

Enterprise Zone Program Overview

By: Shaun McGann, Legislative Analyst II

October 28, 2020 | 2020-R-0252

Issue

This report answers a series of frequently asked questions about Connecticut's enterprise zone program and updates OLR Report [2016-R-0033](#). For more detailed information about the program and related topics, see the reports listed at the end of this report.

What is the Enterprise Zone Program?

The enterprise zone program offers various tax incentives and other benefits to businesses that start up in or improve real property in areas designated as enterprise zones. This designation is one of several geographic designations the state and federal government use to target economic development assistance (e.g., [distressed municipalities](#), [public investment communities](#), [opportunity zones](#)).

What is the process for designating Enterprise Zones?

Enterprise zones have been designated, a few at a time, over several decades. The legislature, municipalities, and the Department of Economic and Community Development (DECD) each play a role in the zone designation process. The legislature authorizes the DECD commissioner to approve a specified number of zones and establishes the criteria that proposed zones must meet to be approved ([CGS § 32-70](#)). (The number of zones and criteria has changed over time. See below.) Municipalities then propose, for designation, areas that meet the statutory criteria. A proposed zone may cover up to two census tracts that (1) meet specific poverty criteria and (2) allow industrial and commercial uses. The DECD commissioner then reviews and approves or rejects the zone.

How has the program changed since its inception?

In 1981, Connecticut became the first state to establish an enterprise zone program when the legislature authorized the DECD commissioner to designate six zones based on statutory criteria (PA 81-445). Over the past several decades, the legislature has made many changes to the program, including expanding the number of zones, changing the eligibility criteria for zone designation, and adding to the types of businesses eligible for benefits under the program.

In most instances, the legislature authorized the DECD commissioner to approve a specified number of zones according to broad eligibility criteria. For example, the initial two designation rounds authorized a total of 10 zones – four in municipalities with a population of 80,000 or more and six in municipalities with a population of fewer than 80,000. The proposed zones also had to meet specific poverty criteria (e.g., 25% of the proposed zone’s population had to be below the federal poverty level or unemployed).

However, over time, the legislature has shifted from this practice, authorizing additional zones based on narrower designation criteria. For example, in 1993 it authorized two additional enterprise zones in municipalities with a population of 80,000 or less that are affected by plant or military base closings ([PA 93-331](#)). In 2014, it required the commissioner to approve two additional zones based on population criteria tailored for two specific towns (Thomaston and Wallingford) ([PA 14-217](#), § 177). It has also authorized the DECD commissioner to designate zones, under narrow criteria, in addition to those authorized in statute.

For a comprehensive legislative history from 1981 through 2011, see OLR Report [2011-R-0314](#).

Recent Legislation Affecting the Enterprise Zone Program

[PA 16-3, May Special Session](#), § 24 authorized the DECD commissioner to establish up to 10 knowledge center enterprise zones in the state’s distressed municipalities based on proposals submitted by higher education institutions. Under the act, businesses located in knowledge center enterprise zones receive the same benefits, subject to the same conditions, as those located in general enterprise zones.

[PA 16-146](#), § 5 specified that the mill rate used to calculate reduced property tax assessments under the local option property tax relief program for qualifying commercial and industrial property owners in municipalities with state-approved enterprise zones is the mill rate imposed on real and personal property other than motor vehicles.

[PA 17-219](#), § 9 reduced the required content of DECD’s four-year strategic economic development plan, including eliminating the requirement that the department review and evaluate the operation and efficacy of enterprise zones.

[PA 18-145](#) ended the two corporate business tax credit benefits offered through the enterprise zone program (see below for additional details.)

How many zones are currently designated?

There are 18 enterprise zones currently designated, and one (Wallingford) which has been authorized by the legislature but not yet designated by DECD. The designated enterprise zones are in the following towns: Bridgeport, Bristol, East Hartford, Groton, Hamden, Hartford, Meriden, Middletown, New Britain, New Haven, New London, Norwalk, Norwich, Southington, Stamford, Thomaston, Waterbury, and Windham.

