ENTERPRISE ZONES

Connecticut

General Assembly

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LEGISLATIVE
PROGRAM REVIEW
AND
INVESTIGATIONS
COMMITTEE

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CONNECTICUT GENERAL ASSEMBLY
LEGISLATIVE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE

The Legislative Program Review and Investigations Committee is a joint, bipartisan, statutory committee of the Connecticut General Assembly. It was established in 1972 to evaluate the efficiency, effectiveness, and statutory compliance of selected state agencies and programs, recommending remedies where needed. In 1975, the General Assembly expanded the committee's function to include investigations, and during the 1977 session added responsibility for "sunset" (automatic program termination) performance reviews. The committee was given authority to raise and report bills in 1985.

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LEGISLATIVE PROGRAM REVIEW
& INVESTIGATIONS COMMITTEE

Enterprise Zones

DECEMBER 1997

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Executive Summary

ENTERPRISE ZONES

The Legislative Program Review and Investigations Committee approved this study of the state enterprise zone program in February 1997. The enterprise zone program is a state economic development tool intended to target specific geographic areas, considered especially economically depressed, within municipalities. The program operates largely through tax incentives available to manufacturing businesses certified by the Department of Economic and Community Development as eligible for the program.

October 8, 1997, marked the 15th anniversary of the establishment of the first six enterprise zones in Connecticut. Since then, 11 more zones in 11 towns have been established, as well as two enterprise corridors zones including 13 towns. Other expansions of the zone concept have also been made.

Among the study's areas of analysis were to: review the original intent of the enterprise zone program, and to examine any changes over time; examine the degree to which the current statutory requirements of the enterprise zone law are being carried out; determine the extent of business use of zone incentives; examine the processes for monitoring zone program results; and identify and assess the results from the enterprise zone program.

The committee assessed the program from three perspectives: meeting program goals; continuation of need; and views of program participants. Program costs were also considered. The state "cost" of the enterprise zone program for 1993 and 1994 was $510,358 and $658,898 respectively, when combining the state reimbursement amount for the property tax abatement with the amount claimed for the corporate tax credit.

On balance, given the continuing needs of Connecticut's municipalities, the program support from municipalities with zones, and the fact that relatively speaking, the enterprise zone program does not represent a large revenue loss to the state in terms of the property tax reimbursement and the corporate tax credit, the committee concludes the program should continue. The committee also concludes that a renewed commitment to accountability and collaboration from all parties is needed. Its recommendations are intended to promote these interests.

In particular, while acknowledging difficulties from staff changes and transitioning from the agency merger combining economic development and housing, a renewed commitment from DECD is needed in moving from a passive stance to a more proactive relationship with the zone program, as envisioned by legislative changes in recent years. Also, participating municipalities and businesses will have to accept the need for useful information on program results, and work in collaboration with DECD.

RECOMMENDATIONS

1. ***The program review committee recommends DECD maintain a comprehensive database on enterprise zone activities and outputs, including its urban jobs component, that includes the following elements:***

   a) ***Whether a company is a start-up, relocating and from where, or an expansion;***

   b) ***The current number of employees (if applicable) at time of certification;***

   c) ***Job retention and creation numbers;***

   d) ***The actual increase in assessed value of any real property due to acquisition, expansion, construction or renovation;***

   e) ***Whether the certified business submitted a claim for personal property and real estate property abatement for the preceding October 1 Grand List, and the amount of the abatement;***

   f) ***Whether the certified business claimed a corporate tax credit, for what amount, at the 25 percent or 50 percent level, and how many jobs have been created if the 50 percent tax credit is claimed;***

   g) ***Whether a company within the enterprise zone, certified and otherwise, received grants, or loans under the targeted Growth Fund, or any other targeted state financial assistance programs, and for what amount;***

   h) ***Whether job incentive grants have been applied for and/or received and in what amount; and*** *j) If a company has gone out of business, or moved out of the zone or municipality.*

2. The committee recommends the statute be amended as follows:

DECD may request, and shall receive, from state agencies and municipalities, such information as it deems necessary to fulfill its program monitoring responsibilities.

3. DECD shall collect data on the use of the local seven-year tax abatement, including the type and amount of each claim.

4. The committee recommends DECD shall report annually to the legislature on enterprise zone activities. The report shall summarize data from the comprehensive data base recommended above, by municipality, and include certificate activity for both enterprise zone and urban jobs, job incentive grants, benefit use and level, and utilization of the local seven year abatement benefit.

5. The committee recommends DECD review the revitalization plans it has obtained, and require those municipalities that did not submit plans to do so by July 1, 1998. The municipalities with plans shall submit status reports on implementation measures in the plans up through July 1, 1998. DECD, in consultation with municipalities with the zones and upon review of the plans, shall develop goals and performance standards for the enterprise zone program by October 1, 1998. Annually thereafter, the municipalities shall report on their progress in meeting the standards. The DECD commissioner shall still have the authority to remove any zone designations from municipalities not meeting the standards.

6. The program review committee recommends the statutes be amended so the roles and responsibilities of the community boards will be the same regardless of when a zone was established.

7. The committee recommends that DECD host seminars on matters of general or specific interest at least once a year for municipal personnel involved with the enterprise program.

8. The committee recommends that this additional position be filled as soon as possible.

9. The program review committee recommends the enterprise zone and manufacturing facility credit forms be amended to reflect what the actual options are, and require a business to affirm it has met the specific requirements of the 50 percent enhanced tax credit. Also, DRS should conduct an audit to ensure that ineligible businesses have not claimed the 50 percent credit.

Introduction

Enterprise Zones

The enterprise zone program is a state economic development tool intended to target specific geographic areas, considered especially economically depressed, within municipalities. The program operates largely through tax incentives available to manufacturing businesses certified by the Department of Economic and Community Development as eligible for the program.

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Methodology. In carrying out this study, all pertinent statutes and regulations were reviewed. Literature about general economic development as well as specific experiences in other states was reviewed. Pertinent state officials involved with the enterprise zone program were interviewed. Also interviewed were municipal personnel from almost every enterprise zone as well personnel connected with the enterprise corridor zones. Some zones were toured.

Data were collected and analyzed from business certification files maintained by the Department of Economic and Community Development. Enterprise zone property tax reimbursement data maintained by the Office of Policy and Management were compiled and analyzed. Under the committee's statutory authority to review confidential records and maintain them as such, Department of Revenue Services tax records related to the enterprise zone program were also reviewed. Finally, a public hearing was held on September 11 to elicit views on the program.

This report is organized into five chapters. The first chapter describes the enterprise zone program. Chapter Two sets out the benefits of the program, focusing on the tax incentives for manufacturing businesses. Chapter Three describes how the program is actually implemented. Chapter Four looks at actual program outputs, and discusses the changing context within which the zone program has operated. Finally, Chapter Five contains an assessment of the program's effectiveness, describes certain program administration problems, including a failure to implement program evaluation measures, and sets out the committee's findings and recommendations to address certain identified problems.

Agency comments. It is the policy of the Legislative Program Review and Investigations Committee to provide state agencies subject to a study with an opportunity to review and comment on the recommendations prior to the publicaiton of the final report. Comments from the commissioner of the Department of Economic and Community Development are contained in Appendix A.

Key Points

Chapter One: Current Program Description

- Connecticut enacted its enterprise zone program in 1981, effective July 1, 1982.
- The program is an economic development tool intended to target specific geographic areas, considered especially economically distressed, within a municipality.
- In 1981, six enterprise zones were authorized by the legislature. Current statutes authorize 17 enterprise zones in 17 towns. In addition, there are two enterprise corridor zones, comprised of "industrial districts" scattered throughout 13 towns.
- A municipality can only have one enterprise zone.
- Benefits under the enterprise zone program are primarily in the form of tax incentives to manufacturing businesses acquiring (by purchase or lease), constructing, renovating, or expanding manufacturing, warehousing and service facilities within the zones.

Chapter One

PROGRAM DESCRIPTION

Background

The Connecticut enterprise zone program was enacted in 1981, effective July 1, 1982. The enterprise zone idea apparently originated in Britain in 1978, with a leading member of the British Parliament. His new approach to urban blight was to:

> remove as much government as possible from a number of small areas in the most derelict and depressed sections of Britain's cities. Within these enterprise zones, occupying perhaps a square mile or so, taxes and government regulation would be virtually eliminated to create the most attractive possible environment to flourish. Private enterprise would thereby be encouraged to revive areas in which government development programs had so dismally failed.[1]

According to the literature, the idea piqued interest in the United States, evidenced in part by its endorsement in 1979 by the Heritage Foundation, a conservative Washington, D.C., think tank. The enterprise zone concept was championed by then New York Congressman Jack Kemp, who introduced the first federal enterprise zone bill in 1980. The concept was also part of newly elected President Reagan's urban agenda. (Although it seemed that a federal enterprise program was imminent, it wasn't until 1987 that one was actually enacted).

In part because of anticipation of federal legislation, Connecticut, as well as other states, began to enact enterprise zone programs of their own. Currently 36 other states and the District of Columbia have some sort of enterprise zone program. As noted by one commentator: "There is a wide diversity among zones in terms of criteria used to create them, administrative practices, relationship to other government programs, size, scope, and complexity."[2]

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[1] Stuart M. Butler, The Conceptual Evolution of Enterprise Zones, pg. 27, from *Enterprise Zones: New Directions in Economic Development*, Sage Publications 1991

[2] Enid Beaumont, Enterprise Zones and Federalism, p. 41, from *Enterprise Zones: New Directions in Economic Development*, Sage Publications 1991

In Connecticut, although the targeted nature of the enterprise zone program to a relatively small geographic area within a municipality was new, two core elements of the program piggybacked onto the already existing distressed municipality program. Since 1978, Connecticut has had a program providing manufacturing businesses and facilities in certain distressed municipalities with 80 percent property tax abatements for five years and 25 percent corporate tax credits for 10 years. This program, although reconfigured since 1978, still exists, and is commonly known as the Urban Jobs program. These same benefits are the cornerstone of the enterprise zone program, although the corporate tax credit is enhanced to 50 percent under certain circumstances.

Benefits available only under the enterprise zone program include: 1) a sales tax exemption on any machinery replacement parts sold to a business in a zone; 2) use of the employment training voucher program; 3) an enterprise zone capital formation revolving loan fund; and 4) a seven-year property tax abatement on improvements for facilities not eligible for the five-year manufacturing facility improvement property tax abatement.

The already operational Job Incentive Grant Program was made available as a zone benefit program. Under that program, businesses could obtain a lump sum for every new employee hired, assuming certain criteria were met and subject to a total cap.

