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COMPARISON OF CONNECTICUT'S ENTERPRISE ZONE AND NEW YORK'S START-UP NY PROGRAMS

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You asked us to summarize the major differences between Connecticut's Enterprise Zone Program and New York's recently established Start-Up NY Program.

SUMMARY

Connecticut's Enterprise Zone Program and New York's Start-Up NY Program offer tax incentives to stimulate private investment and create jobs in designated areas, but do so to achieve different economic development goals. Enacted in 1981, the Enterprise Zone Program offers property and real estate conveyance tax exemptions and corporation business taxes credits to revitalize economically distressed areas. Enacted in 2013, Start-Up NY offers business and personal income tax exemptions to attract newly formed and expanding businesses to vacant property (i.e., tax-free areas) on college and university campuses where they can access academic resources to help them grow.

The programs' planning and administrative requirements reflect these differences. Connecticut's enterprise zones are proposed by eligible municipalities and approved by the Department of Economic and Community Development (DECD) according to statutory processes and criteria. Businesses seeking zone benefits must apply to the state for certification. New York's tax-free areas are proposed by eligible colleges and universities and approved by the Department of Economic

Development (DED) according to statutory processes and criteria. Businesses seeking tax-free area benefits must be approved by DED. Both states require annual reporting and program evaluations.

Attachment 1 compares the programs.

GOALS

Although the Enterprise Zone and Start-up NY programs offer tax incentives in designated areas, they do so to achieve different goals. The former offers property and real estate conveyance tax exemptions and corporation business tax credits to stimulate real estate development and job creation in economically distressed areas. Start-Up New York exempts entrepreneurs and their employees from business and personal income taxes, respectively, for (1) locating on or near college and university campuses, where the businesses can benefit from the resources available there and (2) bringing or creating new jobs.

TARGETED AREAS

A major difference between the two programs is the type of areas where the incentives are available. Connecticut's enterprise zone incentives are available in 17 state-approved enterprise zones, which by law are economically distressed areas no larger than two contiguous census tracts. The number of permitted zones and the criteria for designating them is set in statute. (The law fixes the number of zones at 15, all of which have been designated. It also sets narrow criteria under which DECD can approve additional zones, and two have been approved under those criteria.)

Start-Up NY's incentives are available to businesses operating (1) on vacant land or in vacant building space on or near an eligible college or university campuses or (2) in unused state-owned property a college or university proposes for the program. The program does not limit the number of properties that may be designated as tax-free areas, but as Table 1 shows, imposes other types of limits, which vary by type of college or university.

Table 1: Start-Up NY Targeted Area Criteria

<i>Type of College or University</i>	<i>Targeted Areas</i>			
	<i>On Campus</i>	<i>Off Campus</i>	<i>Business Incubators</i>	<i>State-owned Property (i.e., Strategic State Assets)</i>
State University of New York (SUNY)	Vacant land or building space	Up to 200,000 square feet of vacant land or building space within one mile of campuses, except in Nassau, Suffolk, and Westchester counties	College or university affiliated incubators	Up to 20 affiliated vacant, closed, or scheduled to be closes state-owned land or buildings, each not to exceed 200,000 square
Community Colleges	Same as above	Same as above	Same as above	Same as above
City University of New York (CUNY)	<ul style="list-style-type: none"> • One campus per borough (five) • Campus must be in an economically distressed community 	Off campus property ineligible	Same as above	Same as above
Private Colleges and Universities	Up to 3 million square feet of vacant land or building space located on campuses except in Nassau, Suffolk, and Westchester counties	Off campus property ineligible	Same as above	Not applicable

ELIGIBLE BUSINESSES

The Enterprise Zone and Start-Up NY programs target different types of businesses, reflecting their specific economic development goals. The enterprise zone program mainly targets manufacturers and certain types of retail and service businesses that construct, expand, or rehabilitate facilities in the zones, outcomes that expand local property tax bases, revitalize run-down areas, and create jobs.

Start-Up NY program focuses more on early stage businesses, encouraging them to locate on or near college or university campuses where they can access the academic resources needed to grow. Such businesses qualify for tax-free area incentives if they (1) have business activities that align with the college’s or university’s mission, (2) create jobs, and (3) provide other community and economic benefits. The range of eligible business incentives is narrower in New York City and Nassau, Suffolk, and Westchester counties, where only early-stage high technology businesses qualify for the tax incentives.

