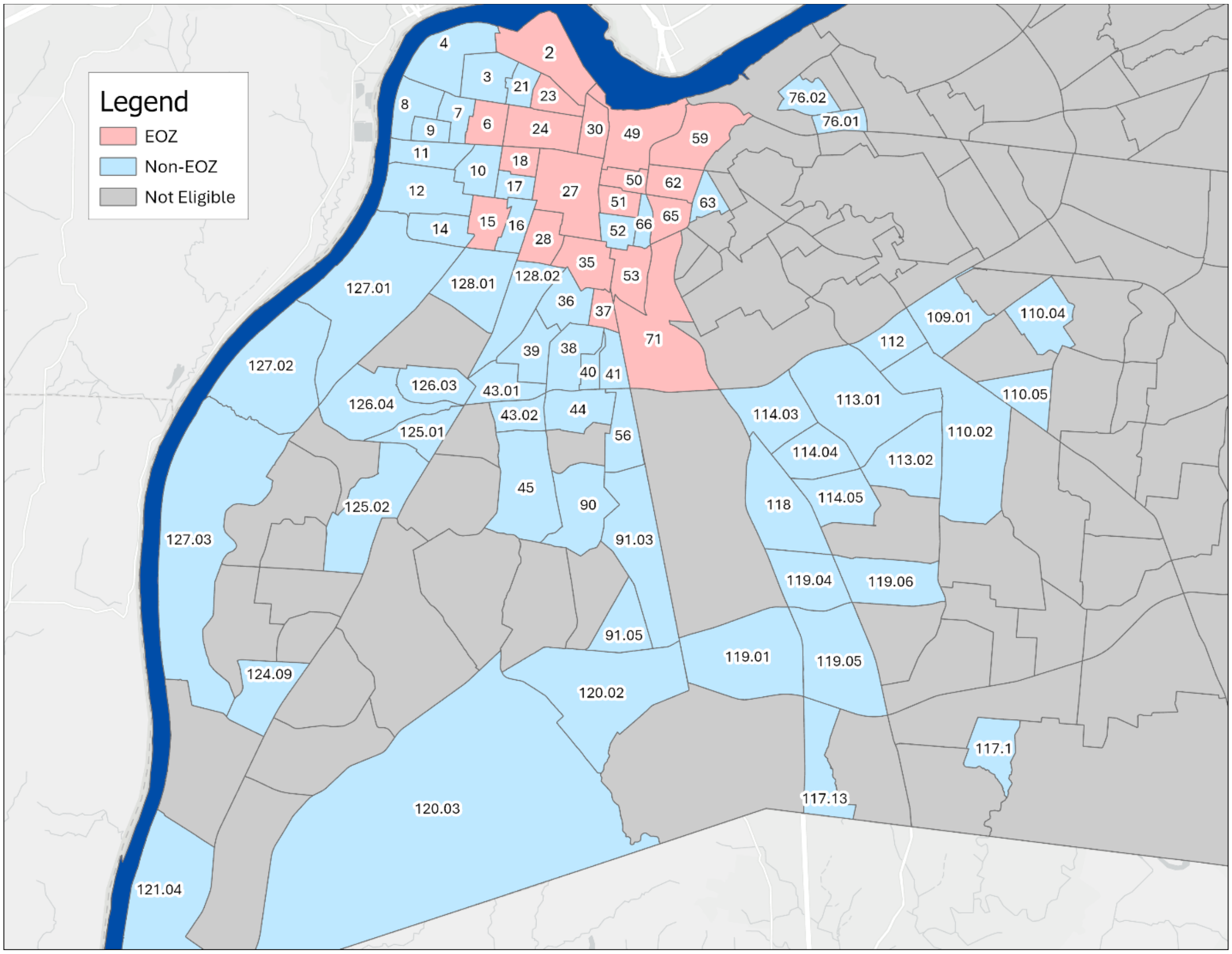
Discussion and Conclusion

Just as with the short-run evaluation of the old Louisville EZ program (Lambert 1997, Lambert and Coomes 2001), this paper finds mixed results in the short-run when it comes to the performance of Louisville's EOZ. This is similar to other findings regarding EOZs, although the program is not near its end yet. There is still time left for investment and job creation to pick up in targeted areas and not just in those tracts that are already doing well. Yet so far, there is not much of a difference between EOZ and non-EOZ regions in the city. The fact that EOZ tracts that have been receiving most of the benefits are those that are doing well prior to the 2017 EOZ legislation is underscored in Louisville by this paper showing that the two EOZ tracts doing the best are those that are part of the Louisville CBD or part of a gentrifying and popular area called NULU and nearby neighborhoods in the East Market Street District area of Louisville. A recent and brief history of NuLu and the two nearby neighborhoods give some insights as to why this area is currently succeeding.