An anticipated but never realized component of the enterprise zone program was to address the burden of regulation on enterprise zone businesses. In the 1981 legislation, a commission was established to study the "regulatory and licensing policies of the state and local governments to determine the extent to which such policies restrict the development of entrepreneurial activities". The original deadline of February 1982 was extended once to January 1983. However, the work initially envisioned by the legislation was never completed.

Program Goals

There is no specific statement of legislative intent prefacing the enterprise zone statutes. Program review staff identified three sources for evidence of program goals. First, the benefits themselves indicate a program goal was increased private investment in property. Such an increase would add to the tax base, utilize unused or underused facilities, and increase production capacity through new machinery, thus perhaps creating jobs. The enhanced corporate tax credit evidences the purpose of increased jobs and employment for zone residents, as does the job incentive grant program.

Second, a 1985 report on the enterprise program required by the legislature and prepared by the Department of Economic Development (predecessor to DECD) stated the program had two purposes:

> 1) To channel investment to particularly distressed inner-city core neighborhoods reversing a decades-long flow of business, industry, dollars and population; and 2) to encourage some

> of that investment, lured by State and local benefits, [to] directly create jobs for inner-city (Zone) residents.[3]

Further discussing the intent of the program, the 1985 report also noted:

> From the beginning the Connecticut Enterprise Zones were viewed as an experiment, a tool that might possibly turn the tide in the aging industrial centers' most blighted neighborhoods. Never were they seen as a substitute for the State's and municipalities' proven development programs, including Urban Jobs, Industrial Parks, a variety of loan programs, the federally funded Community Development Block Grant, Urban Development Action Grant, and others.[4]

Finally, the legislature in 1993 required DECD to establish goals and performance standards for zones. The legislation directed DECD to consider the following, among others, as goals:

- increasing private investment;
- expanding the local tax base;
- providing job training and job creation for residents of enterprise zones; and
- reducing property abandonment and housing blight in the zones.

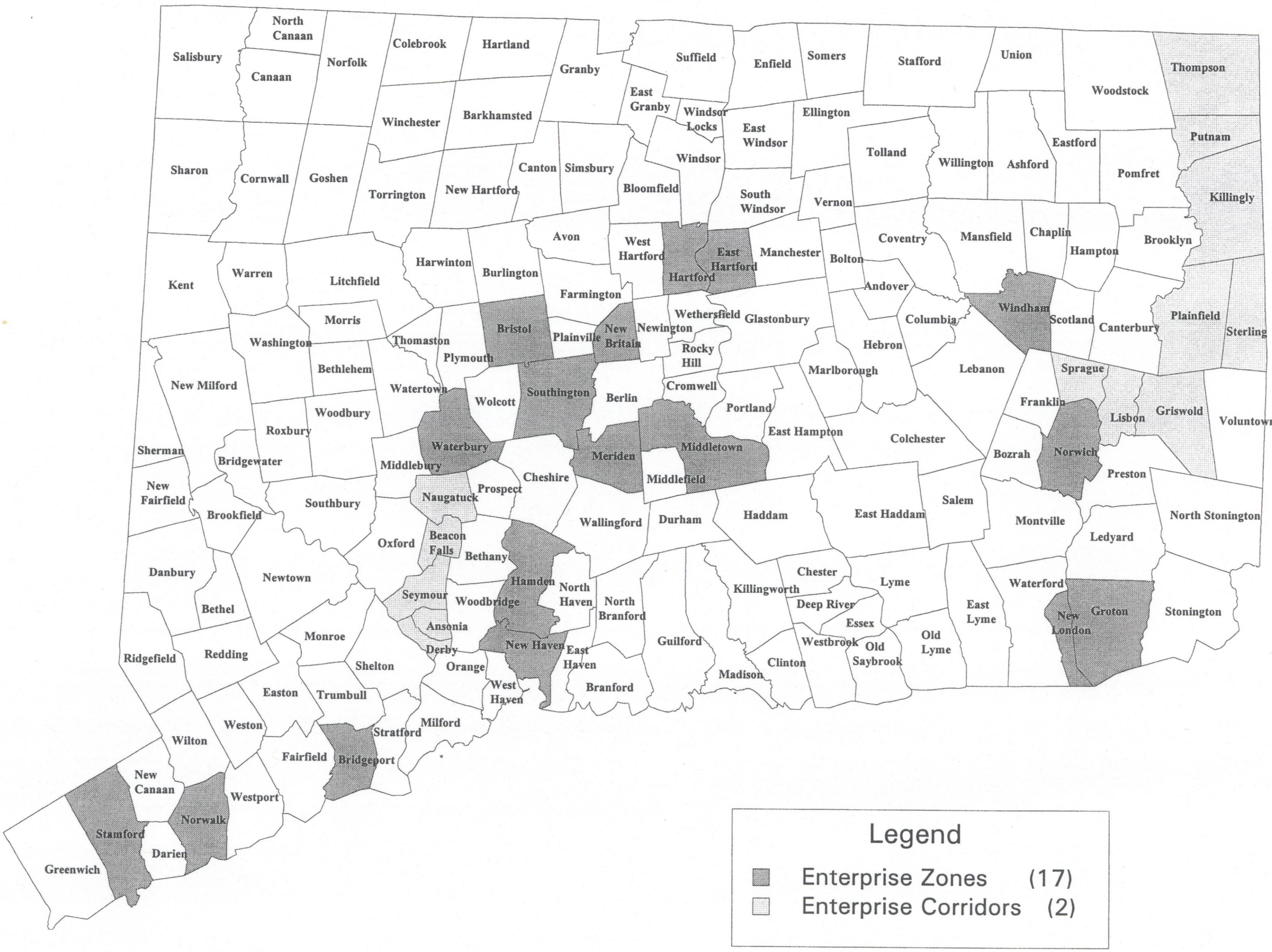
Initial Zone Authorization and Designation

The legislature controls the number of zones authorized in Connecticut. Beginning in 1981, the legislature authorized six zones. In 1986, five more zones were authorized; five more in 1993; and one more in 1995, for a total of 17. All authorized zones are operational at this time. The map in Figure I-1 illustrates the towns in which current zones exist. Also shown on the map are the two enterprise corridor zones, which are collections of "industrial districts" within groups of towns. Corridor zones are described later in the chapter.

[3] *Enterprise Zones The Connecticut Experience*, A Report to the Connecticut General Assembly by the Connecticut Department of Economic Development, p. 2, December 1985

[4] Ibid., pp. 1-2

Figure I-1. Connecticut Enterprise Zones and Enterprise Corridors.



The legislation explicitly states that five zones must be in municipalities with more than 80,000 residents, while 10 are to be in municipalities with less than 80,000.[5] The Department of Economic and Community Development receives and approves municipal applications for zone designation. The commissioner cannot designate more than one enterprise zone in one municipality.

After the first six enterprise zones were approved, the legislature enacted a statutory application process in 1986. Each municipality seeking enterprise zone designation must file a preliminary application with the commissioner. Within two months after receipt of an application, the commissioner must indicate to the municipality in writing any recommendations for improving the application. Within two months after receipt of the commissioner's written response, the municipality files a final application with the commissioner.

Census tracts. As structured in Connecticut, the zone program is an economic development tool targeted to a specific geographic area within a municipality. The specific geographic areas are based on census tracts within municipalities. A zone may initially consist of one or two contiguous tracts, or parts of tracts. (Over the years, amendments have allowed the zones to expand and encompass areas outside the tracts).

A census tract is a specifically designated geographic area. Generally formed around population size, census tracts in Connecticut range in size from 2500 to 8000 residents, and can be of varying land areas. For example, Bridgeport, a city of 138,730 people and 17.5 square miles, has 46 census tracts. This compares to a town like Sterling, with 2,490 residents and 27.2 square miles, that has one census tract.

Economic distress indicators. In order to qualify as a zone, at least one of the census tracts has to meet a threshold, or primary, level of economic distress. Further, since 1986, the commissioner is also to consider the development rationale, proposed local effort, and job creation potential of any new zone. Except for three zones authorized for municipalities with plant/base closings,[6] the other 14 must meet the same economic threshold criteria:

1) 25 percent or more of the people living in the individual census tracts must have income below the poverty level; or

[5] The other two zones were authorized because of connections to already existing zones, and so have no specific population requirement.

[6] For the zones authorized for plant/base closing purposes in 1993, if the proposed census tracts contain the base or plant, the primary economic indicators do not have to be met. If the proposed census tracts do not include the base or plant, the economic criteria must be met just like in any other zone.

2) 25 percent or more of the families living in the individual census tract must receive public assistance or welfare income; or

3) unemployment rate of the individual census tracts must be at least double the state's average (200 percent).

Reduced eligibility criteria. If one census tract qualifies under the primary eligibility criteria and if the DECD commissioner determines that a contiguous census tract, not meeting the primary threshold, has significant job creation potential, the commissioner may include the contiguous census tract (or part of it) in the enterprise zone instead of a second primary census tract. The commissioner may do so if the contiguous census tract meets at least one of the following reduced, or secondary, criteria:

1) 15 percent or more of the persons within the census tracts shall have income below the poverty level; or

2) 15 percent or more of the families receive public assistance or welfare income; or

3) the unemployment rate must be at least one and a half times the state average (150 percent).