What are the zones' benefits?

Enterprise zone program benefits are generally available to businesses that start up in or improve real property in areas designated as enterprise zones. Prior to the legislature enacting [PA 18-145](#), the benefits generally available to businesses through the enterprise zone program fell into two categories: (1) property tax exemptions and (2) corporate business tax credits.

Enterprise zone property tax exemptions, which [PA 18-145](#) did not impact, include the following:

- a five-year, 80% property tax exemption for improving or acquiring “manufacturing facilities” and acquiring machinery and equipment. The state generally reimburses the municipality for half the forgone property tax revenue, depending on available funding ([CGS § 12-81\(59\) & \(60\)](#))
- a seven-year property tax exemption (100% in first two years, 50% in third, and a decrease in 10% in each of the remaining four years), with no state reimbursement, for commercial and residential real property improvements that do not qualify for the 5-year, 80% exemption (other than improvements to manufacturing facilities) ([CGS § 32-71](#)).

Enterprise zone corporate business tax credits included the following:

- a 10-year, 25% corporate business tax credit attributed to facility improvements. The credit increased to 50% for certain businesses that meet resident employment criteria ([CGS § 12-217e](#))
- a 10-year corporate business tax credit (100% for first three years, 50% for next seven years) for starting a new business in an enterprise zone (business must employ a certain number of residents to qualify) ([CGS § 12-217v](#)).

[PA 18-145](#), *An Act Eliminating Certain Unclaimed and Seldom Claimed Tax Credits*, ended the two corporate business tax credit benefits. Specifically, the act closed, on or after July 1, 2018, new applications for the 10-year credit available for developing or acquiring facilities for specified uses in enterprise zones and other designated areas but allowed businesses that were awarded the

credit before this date to continue to claim it until the end of the 10-year period ([CGS § 12-217e](#)). Additionally, the act eliminated the 10-year corporate business tax credit for establishing a new business in an enterprise zone and meeting specified employment goals, effective July 1, 2018 ([CGS § 12-217v](#)).

What is a manufacturing facility?

Which enterprise zone property tax exemption businesses are eligible for depends upon whether they meet the statutory definition of “manufacturing facilities,” which also includes certain facilities used for nonmanufacturing purposes ([CGS § 32-9p\(d\)](#)).

For the purpose of the enterprise zone program, “manufacturing facilities” refers to any plant, building, or other real property improvement that is located in an enterprise zone and used as follows:

1. for manufacturing, processing, or assembling raw materials, parts, or manufactured products;
2. for manufacturing-related research and development facilities;
3. for servicing, overhauling, or rebuilding industrial machinery and equipment;
4. by a business that the commissioner determines (a) will materially contribute to the economy (“economic base business”) or (b) is part of an economic cluster (i.e., a group of industries linked by customer, supplier, or other relationships) ([CGS § 32-222](#)); or
5. by a business engaged in any of a number of specified industries, including fishing, hunting, and trapping; other types of manufacturing (e.g., food and beverage manufacturing); transportation and warehousing; certain financial and insurance services; certain educational services; child day care services; computer hardware, software, or networking; and telecommunications or communications.

What is a Targeted Investment Community?

The law designates municipalities that contain enterprise zones as “targeted investment communities” (TICs) ([CGS § 32-222](#)). Certain businesses located in these municipalities, but outside an enterprise zone, are still eligible for a five-year, state-reimbursed property tax exemption for improving “manufacturing facilities” and acquiring machinery and equipment. However, the exemption varies depending on the value of improvements, up to a maximum of 80% for improvements valued over \$90 million ([CGS § 12-81\(59\) & \(60\)](#)). (This is commonly referred to as the “Urban Jobs Program.”)

Additional benefits available to TIC businesses under other programs are detailed in Table 6 of OLR Report [2011-R-0307](#).

Are there other types of zones similar to Enterprise Zones?