TAX INCENTIVES

The Enterprise Zone Program offers a narrower range of tax incentives than Start-Up NY. The former offers:

1. property and real estate conveyance tax exemptions and corporation business tax credits mainly for developing facilities, with the state reimbursing municipalities for a portion of the revenue loss from the property tax exemption;
2. a separate, unreimbursed 10-year property tax exemption for commercial and residential property improvements; and
3. a 10-year corporation business tax credit for any newly formed corporations locating in the zones.

The Start-Up NY Program exempts businesses from business, property, and sales taxes for up to 10 years. It also exempts their employees from personal income taxes for the first five years a business operates in a tax-free area and for an additional five years for those employees whose income falls below a specified threshold. The program limits the number of such exemptions to 10,000 per year.

PROGRAM ADMINISTRATION

Designating and Approving Targeted Areas

The Connecticut and New York programs have similar administrative structures. Connecticut law sets the number of zones and specifies the criteria and process for approving them. Under that process, municipalities propose zones to the DECD for approval. The law limits the number of zones to 15, but allows limited flexibility to add more, consequently there are 17.

New York law does not fix the number of tax-free areas, but specifies the criteria and process for designating and approving them. (Potentially there are 64 campus locations.) Under that process, eligible public and private colleges and universities must submit proposed areas to DED. DED approves areas proposed by public colleges and universities and forwards those submitted by private ones to the three-member Start-Up NY Approval Board for approval. This board also approves strategic state assets for tax free-area designation, which the law limits to 20.

Administering Tax Incentives

Connecticut and New York both use a two-tiered structure to administer the incentives. Connecticut municipalities and DECD market and promote the zones. Businesses seeking zone benefits must first apply to DECD for an eligibility certificate.

DED and eligible New York colleges and universities promote the Start-Up NY program. Colleges and universities with approved tax-free areas screen business applications for eligibility, designate appropriate incentives, and submit the applications and designated incentives to DED for approval.

ANNUAL REPORTING

Connecticut and New York impose similar reporting requirements. Connecticut requires businesses receiving state tax incentives to submit five-year performance reports to their host municipalities that must include, among other things, the number of people they employ. Municipalities must similarly submit five-year performance reports to DECD, which must include them in its annual report to the legislature.

In New York, businesses receiving tax-free area incentives must report annually to DED, which must submit annual performance reports to the governor and legislature.

PROGRAM EVALUATION

Connecticut's program evaluation requirements seem to be more detailed than New York's. By law, DECD must set goals and performance standards for the zones and review them every five years. DECD had to assess the zones performance by February 1, 2012, and include its findings and recommendations in its annual report. In addition, by January 1, 2013, DECD had to recommend whether to remove a zone's designation for failing to meet DECD's performance standards. It did not recommend removing any designation.

In New York, DED must evaluate the Start-Up NY program and report the results to the legislature by December 31, 2020.

Attachment 1: Comparison of Connecticut's Enterprise Zone Program and New York's Start-UP NY Program

<i>Connecticut Enterprise Zone Program (CGS § 32-70)</i>	<i>Start-Up NY (Laws of New York, 2013 Chapter 68)</i>
Purpose	
Stimulate private investment in economically distressed areas or other designated areas and create jobs	Stimulate business startups, expansions, and relocations on or near college and university campuses and create jobs
Targeted Areas	
<p>Enterprise Zones:</p> <ul style="list-style-type: none"> • 15 locally proposed, state-approved zones comprising up to two contiguous census tracts meeting economic distress criteria, i.e. share of population below poverty, on public assistance, or unemployed (all zones have been designated) • Additional zones allowed under narrow criteria (two such zones have been designated) 	<p>Tax-Free Areas:</p> <ul style="list-style-type: none"> • State University of New York (SUNY) and Community Colleges (64 campuses) <ul style="list-style-type: none"> ○ Vacant land or vacant space on campuses ○ Up to 200,000 square feet of off campus vacant land or vacant building space within one mile of campuses located north of Westchester County • City University of New York (CUNY) <ul style="list-style-type: none"> ○ Vacant land or building space on one campus in a distressed area in each of the five boroughs • Private Colleges and Universities <ul style="list-style-type: none"> ○ Up to 3 million square feet of on- or off-campus vacant land or space owned by private colleges and universities and affiliated business incubators • Strategic State Asset <ul style="list-style-type: none"> ○ Up to 200,000 square feet of vacant, closed, or to be closed state-owned property affiliated with a public or private college or university • Business Incubators affiliated with public or private colleges or universities
Eligible Businesses	
<p>In all zones except entertainment zones:</p> <ul style="list-style-type: none"> • Manufacturers • Specified financial and business services • Health services • Fishing, hunting, and trapping • Motor freight transportation and warehousing • Transportation 	<p>New, relocating, or expanding businesses that demonstrate:</p> <ul style="list-style-type: none"> • Mission aligns with college's or university's mission • Create net new jobs created • Generate positive economic and community benefits <p>In specified counties, only early stage, high-tech businesses qualify</p>