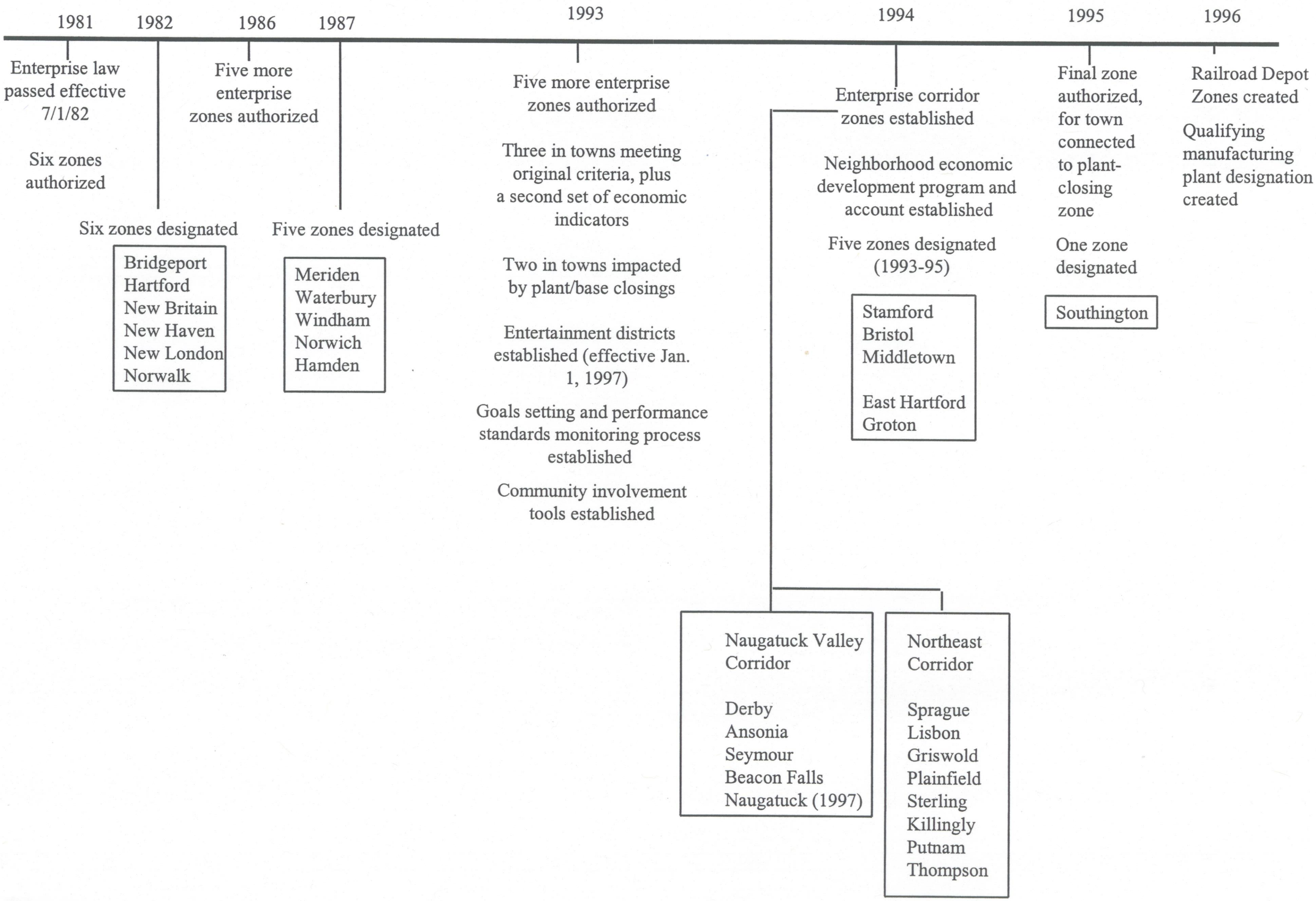
The source for these data is the most recent U.S. census, "as officially updated by the appropriate state agency or institution."[7]

In 1982, 19 cities contained census tracts that met the primary criteria. In the six communities selected to host zones, 65 census tracts qualified as primary tracts and 103 qualified as secondary tracts. Each zone was made up of just two tracts.

Figure I-2 shows the progression of zone authorizations and selections over time. Zone authorization refers to the statutory provision which permits a zone in a municipality meeting certain criteria; specific municipal names are never cited. Zone selection refers to the process that occurs after authorization, when municipalities apply for and are selected by DECD to host zones. The original six zones selected were in: Bridgeport; Hartford; New Britain; New Haven; New London; and Norwalk. In 1986, the second set of zones were authorized by the legislature. The municipalities selected for these zones were: Meriden; Waterbury; Windham; Norwich; and Hamden.

[7] C.G.S. Sec. 32-70

Figure I-2. Timeline of Enterprise Zone Events



Plant or base closing criteria. In 1993, the legislature authorized five more zones. With this authorization, the legislature altered the criteria. Two of the five had to be in towns smaller than 80,000, in different counties and have experienced one or more military base or plant closings. A closing by definition had to have occurred between 7/1/89 and 7/1/93, or be scheduled to occur between 7/1/93 and 7/1/96, with the closing impacting over 2,000 jobs.

As explained in footnote six, if the zone area included a part of the census tract in which the plant or base was located, the census tract did not have to meet the primary economic criteria. However, if the zone was located elsewhere in the municipality, the standard criteria had to be met. The two towns in which zones were selected under this plant/base closing authorization were East Hartford and Groton. In 1995, the statutes were amended to allow for a zone in a town that hosts a plant owned by the same business whose plant triggered a zone in another municipality. Southington established a zone under this provision because it hosts a plant owned by the same aerospace manufacturer also located in East Hartford.

Additional layer of economic criteria. For the three other enterprise zones authorized in 1993, the census tracts in the areas are to meet the regular eligibility criteria, but are subject to a second set of criteria. Those towns the commissioner determined to have experienced the largest percentage increases in poverty from 10/1/89 to 10/1/93, based on a weighted average of the unemployment rate and per capita income less than 90 percent of the state average, were to be selected.[8] For these zones, the commissioner may also consider commercial and industrial vacancy rates in a municipality and the municipality's plans for implementing an effective zone program.

Expanding zones. Any municipality with an enterprise zone may expand the zone by applying for one or more additional census tracts to be included. These tracts must be located within the municipality, be contiguous to the enterprise zone, meet the reduced (15 percent) criteria for contiguous census tracts, and receive the commissioner's approval. When approving an expanded zone, the commissioner is to consider the development rationale, proposed local effort, and job creation potential of the expanded zone.

Designation removal. The statute allows the commissioner to remove an enterprise zone designation if the area no longer meets the criteria for designation as set in statute or regulation. However, a designation cannot be removed less than 10 years from the original date of zone approval.

[8] The original measure of the poverty trend under the 1993 act was based on: Unemployment rate; caseload under the general assistance program; number and percentage of school children receiving free or reduced cost lunches; caseloads under WIC and AFDC; and percentage of square feet of available unused industrial and commercial space. The simpler calculation came in a 1994 amendment.

Federal enterprise zone tie. The commissioner may designate any additional area as an state enterprise zone if the area is designated as an enterprise zone, empowerment zone or enterprise community via federal legislation.

Connection to Urban Jobs Program

The relationship between the enterprise zone program and the urban jobs program (distressed municipalities program) experienced a major change in 1991 due to the Manufacturers Assistance Act (MAA) of 1991. Prior to 1991, the two programs existed as parallel programs, with similarities in benefits and overlaps in eligible geographic areas. The MAA redefined distressed municipality as one that contained an enterprise zone, and applied the term "targeted investment community" to these municipalities. This change essentially created another municipal benefit from the enterprise zone program -- the ability to offer urban jobs benefits to manufacturing facilities outside its zone. (Unlike enterprise zone benefits that must be given to a qualified business, the urban jobs benefits are given at the discretion of the commissioner to a qualified business.)

Towns that participated in the distressed municipalities program prior to 1991, but were then barred because of the change included: Ansonia; Colchester; Derby; East Haven; Griswold; Killingly; Manchester; Middletown; Naugatuck; Plymouth; Putnam; Stafford; Sterling; Stonington; Thomaston; Thompson; Torrington; West Haven; and Winchester. Since then, Middletown applied for and was designated as one of the new zones authorized in 1993, and two enterprise corridor zones were also established that same year, which include several of these towns.

Other Related Components

In recent years, the legislature has enacted additional programs that could be viewed as expansions of the enterprise zone program. Included are three programs that apply enterprise zone-like benefits in other parts of a municipality that hosts a zone, with each awaiting regulations. Also enacted was the less directly related enterprise corridor zone program. (Although this report focuses on enterprise zones, it is important to remember that the benefits available to manufacturing businesses in enterprise zones are also available to manufacturing businesses in enterprise corridor zones, as well as in railroad depot zones, qualified manufacturing zones, and entertainment districts).

Enterprise corridor zones. In 1994, the legislature authorized the creation of at least two enterprise corridor zones (ECZ). The corridor zones contain three or more contiguous towns, each with under 35,000 residents. At least half of the towns are to be located along the same interstate highway, limited access state highway, or intersecting interstate or limited access state highways. Another requirement is that each town must be a "public investment community", defined as a town in the top quarter of municipalities requiring financial assistance to offset their service burdens, based on an "eligibility index" scale.

As with enterprise zones, there is an application process for ECZs. Groups of towns submit a preliminary application which includes an intermunicipal agreement "specifying how they would cooperatively share in the marketing, promotion and development of the industrial districts that would comprise the enterprise corridor zones." The commissioner reviews the preliminary application, and the municipalities file a final application, which includes designated industrial districts to make up the corridor zone. Businesses located within the enterprise corridor zone are eligible for the same benefits as a business in a regular enterprise zone.

Two corridors have been established. One is in northeastern Connecticut, and includes the towns of: Thompson; Putnam; Killingly; Plainfield; Sterling; Sprague; Lisbon; and Griswold. The other is in the Naugatuck Valley, and includes: Beacon Falls; Seymour; Ansonia, Derby, and Naugatuck. Figure I-1 shows the location of the two corridor zones.

Railroad depots. Enacted in 1996, an enterprise zone municipality with an abandoned or underutilized railroad depot located outside of the zone may designate the property on which the depot is located and the properties adjacent to the property as a railroad depot zone. Businesses located in the railroad depot zone have the same benefits as a business in a regular enterprise zone.

The DECD commissioner is to adopt regulations to define what is a railroad depot and establish an application procedure for approval of railroad depot designations and criteria. The regulations are currently being drafted.

Qualified manufacturing plants. Also enacted in 1996, an enterprise zone town, with a manufacturing plant with at least 500,000 square feet located outside the zone, may designate the manufacturing plant so that it is eligible for the same benefits as if it were in the enterprise zone.

The commissioner is to adopt regulations to define "manufacturing plant" for this provision and establish an application procedure for approval of manufacturing plant designations and criteria. These regulations are also currently being drafted.

Entertainment districts. As of 1/1/97, any town with an enterprise zone may designate an entertainment district within the town.[9] As with enterprise zones, there is an application process. The commissioner is to evaluate the effect of the proposal on the economic development of the municipality, the region and the state, taking into consideration market potential, specific development plans and private commitments in the area.

The types of activity eligible for benefits in an entertainment district include:

[9] When entertainment districts were first enacted in 1993, Bridgeport was designated to pilot a district.

- the production of entertainment products, including multimedia products, or as part of the airing, display or provision of live entertainment for stage or broadcast;

- entertainment support services such as set manufacturers, scenery makers, sound and video equipment providers and manufacturers, stage and screen writers, and providers of capital for the entertainment industry;

- agents for talent, writers, producers and music properties; and

- technological infrastructure support including but not limited to fiber optics, necessary to support multimedia and other entertainment format.

Entertainment provided by or shown at a gambling or gaming facility or a facility whose primary business is the sale or serving of alcoholic beverages is not considered eligible activity.

Again, the commissioner is to adopt regulations, which may establish additional criteria for approval of districts, including establishment of a zone size. Businesses that fit under the entertainment products production definition of manufacturing facility are to be entitled to the same benefits a business in a regular zone receives. Further, a town may abate 100 percent of property taxes on improvements to real property in entertainment districts for seven years after the improvement is completed.