Yes. The legislature has authorized similar types of zones targeting specific facilities, business sectors, and geographic areas. They are as follows:

Zones Allowed Only in Towns With Enterprise Zones

- Entertainment District ([CGS § 32-76](#))
- Qualified Manufacturing Plants ([CGS § 32-75c\(b\)](#))
- Railroad Depot Zone ([CGS § 32-75a](#))

Zones Allowed Only in Towns Bordering Towns With Enterprise Zones

- Contiguous Municipality Zone ([CGS § 32-70\(b\)\(3\)](#))
- Qualified Manufacturing Plants ([CGS § 32-75c\(a\)](#))

Zones Allowed in any Town Meeting Statutory Criteria

- Airport Development Zone ([CGS § 32-75d](#))
- Bioscience Enterprise Corridor Zone ([CGS § 32-41s](#))
- Defense Plant Zone ([CGS § 32-56](#))
- Enterprise Corridor Zone ([CGS § 32-80](#))
- Knowledge Center Enterprise Zones ([CGS § 32-70g](#))

Enterprise zone benefits are generally available to businesses in these zones. For more information, see OLR Report [2011-R-0307](#) and [DECD's overview](#) of these zones.

What has been the economic impact of Enterprise Zones?

There is limited research on the economic impact of Connecticut's enterprise zones. The state legislature's Program Review and Investigations Committee (PRI) staff analyzed the program in 1997 and DECD reports on the program in its annual report. Additionally, many researchers have analyzed similar "place-based" enterprise zone programs in other states.

1997 Program Review and Investigations Study

PRI staff, in its 1997 [analysis](#) of Connecticut's enterprise zones, evaluated the program's effectiveness based on (1) program goals set by the legislature, (2) changing need (poverty) in enterprise zone municipalities, and (3) views of program participants.

PRI determined the program was meeting two of its goals (increasing private investment and expanding the local tax base), but it was unclear if it was meeting the other two (increasing jobs and reducing property abandonment). Because the zones are generally economically distressed areas that were designated using poverty measures as criteria, PRI examined how poverty had

changed in municipalities with enterprise zones. It found that poverty had not changed much from the 1980 census to the 1990 census (the most recent at the time), and poverty actually got worse in some of the zones. When PRI spoke to program participants, they found that people generally believed the zones were an important economic development tool and provided a “psychological boost” to businesses in the area and looking to relocate there. However, some participants said the incentives were less of a draw to the zone than other factors, such the area’s manufacturing talent.

Although results varied between the zones, ultimately PRI concluded that the program’s outputs mostly outweighed their costs, in large part because the program’s cost was not very high. However, they were unable to link any economic growth directly to incentives provided under the program and note that areas that experienced growth may have done so without enterprise zone incentives.

DECD Annual Report

As discussed above, [PA 17-219](#) eliminated the requirement that DECD review and evaluate the operation and efficacy of enterprise zones in its strategic plans. Therefore, DECD's [2015 strategic plan](#) was the agency's last plan to include enterprise zone metrics (see pages 63-64). However, DECD's [2019 annual report](#) includes an analysis of the program (see pages 17-20).

According to the report, between 2014 and 2018, DECD certified an annual average of 41 new companies as eligible for enterprise zone benefits. Additionally, the program averaged \$2,298,173 in claimed abatements for newly certified investments per year with an average associated investment value of \$111,098,024 over this time period.

Using the REMI Tax-PI model (see Appendix A of the report for a detailed methodological description of this model), DECD generated economic impact estimates for new investments in the enterprise zone program during the 2018 Grand List Year (GLY), which ran from the start of October 2018 through September 2019, as shown in Table 1. According to DECD, "The estimated results suggest that the EZ abatement program has a positive impact on the state, with over four dollars earned for each dollar the state contributes to the program for investments in GLY 2018."