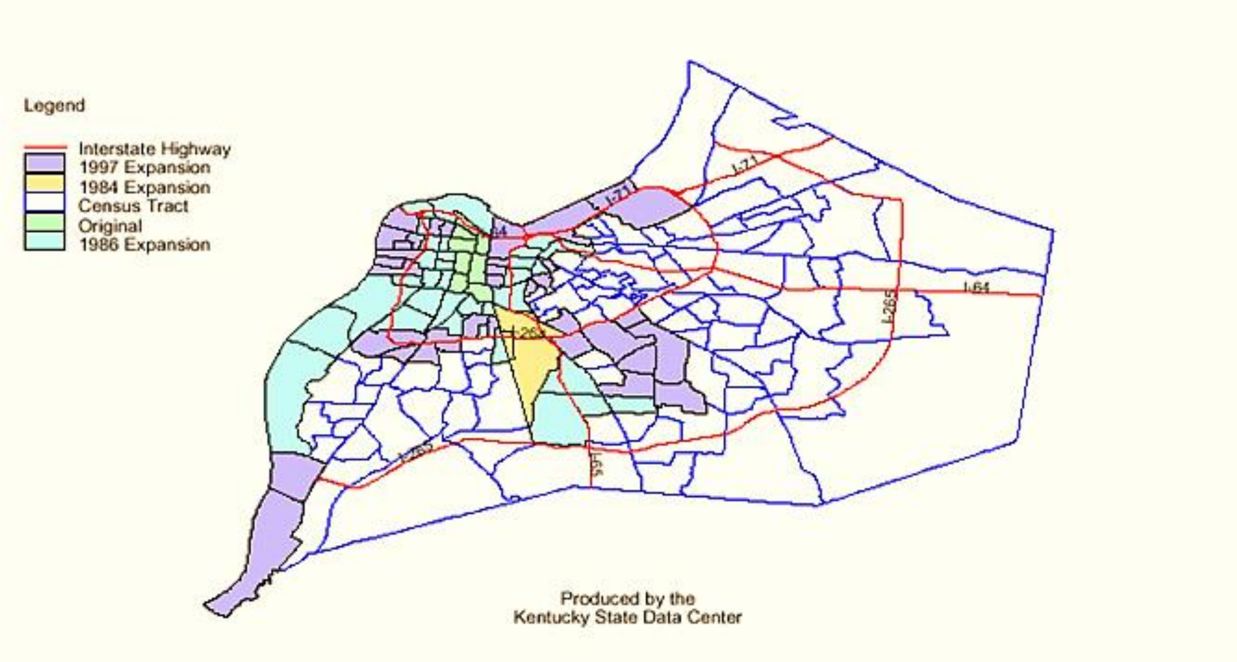
In 1998, a new, minor league baseball stadium is opened on a former brownfield site that has been cleared for redevelopment in an earlier US Environmental Protection Agency decree. Without such clearance, developers probably would have not undertaken such an effort (Giffin 2023), and the site is not far from the East Market District or what is to become known as NuLu. In 2005, a New Deal era and nearby housing project called Clarksdale Housing Complex is demolished and replaced with fewer yet more modern low-income housing units thanks to a US Housing and Urban Development grant of $200 million, although some speculate that the main motive for redoing the public housing is concern over crime and how this impacts downtown redevelopment (Axtell and Tooley 2014, Louisville Metro Housing Authority 2014). Other projects that have occurred over the last 20 years or 20 include building a new soccer stadium in the area on a former brownfield site in the Butchertown neighborhood in 2018, and this site is also made part of a government TIF district (LouCity 2018, Giffin 2023). And over the last 40 years, and especially the last 25, the eastern part of the Louisville Ohio River waterfront, which is also once a designated brownfield site, is redeveloped thanks to government and non-profit donations. The redeveloped waterfront area is near the NuLu, Butchertown, and Phoenix Hill neighborhoods as well (Giffin 2023). Finally, an additional $13 million is to be spent by City of Louisville government on rehabilitating the streetscape of the NuLu area (Garcia 2024).

The presence of either government enabled or direct government investment in census tract 59 cannot be downplayed. As the writings cited in this paper on the old Louisville EZ program indicate, those areas which perform best from 1983 to 2003 are those that receive massive amounts of government spending such as the area encompassing and surrounding the Louisville International Airport. This is due to the airport being expanded by over $700 million in US Federal Aviation Administration funding, and this is mostly done to accommodate and retain United Parcel Service as it expands its presence in Louisville. Other areas which do well are those which already have large employers such as Ford Motor Company and General Electric located in them. Yet many tracts see increases in poverty and job losses, especially those in the western part of Louisville and Jefferson County. Economic development incentives targeted toward specific geographies appear to work best when preceded by or accompanied by some type of government intervention in the locale. This is probably very true of older and blighted neighborhoods where the private sector may have concerns about investing capital until problems of crime, unattractive property, and/or substandard infrastructure are brought under control or corrected. These problems must be addressed first, and in this sense government investment and intervention helps and does not hinder market investment and profitability. This does not mean that programs similar to those of the urban renewal efforts of the 1950s and 1960s need to be resurrected, yet some type of government may be needed to send a signal to private sector investors that certain areas can be profitable. At the same, successful gentrification of older neighborhoods is not without opposition many times from the original inhabitants of such neighborhoods who want to maintain their sense of community.