The statute provides that the DECD commissioner, when considering whether to approve an entertainment district, is to "evaluate the effect of the proposal on the economic development of the municipality, the region and the state, taking into consideration market potential, specific development plans and private committments in the area."[10]

Other Program Components

Job incentive grants. The Job Incentive Grant program was established in 1977, to stimulate and encourage the creation of growth of jobs in areas of high unemployment. Now, job incentive grants are only available to certified businesses in enterprise zones. Under the program, a business may be paid $750 or $2250 a person hired as a one time grant, depending on the circumstances. In addition to requiring an enterprise zone eligibility certificate, a business also needs a separate job incentive grant certificate.

[10] C.G.S. Sec. 32-76

Neighborhood financial assistance program. Since 1993, the statutes have required the DECD commissioner to establish a financial assistance program for: 1) job development and creation; 2) neighborhood revitalization; and 3) the promotion of business stability and development within enterprise zones. A neighborhood economic development account was to have been created also. To date, the program has had no money appropriated, nor has it been implemented.

Under the program, the commissioner was to solicit applications from and contract with community development organizations, located in the zones, for the operation of the financial assistance program. The contracts were to pay the costs of activities that:

1) assist in the expansion, retention and development of small businesses in the enterprise zones that have trained and employed or will train and employ, as part of their workforce, residents of an enterprise zone;

2) build or rehabilitate decent or affordable rental or owner-occupied housing located within an enterprise zone; or

3) assist organizations in job-training and career development training for existing or projected job opportunities.

The community development organization could use the grants to provide other grants, loans or deferred loans to eligible applicants.

Employment training voucher benefit. Under the enterprise zone program, a manufacturing business may take advantage of the employment training voucher program operated by the Department of Labor. Under that program, an individual with an employment training voucher is eligible for training and benefit programs. According to DOL, special efforts are made to target enterprise zone residents and enterprise zone businesses at the local job centers.

Enterprise zone loan fund. The original 1981 act established a venture capital loan program for small business start-ups in a zone. To carry out the program, the Enterprise Zone Capital Formation Revolving Loan Fund was established. The State Bond Commission was authorized to issue state bonds for no more than $1 million in the aggregate for small business start-ups. In 1982, the expansion, renovation, and rehabilitation of small business was added to the use of the venture capital loan program.

In 1988, the enterprise zone capital loan fund was repealed, and consolidated into the newly created Comprehensive Business Assistance Fund, administered by the Connecticut Development Authority. Based on state business assistance data for state loans and grants from FY 91 through FY 94, 28 loans or grants were made to businesses certified as enterprise zone businesses. This involved 18 different companies, with some companies receiving more than one grant or loan over the four year period.

Community involvement requirements. Since 1993, the enterprise zone statute requires each municipality with a zone to establish an enterprise zone advisory committee "to assist in the planning and implementing of enterprise zone activities." There is no required composition of this committee, but the statute suggests it include: elected officials; representatives of local public safety, planning, housing, job training and economic development agencies, as well as community-based organizations and enterprise zone businesses; school officials; and zone residents.

Via separate legislation also enacted in 1993, for the five enterprise zones authorized in 1993 (two in towns with plant or base closings, and three with the two-tiered economic test), the statute requires the host municipalities to establish a community enterprise zone board. This board is "to establish policy for the promotion and development of the zone, coordinate the economic development program in the zone with related job training and social services programs and adopt an enterprise zone revitalization plan."[11]

This board is to consist of:

- the official responsible for economic development programs;
- the chief executive official;
- a representative of the legislative body;
- the chief of police;
- the housing administrator;
- a representative of the school board;
- a representative of the regional community-technical college serving the applicable region;
- two representatives of the municipality's business community, one of whom is a chamber of commerce member;
- two enterprise zone business owners;
- two representatives of neighborhood community organizations serving the community, or two zone residents.

[11] C.G.S. Sec. 32-70d

Chapter Two: Program Benefits

- Benefits under the enterprise zone program are primarily in the form of tax incentives to manufacturing businesses acquiring (by purchase or lease), constructing, renovating, or expanding manufacturing, warehousing and service facilities within the zones.

- Benefits include:

  An 80 percent property tax abatement for five years of any increased value of property via acquisition, construction, renovation, or expansion of a facility used for manufacturing, warehousing, or certain services--for both real and personal property, with the state reimbursing municipalities for half the abatements.

  A 50 percent credit against corporate taxes owed for 10 years for business enterprises that, as a result of acquisition, construction, renovation, expansion, or leasing, create new jobs, of which at least 30 percent or 150 of the jobs are held by enterprise zone residents or municipal host residents eligible for federal job training assistance (JTPA), or a 25 percent credit absent job creation;

  Job incentive grants for job creation at $750 or $2,250 per job.

  Sales tax exemption for the purchase of manufacturing replacement parts.

Chapter Two

Program Benefits

Benefits under the enterprise zone program are primarily in the form of tax incentives to manufacturing businesses, acquiring by purchase or lease, constructing, renovating, or expanding facilities within the zones. There are also tax incentives available to commercial and residential facility projects that do not qualify as a manufacturing facility.

For enterprise zone purposes, manufacturing businesses are defined as businesses in facilities located in enterprise zones, and involved in:

- manufacturing, processing or assembling of raw materials or parts of manufactured products;
- research and development directly related to manufacturing;
- the significant servicing, overhauling or rebuilding of machinery and equipment for industrial use; and
- warehousing and distribution (only if facility is newly constructed or represents an expansion of an existing facility).

Certain service companies are also covered by the manufacturing business definition, including:

- depository institutions and nondepository credit unions;
- insurance carriers;
- holding or other investment offices;
- business and health services;
- fishing, hunting and trapping;
- motor freight transportation and warehousing;
- water and air transportation, and transportation services; and

- security and commodity brokers, dealers, exchanges and services, telemarketing or engineering, accounting, research, management and relates services.

Enterprise zone benefits may be categorized in many ways, as shown in Table II-1. They can be divided between benefits for manufacturing facilities and for non-manufacturing facilities. They can be divided by benefits the state is directly involved in financially as opposed to benefits, although authorized by state statute, whose financial burden is borne solely by the towns. Tables II-2 and II-3 explain the benefits in more detail. (As noted earlier, it is important to remember that the benefits available to manufacturing businesses in enterprise zones are also available to manufacturing businesses in enterprise corridor zones, as well as in railroad depot zones, qualified manufacturing zones, and entertainment districts.)

Table II-1 : Enterprise Zone Benefit Summary

	Manufacturing Facility		Non-manufacturing Facility (Commercial, Retail, Residential)	
BENEFITS	Facility Investment Required	Job Creation Required[12]	Facility Investment Required	Job Creation Required
5 year 80% property tax abatement (50% state reimbursement to towns)	X			
7 year sliding scale property tax abatement (no reimbursement to towns)			X	
25% Corporate Tax credit	X			
50% Corporate Tax Credit	X	X		
Job Incentive Grant	X	X		
Sales Tax on Manufacturing Parts Exemption				
Real Estate Conveyance Tax Exemption				

[12] The jobs must be directly attributable to the facility, and are considered so if: the work is performed at the facility; the position did not exist prior to the construction, renovation, expansion or aquisition of the facility; and but for the construction, renovation, expansion or acquisition of the facility, the job would not have existed.

Table II-2. Enterprise Zone Benefits Available to Manufacturing Facilities

Benefit	*State Cost*
Property Tax Abatement (real and personal) 80% property tax abatement for five years of any increased value of property via acquisition (purchase or lease), construction, renovation, or expansion of a facility used for manufacturing, warehousing, or certain services (In case of acquisition, facility must have been idle for either 6 or 12 months, or waiver sought) Also applies to personal property (like equipment and machinery) acquired for use at facility	YES State reimburses municipality half the abatement, or 40% of the tax owed
Corporate Income Tax Credit 25% credit against corporate taxes owed for 10 years for certified business income attributed to a facility subject to an acquisition (purchase or lease) construction, renovation, or expansion for manufacturing	YES Credit is a revenue loss to the state
OR	
50% credit against corporate taxes owed for 10 years for certified business income attributed to a facility subject to an acquisition (purchase or lease) construction, renovation, or expansion for manufacturing IF the facility activity created new jobs, of which at least 30% (or 150) are filled by enterprise zone residents or municipal residents eligible for federal job training assistance (under JTPA program)	YES Credit is a revenue loss to the state
Job Incentive Grant (separate certificate) A $750 Job Incentive Grant for each new job created as a direct result of the business expansion over a 24 month period, if at least three new jobs are created. (If 50% of the fulltime jobs (or 150 jobs) are filled by zone residents or JTPA eligible municipal residents, grant is $2,250 per person)	YES Grants come from General Fund
Other Sales Tax exemption on manufacturing replacement parts Exemption of real estate conveyance tax	YES Exemptions are state revenue loss
Job training and placement assistance	YES Any general funds

Table II-3. Enterprise Zone Benefits Available to Commercial, Retail and Residential Properties (Non-Manufacturing)

Benefit	*State Cost*
Property Tax Abatement (Real) A seven year property tax abatement on improvements to commercial and residential properties, with restrictions on residential property improvements related to tenant income. Fixed assessment phased out over the seven year period, with 100% abated the first two years, down to 10% abatement in the final year.	NO No state reimbursement
Exemption from state real estate conveyance tax	YES Exemption is revenue loss to state

Manufacturing Business Eligibility Requirements

Four main elements make a manufacturing business eligible for the primary enterprise zone benefits that include property tax abatements; corporate tax credits; and job incentive grants. These elements are:

1) the business entity must operate in a facility within the geographic boundaries of the zone;

2) the business entity must be a certain type of business, primarily manufacturing;

3) the facility in which the business entity will be operating must have undergone activity related to the business entity. This means the facility must have been newly constructed, newly renovated if already owned, newly expanded if already owned, or newly purchased or leased, if the purchased or leased space was idle for at least a year prior to its acquisition. (For businesses employing between 6 to 19 employees, the idleness period is reduced to 6 months. For businesses with five or fewer employees, the idleness requirement does not apply at all); and

4) the business and/or facility owner must apply for and receive an eligibility certificate from DECD.

If only a part of a building is acquired, renovated, or expanded, only that part is considered to be the manufacturing facility under the zone program, and thus eligible for benefits. If the manufacturing facility is leased, the lease term must be at least for five years with an option to renew for another five, in order to show a substantial long-term commitment to stay in the facility. (If the business has 10 or fewer employees prior to entering into the lease, the lease term requirement is lessened to three years with an option to renew for another three.)