TABLE 1: ESTIMATED ECONOMIC IMPACT OF NEW INVESTMENTS	
	Impact (GLY 2018)
Abatements Claimed for New Investments	\$6,282,713
Assumed State Reimbursement to Towns	\$3,141,356
Estimated State Revenues	\$13,583,800
Estimated State Expenditures	\$3,744,100
Estimated Net State Revenue	\$9,839,700

Source: DECD

In the same report, DECD recommended that the state's enterprise zone program be continued with the following modifications:

1. add new requirements to ensure that the state's revenue increase offsets the state's costs incurred by reimbursing municipalities for the tax abatement and
2. fund the program on an ongoing annual basis through the General Fund, rather than bonded financing, to ensure the state reimburses local communities for 50% of the tax abatement.

Evaluation of Other States' Zones

Program evaluations of other states' zones include several findings that could apply to Connecticut. Some of those findings are outlined in a 2005 policy brief from the Minnesota legislature which provides an overview of the research conducted on enterprise zones around the country ([Enterprise Zones: A Review of Economic Theory and Empirical Evidence, Minnesota House of Representatives Research Department, 2005](#)). The brief discusses the empirical research, methodologies, conclusions, and policy recommendations derived from the research.

The brief notes that the studies and their results vary widely and deliver mixed conclusions but concludes overall that "most social scientists uncover little net benefit to enterprise zones." Research on the effectiveness of zones' tax incentives suggests that certain preexisting regional conditions may make the zones more economically successful. Specifically, incentives seem to be more effective in areas with low unemployment rates, high levels of investment, and suburbs. These may be locations that investors might already expect to be profitable or close to being profitable. It also notes that, overall, tax incentives seem to have small positive effects, but they may be most effective in already economically viable areas.

The brief notes that although researchers have not reached a consensus on the zone's employment effects, they have identified certain patterns:

- larger financial incentives seem to make it more likely that a zone will create jobs (although at some point, the state may spend too much money per job and other policies may be better suited to develop an area);
- areas with fewer barriers to business success (e.g., polluted site cleanup, few skilled laborers, etc.) are more likely to be successful;
- employment may shift, rather than grow, as employers that would have located outside the zone may locate in the zone to take advantage of benefits;
- zone development may not occur if the quality of public services suffers (e.g., roads, schools, job training, etc.); and
- subsidies that come with too many strings may stifle job growth.

The brief also lists various policy recommendations the studies proposed. They include:

- evaluate regularly the zone's effects;
- find ways to limit incentives only to firms that are induced to locate in the area because of the program;
- choose the right set of tax incentives and other benefits (e.g., consider who benefits from an incentive and focus on incentives that are likely to produce economy-wide returns);
- increase the type and amount of benefits in areas with more barriers to business and job growth, and for areas with severe barriers, consider other policies;
- if the goal is to increase employment among local residents, consider whether other policies may be needed (studies have found that zones in urban areas have little effect on residents' unemployment);
- keep regulations and restrictions to a minimum; and
- avoid creating too many enterprise zones, because this could dilute the effect of individual zones.

Related OLR Reports for More Information

Other States Distressed Municipalities Programs ([2017-R-0214](#)) – describes how other states assist distressed municipalities and provides information on designations in Connecticut.

Urban Jobs Program ([2011-R-0492](#)) – provides a summary of the urban jobs program, which is another economic development program with geographic targeting requirements that are interconnected to the enterprise zone program.

History of Changes to the Enterprise Zone Program ([2011-R-0314](#)) – provides a legislative history of the enterprise zone program.

Enterprise Zones ([2011-R-0307](#)) – an update in part of 2007-R-446; provides a detailed description of enterprise zones and related economic development zones and the benefits available in the zones.

Enterprise Zone Property Tax Exemption ([2008-R-0461](#)) – focuses on the legislative intent and history of the program's residential property tax benefits.

Types of Business Incentive Zones ([2007-R-0446](#)) – provides a comprehensive overview of the different types of zones, and includes information on the program's administration and evaluation criteria.

SM:kl