Figure 1



Source: 2010 US Census and created by Dr. Matthew Ruther, Director of the Kentucky State Data Center.



Source: Cummings and Lambert (1997), and copy provided by Dr. Matthew Ruther, Director of the Kentucky State Data Center.

Table 1

2017 Starting Points

	Unemp. Rates	Not in Labor Force Rates	Poverty Rate	2017 Median Value House
EOZ Tracts	8.6	44.3	25.3	$ 100,183.00
Non-EOZ Tracts	6.6	35.7	14.1	$ 96,142.00

Table 2

Percent Changes 2017 to 2022

	Unemp. Rates	Not in Labor Force Rates	Poverty Rate	Inf Adj Median Value House
EOZ Tracts	-3.2	-34.5	-6.2	24.4
Non-EOZ Tracts	-2.01	-27.3	1.2	15.36
Two tail p-value for t-test:	0.27	0.02	0.12	0.28

Table 3

Changes 2017 to 2022

	Unemp. Rates	Not in Labor Force Rates	Poverty Rate	Inf Adj Median Value House
EOZ Tracts, Before and After	-3.2	-34.5	-6.16	$ 24,985.16
Two tail p-value for t-test:	0.004	0.00	0.16	0.009

Table 4

EOZ Tracts Percent Changes 2017 to 2022

Tract	Unemp. Rate	NLF Rate	Poverty Rate	Inc Inf Adj Median Value House
2	-8.2	-42.6	-0.1	28.27
6	-6.9	-19.1	1	8.74
15	3.7	-42.9	1.4	10.56
18	-2.8	-20.9	25	1.32
23	-0.9	-35.8	5.7	22.69
24	-11.9	-24	-9.2	87.69
27	-5.6	-34.9	-7.9	-0.74
28	1.2	-30.3	-7.6	-30.47
30	-9.2	-34.8	-49.9	0.00
35	-3.7	-28.5	-19.4	0.31
37	3.7	-27	10.3	-7.25
49	-1.8	-69.2	13.6	-9.76
50	-2.7	-41.3	-3.8	30.42
51	1.7	-49.3	-11.4	31.00
53	-2.4	-28	-21.4	38.02
59	-5.7	-45.2	-4.4	82.98
62	-0.3	-18.5	18.5	79.49
65	-5.5	-33.6	-25.1	62.49
71	-3.3	-27.9	-32.3	27.19

Table 5

EOZ Mean of Tracts Cumulative Loan Amounts, 2018 to 2022:	$52,174,110
Non-EOZ Mean of Tracts Cumulative Loan Amounts, 2018 to 2022:	$15,384,130
Two tail p-value for t-test:	0.08

Table 6

Tracts		EOZs Total of Loan Amounts, 2018-2022
2	$	16,190,000.00
6	$	9,322,000.00
15	$	4,902,000.00
18	$	6,771,000.00
23	$	11,991,000.00
24	$	29,513,000.00
27	$	64,994,000.00
28	$	23,376,000.00
30	$	42,204,000.00
35	$	20,492,000.00
37	$	3,079,000.00
49	$	374,774,000.00
50	$	51,972,000.00
51	$	36,070,000.00
53	$	9,616,000.00
59	$	132,518,000.00
62	$	49,141,000.00
65	$	43,385,000.00
71	$	60,998,000.00

Table 7

Net Change 2017 to 2021

	Employment	Inf Adj Payroll	Number of Establishments
EOZ Zip Codes	-4089	$ (71,518,360.00)	55
Non-EOZ Zip Codes	-1497	$ (170,027,200.00)	29

Table 8

	Zip Code	2017 Avg	2017 Median	2023 Inf Adj Avg	2023 Inf Adj Median	Pct Chg Avg	Pct Chg Median
EOZ	**40202**	$ 1,989,809.08	$ 331,610.00	$ 1,865,604.57	$ 329,416.00	-6.24	-0.66
	40203	$ 242,183.81	$ 85,560.00	$ 279,974.73	$ 91,480.00	15.60	6.92
Non-EOZ	**40210**	$ 268,959.14	$ 57,000.00	$ 45,600.00	$ 52,472.00	-83.05	-7.94
	40211	$ 253,887.56	$ 64,760.00	$ 51,808.00	$ 66,484.00	-79.59	2.66
	40212	$ 113,974.87	$ 45,000.00	$ 36,000.00	$ 53,020.00	-68.41	17.82

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