The requirement of facility activity goes to the goal of increased investment in the zone. The idea is not to provide benefits to businesses and property owners already in the zone and are not growing. The idleness requirement in the case of a lease or purchase relates to the notion of the value of activity in an otherwise vacant space. (The idleness requirement may be waived by DECD if it determines there is a "high likelihood" the facility would in fact remain idle if it was not qualified as a manufacturing facility.)

The following examples are what the facility-related activity requirements mean in practical terms.

✓If a manufacturing business was already operating within the geographic boundaries of a zone prior to its designation as a zone, the business could only be eligible for benefits if it expanded or renovated at its current location, or acquired new space through a lease or purchase.

✓If the business entity purchases the facility in which it will be manufacturing, the facility will be eligible for property tax abatement if:

1) The building was idle for the required period of time before the purchase (six or 12 months depending on business size; not applicable to businesses with five or fewer employees); or

2) The commissioner waives the idleness requirement on the basis the building would be idle for the required period of time if the purchase didn't happen;

3) No improvements have to be made to the building, and the property tax abatement applies to the entire assessed value of the purchased facility if the whole facility will be used for manufacturing.

✓If the business entity leases the facility from the facility owner, the leased space would be eligible for the property tax abatement if:

the space had been idle for the required period of time (same as above);

the lease terms were for three years with an option for another three (or five and five, again depending on business size); and

there is no need for any improvement to the facility.

✓If the business entity already owns the facility, it would be eligible for enterprise zone benefits if the the structure was renovated or expanded. The property tax abatement applies to any increase in the assessed value of the facility.

How the Incentives Work

How the business incentives described in Table II-2 work is illustrated below using hypothetical cases.

Case 1. Manufacturing Company A is already located in a zone. Company A owns its facility, which has a current assessed value of $700,000. (This means its actual market value is considered to be $1,000,000, as for property tax purposes, properties are taxed at 70% of fair market value.) The mill rate in the town is 35 mills. (The mill rate is how many dollars are owed for every $1,000 of assessed value) Thus, currently, the property taxes owed by Company A for its real property is $700,000/$1,000 X 35, or $24,500.

Company A decides it needs more space for business expansion, and decides to expand at its current site. Its expansion increases the actual value of the building by $100,000, to $1.1 million. As determined by the local tax assessor, the new additional assessed value is $70,000. The taxes to be paid on this increase are $70,000/$1,000 X 35, or $2,450. If Company A applied for and received a certificate of eligibility for zone benefits for this expansion, then 80 percent of the $2,450, or $1,960, in additional taxes will be abated for five years. Thus, Company A will pay $490, 20 percent of the increased taxes owed, with the town abating the remaining $1,960. The state will reimburse the town for half, or $980, of the abatement.

Now assume that Company A's income increases due to the expansion so that its business income tax increases by $10,000. Just because of its expansion in the zone, the company may file for a 25 percent credit against $10,000, reducing its corporate income taxes by $2500. If it has added jobs due to the expansion, and has filled 30 percent of those jobs with zone residents or JTPA eligible municipal residents, the company can claim a 50 percent tax credit. In this case, the tax reduction would be $5,000.

Case 2. Company B is looking for leased space in which to start a manufacturing business. It identifies 20,000 square feet in a building owned by Landlord B, in an enterprise zone. The entire building is 100,000 square feet, and Landlord B rents out the space to a variety of business tenants, none of whom are manufacturers. Landlord B knows about the enterprise zone program and tells Company B about it. Company B applies for a certificate of eligibility for enterprise zone benefits.

In order to be eligible for the zone benefits, the 20,000 square feet either had to be vacant for the required period of time or the commissioner has to waive the vacancy requirement.

The building's current assessed value is $600,000. Since Company B will be renting 20 percent of the building space, the relevant assessment value for enterprise zone purposes would be $120,000 (20 percent of $600,000). Eighty percent of the tax on $120,000 will be abated for five years. If the mill rate is 35, the normal property taxes on the 20,000 square feet would be $120,000/1,000 X 35, or $4,200 per year. With zone benefits, the tenant will only pay 20 percent, or $840, with the remaining $3360 ultimately split between the town and the state. (As the real property owner, Landlord B is the direct recipient of the real property abatement, and is required to apply to the town for it each year. However, industrial leases are usually what are called triple net leases, where among other things, the tenant is responsible for paying the property taxes. Thus the abatement is passed through to the tenant with a triple net lease.)

In addition to leasing space, Company B will also be buying $50,000 worth of machinery to use in the space. Company B's new personal property is also eligible for the five - year 80 percent abatement. Thus if the machinery's assessed value is $50,000, the normal tax bill would be $50,000/1,000 x 35, or $1,750. With zone benefits, the company only pays $350, with the remaining tax bill split between the town and state. The impact of the property tax benefit to taxpayers is as if the mill rate is reduced from 35 to 7.

As both these cases illustrate, a business need not actually create any jobs or even say it will to obtain an eligibility certificate. The business need not actually create any jobs at all to obtain the property tax abatement or the 25 percent corporate tax credit. However, to obtain the 50 percent corporate tax credit, or a job incentive grant, both of which are only available to businesses in the zone, a certain number of jobs must be created.

Key Points

Chapter Three: Program Implementation

- The Department of Community and Economic Development is the state agency with primary responsibility for the enterprise program

- Businesses must first apply for and receive eligibility certificates from the Department of Community and Economic Development before seeking any actual benefits. A certificate of eligibility is evidence that DECD determined the business and the facility it proposes to use meet the eligibility criteria for the enterprise zone program including:

  - Business is manufacturing, warehousing, or certain type of service business;

  - If facility purchased or leased, the facility was idle.

- To actually receive the property tax abatement, a certified facility owner has to file yearly with the local tax assessor, who then submits to OPM for reimbursement.

- To actually receive the corporation tax credit, a certified business has to file annually as part of its business tax return for the credit with DRS.

- The job incentive grant program is administered totally by DECD.

Chapter Three

PROGRAM IMPLEMENTATION

The enterprise program in Connecticut is largely one of incentives, offered by the state, to be taken advantage of by private businesses to benefit municipal economic development. The program can be viewed as a state-provided opportunity with the primary responsibility for maximizing the benefits from the program borne by the host municipalities and businesses. However, the state has significant administrative responsibilities. This chapter describes how the program is implemented.

The Department of Economic and Community Development is the state agency with primary responsibility for the enterprise program. For the first 10 years of the program, 1982 to 1992, DECD had four main areas of responsibility: 1) approving municipal applications for zone designation; 2) certifying businesses for eligibility for enterprise zone benefits; 3) administering the job incentive grant program, (a separate program but a zone benefit); and 4) compiling information on activities and programs conducted in the zones, and serving as an information resource center. Beginning in 1993, DECD was given additional responsibilities for establishing goals, objectives, and performance standards, as well as zone evaluation.

Other state agencies as well as municipal government and private businesses have roles in zone program operation. These include the Department of Revenue Services and the Office of Policy and Management. Municipal economic development and tax assessor officers are also integral participants.

DECD Organization and Resources

The Department of Economic and Community Development, the result of the recent merger between the former Departments of Economic Development and Housing, is made up of 11 divisions. (The DECD organizational chart appears in Appendix B.) Primary responsibility for the enterprise zone program resides in the Infrastructure and Real Estate Division. Currently one full-time person is assigned to the enterprise zone program, and is also responsible for the urban jobs and job incentive grant programs. This person is supported part-time by an administrative assistant. Until the late 1980s, up to five staff at one time worked on the urban jobs and enterprise zone programs. Some of this staff retired under the 1989 early retirement incentive program, and were never replaced. Since around 1992, one person was mainly responsible for the program. This individual, who began with the zone program in 1986, left the agency in the fall of 1996.

Business Certification Process

From the perspective of a manufacturing business, there are four main steps to utilizing the enterprise zone program. First, a business (or soon-to-be business) must want or need to make a change that could influence its business location, such as expansion. Second, the business needs to know about the program. Third, the business must apply for and become certified as eligible for the enterprise zone benefits. Finally, once certified, the business must affirmatively act in order to actually receive the benefits under the program. Figure III-1 on the next page depicts the first three steps, while Figure III-2 depicts the fourth step.

Business decision. Many factors go into a business decision to: 1) begin a business; 2) move an ongoing business; or 3) expand a business at its current site. What influence enterprise zone benefits might have on such a decision is an interesting question. Under the Urban Jobs program, the DECD commissioner requires evidence that the prospect of urban jobs benefits induced the facility change for which the business is seeking to obtain benefits. While there is a similar statutory requirement for job incentive grants, there is no such statutory mandate in the enterprise zone program.

Sources of information. A business might find out about the enterprise program from a variety of sources. For example, if a business contacts the Connecticut Economic Resource Center (CERC), depending on the type of business and its locational needs, CERC will send out packets of information on the state enterprise zone program. A business may also first learn of the program through a commercial realtor, landlord, directly calling DECD, or regional or municipal development personnel.