Attachment 1 (continued)

Connecticut Enterprise Zone Program (CGS § 32-70)	Start-Up NY (Laws of New York, 2013 Chapter 68)
Economic Development Incentives	
<p>Facility Improvements:</p> <ul style="list-style-type: none"> • Five-year, state reimbursed property tax exemption for real property improvements • 10-year, 25% corporation business tax credit attributed to facility improvements (credit increases to 50% for businesses meeting specified job creation criteria) • Real estate conveyance tax exemption <p>For starting new businesses:</p> <ul style="list-style-type: none"> • 10-year corporate business tax credit for new companies locating in zones: 100% for first three years, 70% for next seven years <p>For commercial and residential real property improvements:</p> <ul style="list-style-type: none"> • 7-year exemption on the value of the improvements (no state reimbursement) 	<ul style="list-style-type: none"> • 10-year business, property, or sales tax exemptions • Personal income tax exemption for business's employees: <ul style="list-style-type: none"> ○ no taxes for first five years ○ no taxes for additional five years for employees with incomes below specified thresholds

Attachment 1 (continued)

Connecticut Enterprise Zone Program (CGS § 32-70)	Start-Up NY (Laws of New York, 2013 Chapter 68)
Program Administration	
<p>Zone Designation:</p> <ul style="list-style-type: none"> • Municipalities propose zone eligible area to Department of Economic and Community Development (DECD) for approval • State and municipalities promote zones <p>Accessing Benefits</p> <ul style="list-style-type: none"> • DECD certifies business eligibility • Eligible businesses claim tax credits on their tax returns 	<p>Tax-Free Area Designation:</p> <ul style="list-style-type: none"> • Eligible colleges and universities propose tax free areas to the Department of Economic Development (DED) by submitting plans describing: <ul style="list-style-type: none"> ○ businesses that will operate in the areas ○ how their activities align with the college or university's mission ○ how businesses will create jobs and generate other economic and community benefits • DED approves public college- or university-proposed tax-free areas and certifies businesses eligible for area's benefits • Tax-free areas proposed by private colleges and universities or that encompass strategic state assets must be approved by Start-Up NY Approval Board <ul style="list-style-type: none"> • Board may designate up to 20 SUNY, CUNY, or community college-supported Strategic State Assets by 2020 • Colleges and universities must submit copy of proposed plan to municipality and other entities at least 30 days before submitting it to DED <ul style="list-style-type: none"> ○ If plan designates area off campus areas, college and university must consult with affected municipalities and give priority to underutilized properties • DED commissioner may approve plan after consulting with chancellor of the applicable university system • Commissioner must forward plans submitted by private colleges and universities to three member Start-Up NY Approval Board, which must approve them based on statutory criteria <p>Implementing Tax Free Area:</p> <ul style="list-style-type: none"> • Colleges and universities <ul style="list-style-type: none"> ○ accept applications from interested businesses until December 31, 2020 ○ submit each application to commissioner, who has 60 days to act on it ○ SUNY applications involving lease agreements must be approved by Start-Up NY approval board

Attachment 1 (continued)

<i>Connecticut Enterprise Zone Program (CGS § 32-70)</i>	<i>Start-Up NY (Laws of New York, 2013 Chapter 68)</i>
<i>Reporting and Evaluation</i>	
<ul style="list-style-type: none"> • DECD must set goals and performance standards for the zones and review the goals every five years • Businesses receiving enterprise zone benefits must submit five-year performance reports to host municipality • Municipalities must submit five year performance reports to DECD • DECD had to assess enterprise zones' performance in 2012 annual report and recommend program improvements • By January 1, 2013, DECD had to recommend whether to de-designate any zones failing to meet DECD's performance standards 	<ul style="list-style-type: none"> • Participating businesses must submit annual reports to commissioner • DED must submit annual program performance report to governor and legislature • Before December 31, 2020, commissioner submit a report to governor and legislature evaluating program's effectiveness

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