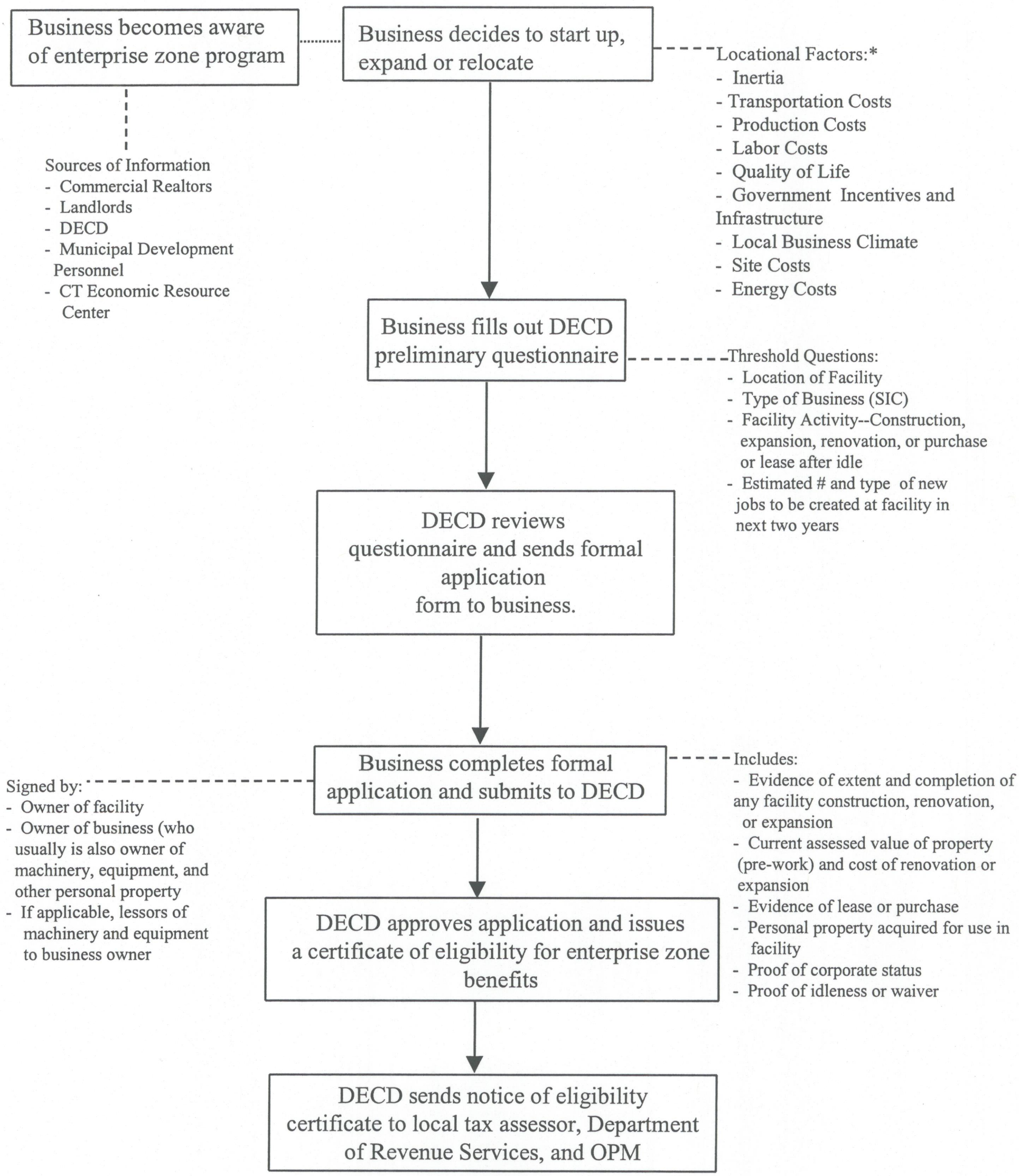
Preliminary DECD questionnaire. DECD uses two steps for determining if a business is eligible for certification. First, it requires a prospective business to fill out a preliminary questionnaire as an initial screening device. The questionnaire, a pre-printed form prepared by DECD, seeks to determine if certain threshold characteristics are present.

Is the proposed facility inside a zone?

Is some facility activity planned like expansion or renovation of an existing building, or if a space is purchased or leased, has it been vacant for over a year?

Is the business a manufacturing business as defined in statute?

Figure III-1. Business Eligibility Certificate Process



* Source: Local Economic Development Analysis and Practice, John Blair

Information about anticipated job growth is also sought in the preliminary questionnaire, although neither current job levels nor planned job growth are not asked about in the formal application document.

Formal application. DECD reviews the completed questionnaire, and if acceptable, sends an formal application form to the business, with a letter indicating the business appears eligible for a certificate. Final approval is not yet given, however. The focus of the formal application requires the business to report actual expenditures on facility enhancement, which were only estimates in the preliminary questionnaire. Another purpose is to document proof the enhancement projects were completed (including facility purchase or lease). The dates a building permit and certificate of occupancy were issued is sought on the form. The total expenditures spent on a renovation must be detailed, along with the current (pre-enhancement) assessed value of the property. This is because a renovation only qualifies if 50 percent or more of the assessed value of the property was spent on the renovation (the definition of a substantial renovation). According to DECD, an expansion is any increase in the square footage of the facility's "footprint".[13]

If a lease is involved, a copy must be provided to show the lease terms are for the required length of time. Also, in the case of a lease or a purchase, there must be evidence of idleness. In many cases with leases, the local municipal economic development official will submit a letter to DECD stating the property had been idle for the appropriate amount of time. As noted earlier, the idleness requirement can be waived by the DECD commissioner.

The business must also submit with the application a list of personal property (machinery and equipment) that will be used in the enhanced facility. The property must be new to the grand list to be eligible for the abatement. The business must also list all equipment and machinery it might acquire in the next five years. If actually acquired, this property can also receive the tax abatement (although the five years starts from when the certificate is effective).

The application must be signed by any party that might seek benefits under the program. In many cases, the business owner is not the facility owner, and leases the space. This means the facility owner will actually be claiming the property tax abatement on his/her real property. Thus, the facility owner must be identified on the certificate. Likewise, if the business owner is leasing any machinery, the owner of the machinery must be listed on the certificate. All these various parties are covered by one certificate with one number.

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[13] Under the job incentive grant program, expansions as well as renovations are defined by whether a building permit was issued and if the expenditure equaled at least 50 percent of the current assessed value of the facility (RCSA 32-91-1). Since the time the job incentive program has been defined to only be available to businesses certified as enterprise zone businesses, according to the department, the enterprise zone concept of "expansion" has been used.

Final approval. Once DECD receives and approves the final application, it issues the certificate of eligibility and assigns a number. This past year, DECD's deadline for businesses to submit applications for certificates was September 1, 1997, to be eligible for the October 1, 1997, grand lists. Upon issuance, DECD also sends out notices of eligibility to the local tax assessor, the Department of Revenue Services, and OPM. If the local assessors receive the certificate notice by November 1, the facility will be eligible for any benefits as of the October 1 grand list.

Obtaining Benefits Once Certified

Benefits require affirmative steps. Securing a certificate of eligibility is just a first step for a business to actually receive benefits under the zone program. Figure III-2 depicts the way in which a business claims the incentives. The first two steps in the flowchart repeat the last two steps in the previous figure. As Figure III-2 shows, once the certificate is issued, and DECD sends notices to the affected agencies, DECD is no longer involved in the program process. To get the property tax abatement, as shown on the left of the figure, the facility and personal property owners must annually file a claim with the local tax assessor.

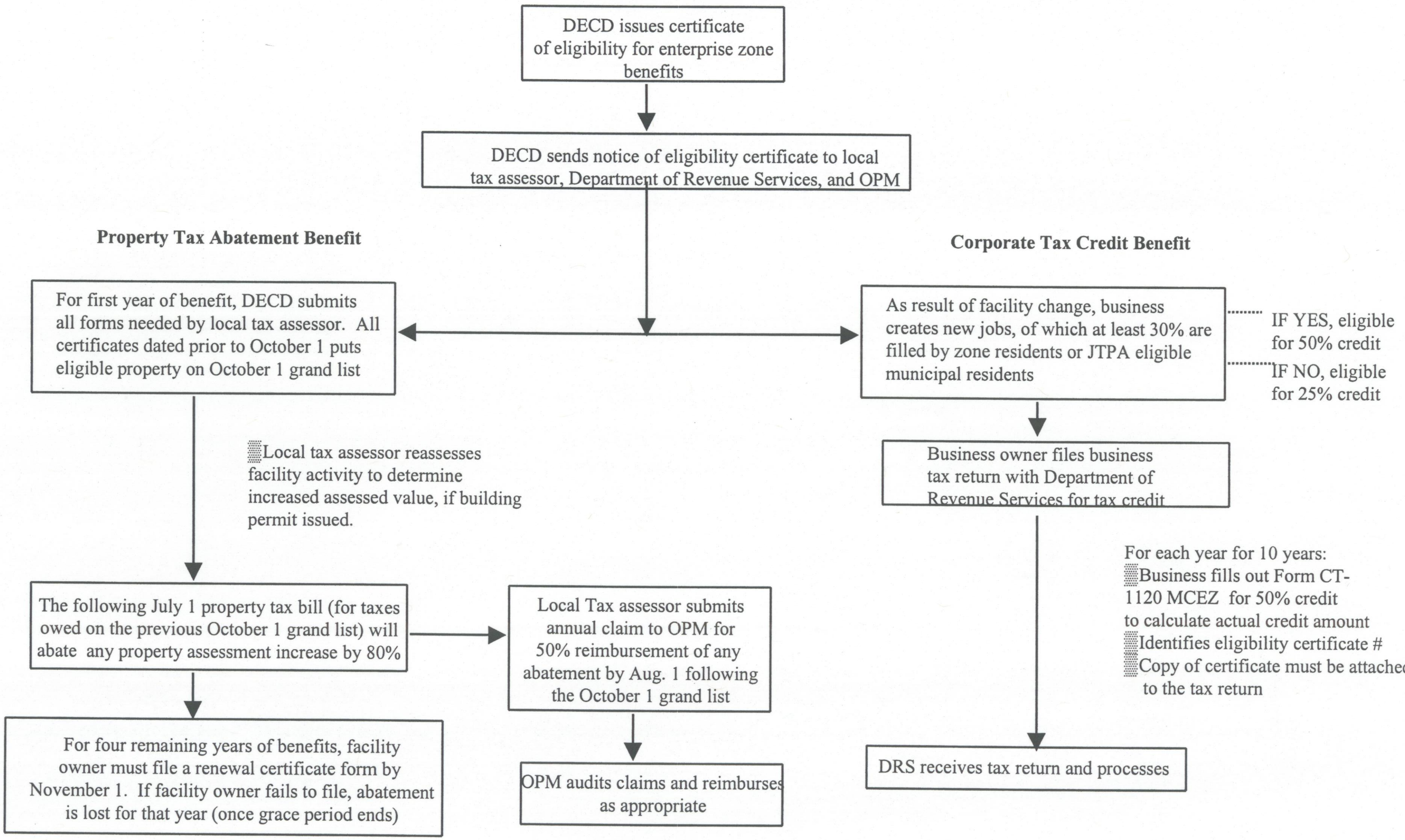
As an example, for a business certified on September 15, 1994, the abatement will apply to taxes resulting from any increased assessment on the grand list as of October 1, 1994. When the facility owner gets the first tax bill for that tax year (October 1, 1994, to September 30, 1995), in July 1995, the bill will reflect the abatement.

As the figure shows, in order for a town to get the 50 percent state reimbursement, the assessor must file a claim by a deadline every year. After OPM audits the filing, the town is reimbursed.

The corporate tax benefit, as shown on the right side of the figure, is obtained as part of the annual business tax return. An enterprise zone business is eligible for a 25 percent corporate credit just by being a certified manufacturing facility. However, to get the 50 percent credit available to it because it is in the zone, the company must 1) have created new jobs that would not have been created without the construction, expansion, renovation, or acquisition by purchase or lease, and did not exist before that activity and 2) have filled at least 30 percent of those new jobs (or 150 of them) with enterprise zone residents or host municipal residents who are JTPA-eligible, based on the last quarter of each income year of the business taxpayer.

As part of its tax return, the business fills out a worksheet to calculate the appropriate amount of business income and tax to be attributed to the facility for which the certificate was obtained. The credit is then applied to the tax. The business is to enter the eligibility certificate number on the form, and attach a copy of the eligibility certificate.

Figure III-2. Process to Obtain Benefits After Eligibility Certificate Obtained



Nowhere on the worksheet or elsewhere in the return does the business indicate that the job creation requirements have been met to be eligible for the 50 percent tax credit. According to DRS, once it notes the presence of an eligibility certificate, it assumes the business is eligible for the 50 percent tax credit.

Commercial, Retail, and Residential Component

Unlike the manufacturing business component, DECD has no certification responsibilities for the commercial or residential component. According to DECD, it thus keeps no information about the use of the seven year property tax abatement in the zones.

Job Incentive Grants

As described in the previous chapter, the Job Incentive Grant program was established in 1977, to stimulate and encourage the creation of growth of jobs in areas of high unemployment. Only a manufacturing business in an enterprise zone is eligible to apply for a JIG. Figure III-3 sketches the process used to implement this benefit. As shown, DECD:

- processes and approves the business for eligibility;
- audits the business to ensure the jobs the business stated it would create when it applied for the grant were in fact created; and
- submits paperwork to the state comptroller for grant payment to the business.

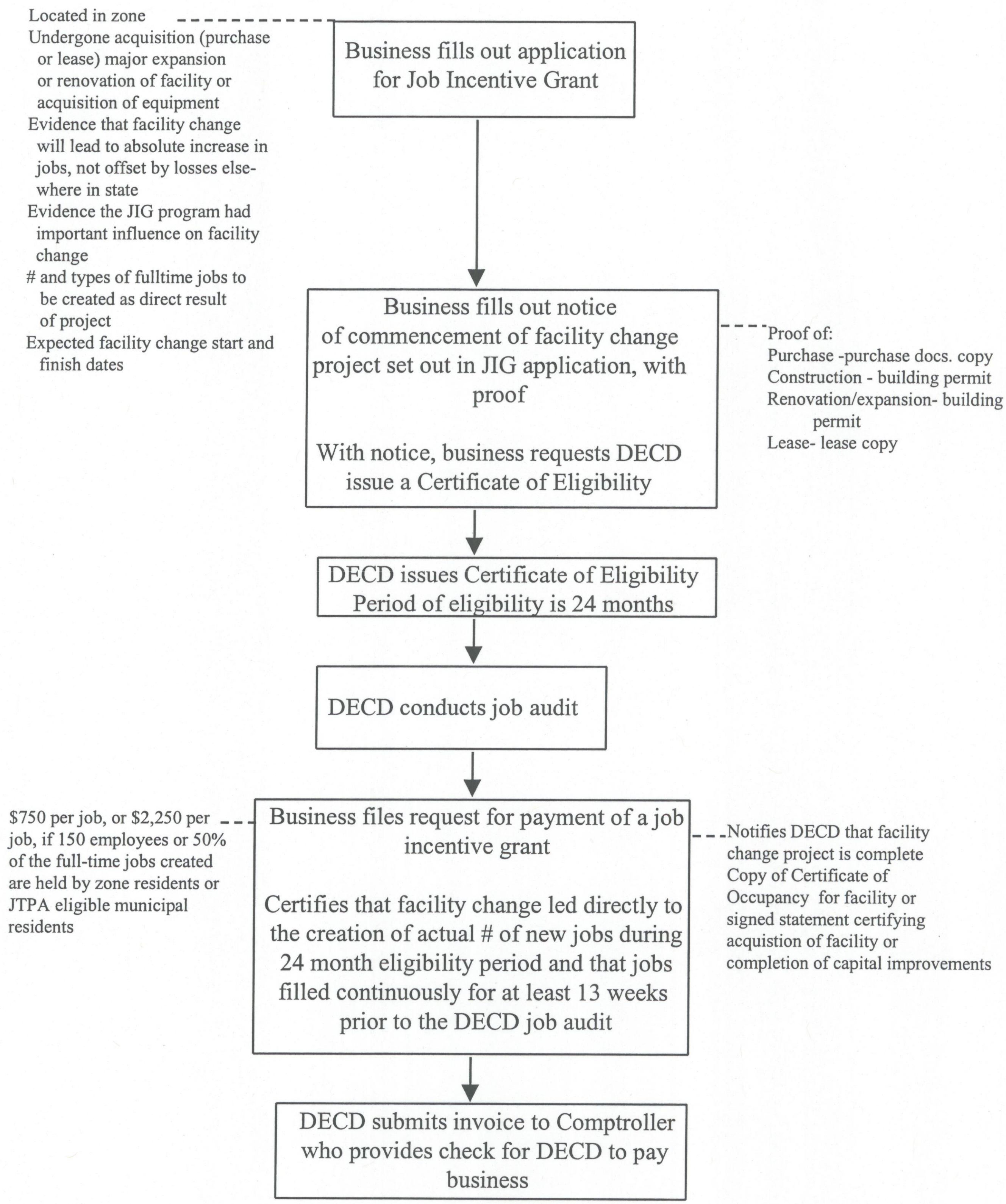
How the Enterprise Zone Program Is Monitored

Since 1986, the Department of Economic and Community Development has been required to compile information on activities and programs conducted in enterprise zones. By statute, the department serves as a resource center for the dissemination of such information upon request.

A review of DECD files suggests municipalities were required at times to submit six- month activity reports on activities in the zones. Because of the way data were combined, it is difficult for committee staff to assess precisely what those reports show. DECD has not asked for any activity reports since 1992.

Goals and performance standards process. In 1993, the legislature enacted a five-year process to establish, implement, and measure program goals for the enterprise zone program. Figure III-4 sets out the steps in the process, along with the time frame established.

Figure III-3. Job Incentive Grant Process

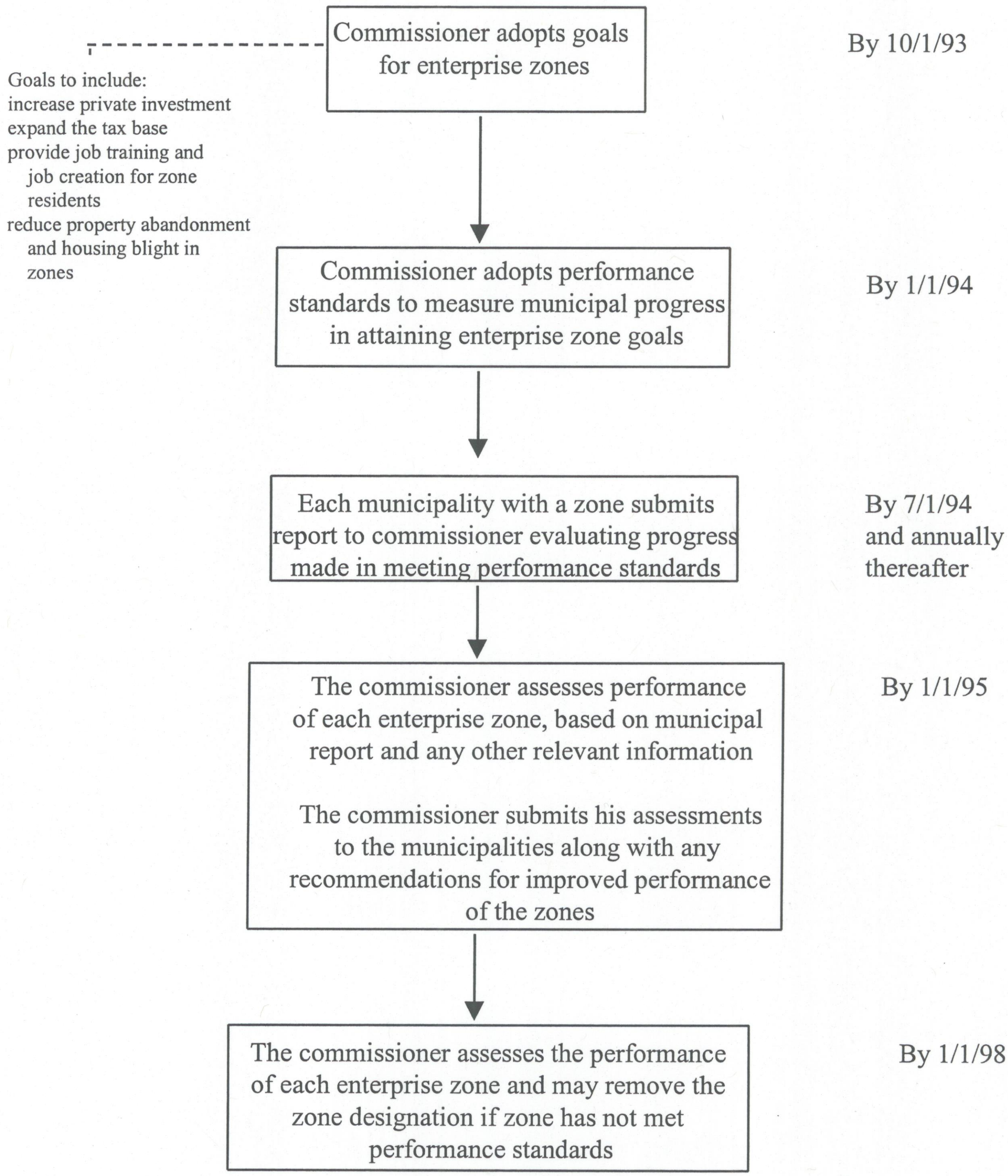


The first step was for the commissioner to adopt goals for the enterprise zone program. Next, performance standards were to be adopted to measure progress in attaining the goals. Then, each municipality hosting a zone was to begin submitting annual reports to DECD evaluating its own progress in meeting performance standards. Based on the municipal reports and "other relevant information, " DECD was to assess each zone's performance.

These assessments were to be given to the municipalities with any recommendations for performance improvement. Three years after this assessment, the DECD commissioner was to again assess the performance of each zone. At this time, the commissioner would be authorized to remove zone designation from any zone that was not meeting performance standards.

According to DECD, the process faltered internally at the goal drafting stage, and nothing more had been done at the time this study began.

Figure III-4. Enterprise Zone
Goals and Performance Standard Evaluation Process
per PA 93-323



Key Points

Chapter Four: Program Outputs and Context

Outputs

- The state "cost" of the enterprise program for 1993 and 1994 is $510,358 and $658,898 respectively, when combining the state reimbursement amount for the property tax abatement with the amount claimed for the corporate tax credit.

- The property tax data indicate that tax base has been added in municipalities with zones, along with increasing occupancy of previously idle space. These two elements show the program has had a positive impact.

- The use of the corporate credit, per committee staff revision, is significantly lower than is annually reported by DRS -- 17 percent of what the department has reported over an 11- year period.

- An employment analysis utilizing a cross-match between DOL and DECD data indicates some job growth on average.

Context

- In large part because of the significant economic downturn Connecticut experienced from the late eighties into the early nineties, many other programs were instituted to attract and keep businesses anywhere in the state.

- These programs overlap and serve to diffuse the benefits afforded by the geographic entity known as the enterprise zone.

- The presence of an enterprise zone in a municipality has increasingly been used to trigger other benefits available to that municipality.

- Due to the trigger mechanism, the benefits available to a town that hosts an enterprise zone have grown so that the distinction between the zone and the rest of the municipality blur.

- The establishment of enterprise zone- like entities, such as enterprise corridor zones, have muddied the original concept of incentives targeted to geographically specific, contiguous, sub-municipal areas.

Key Points

- ➢ The urban jobs component of the enterprise zone program is significant to the municipalities. In four out of the six original enterprise zones, the urban jobs program was used more frequently than the enterprise zone program.

- ➢ The actual program utilization experience of the urban jobs and zone programs, along with the fact that only municipalities with zones can offer the urban jobs benefits, is another factor blurring the geographic distinction between a zone and the rest of the host municipality.

Chapter Four

PROGRAM OUTPUTS AND CONTEXT

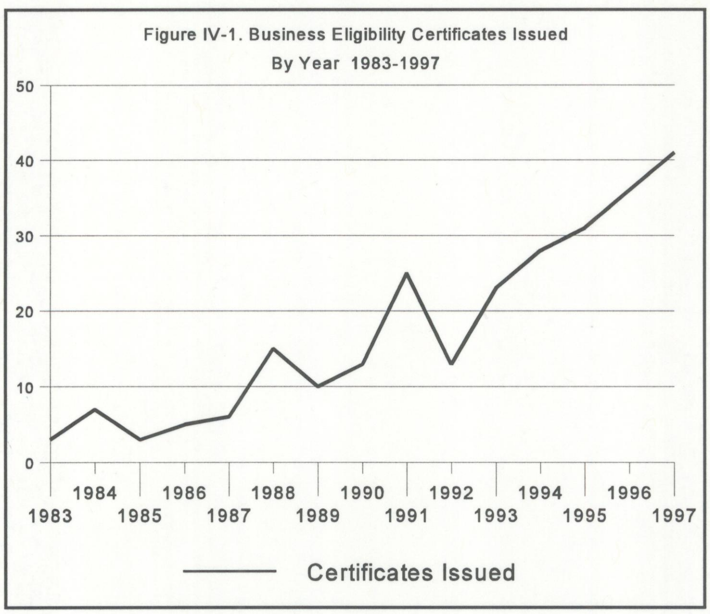
An important objective of this study is to identify how the enterprise program has actually been used. Determining program use is an important step toward assessing how the zone program has worked to achieve its goals. Identifying the changing context within which the zone program fits is also important. This chapter examines both these areas.

PROGRAM OUTPUTS

Business Certifications

The certification of a business as eligible for enterprise zone benefits is the gateway to actually receiving those benefits. Since the inception of the enterprise program, a total of 260 eligibility certificates for businesses have been issued through December 1997 in all the 17 enterprise zone towns combined. Figure IV-1 shows the certificates issued by year from 1983 through 1997.

During this time, the number of enterprise zones increased from six in 1983 to 17 in 1995. Even with an increase in zones, however, until 1993, the trend of business certification clearly wasn't wholly upward. (Certificate activity does not involve large numbers, with the most active year, 1997, having 41 certificates issued, so relatively small changes make a difference). The sharp peaks and valley between 1990 and 1993 occurred when 11 zones were in existence. In 1990, 13 new business certificates were issued. In 1991, two of the 11 towns had a total of 16 new

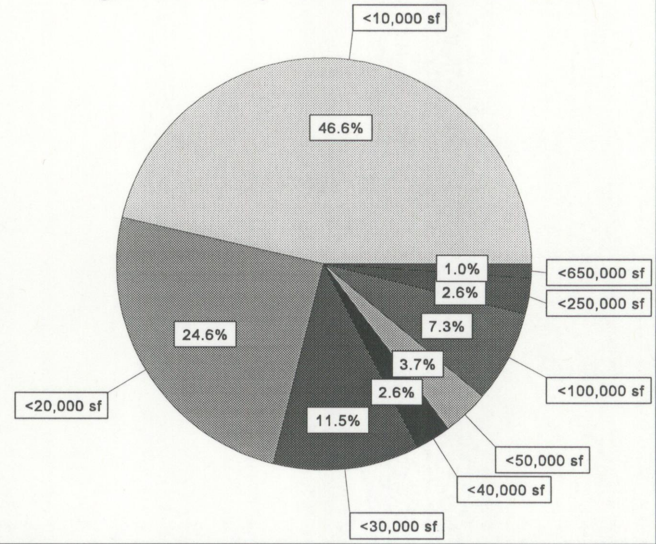


certificates between them, adding to a total for that year of 25. The following year the total fell back to 13; the two previously active towns in this year had six new certificates between them. And in 1993, the total was back up to 23, with three towns contributing 15 new certificates.

Business Characteristics

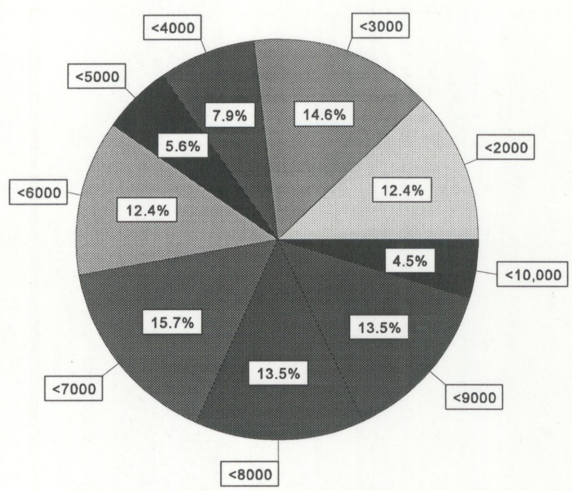
Based on a committee review of DECD files, information was developed on certain characteristics of the businesses that are certified.

Figure IV-2. Facility Size for Business Certificates



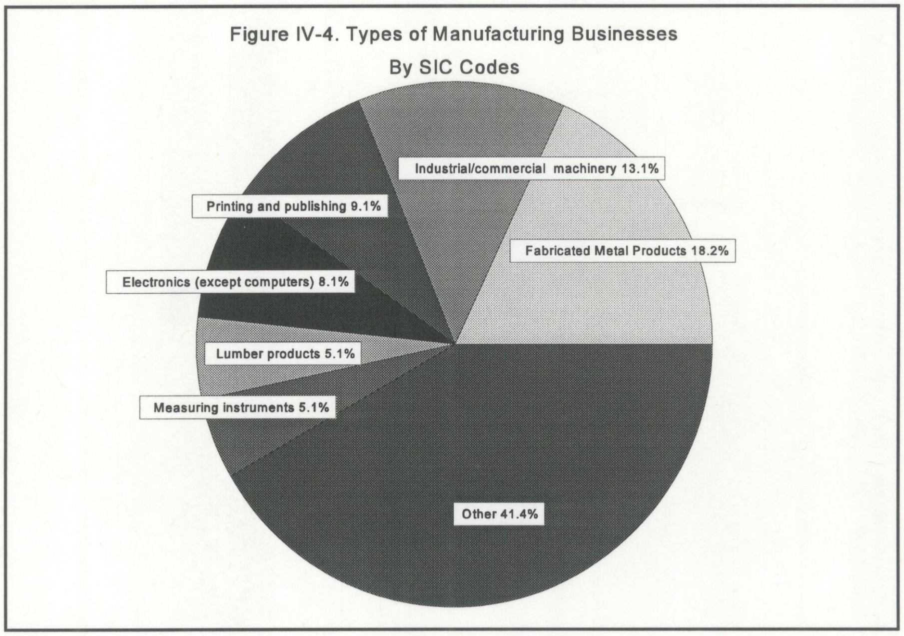
Facility size. Facility size data were examined to get a sense of the physical size of plant changes that make a business and facility eligible for zone benefits. Figure IV-2 shows 71 percent of the space deemed eligible for zone benefits is under 20,000 square feet, with almost two-thirds of that less than 10,000 square feet. Figure IV-3 breaks down the facility spaces under 10,000 square feet; the spread is fairly even. It should be noted these facility sizes may, but do not necessarily, reflect the total space used by a company. Rather, they show the spaces eligible for enterprise zone benefits because of some new investment activity.

Figure IV-3. Breakdown of Under 10,000



For comparison, the entire Legislative Office Building is 240,000 square feet, while the second floor of the building is 42,600 square feet. Room 2C is approximately 3,000 square feet.

Types of businesses. The threshold screening mechanism for a manufacturing business is whether its standard industrial classification (SIC) is valid for eligibility under the program. (These classifications are assigned by the state Department of Labor). Figure IV-4 is based on 30 different classification categories, and shows the highest concentration of business type is in the fabricated metal industry at 18 percent. The next highest, 13 percent, is the manufacture of industrial and commercial machinery, with the third highest printing and publishing at nine percent. Twenty-six other categories account for 41 percent of the businesses.



Use of Property Tax Abatement

One of the incentives for a certified manufacturing business is a five-year property tax abatement of 80 percent of any tax due to facility investment or related machinery and equipment acquisitions. As illustrated in an earlier chapter, the actual formula by which the abatement is calculated is as follows:

Assessed value of "new" property X 80 percent X Local mil rate =

Actual Tax Owed on Abated Amount

The property owner does not have to pay the tax owed on the abated amount, and the state reimburses the municipality one-half of the lost taxes.

During the committee study, three years of property tax abatement filings at the Office of Policy and Management were reviewed, specifically, those for 1993, 1994, and 1995. (The 1993 OPM data, for example, include all abatements related to property on a town's grand list as of October 1, 1993, for which the town taxes for the tax year October 1, 1993, through September 30, 1994.) Table IV-1 summarizes the data review, breaking down the data between exemptions based on real property assessments versus personal property assessments. The table shows the largest portion of the assessment for which property taxes were abated relates to real property, at an average of 74 percent of the total. However, the increased assessed value for personal property is not insignificant, ranging from 21 percent to 31 percent. It is important to note that not all of the assessment abated under the enterprise program is an increase to the tax base.

Under the enterprise zone program, a facility can be certified if it has been acquired by purchase or lease, and has been idle for at least a year prior to its acquisition, or received an idleness waiver from the DECD commissioner. In these circumstances, no property improvements are needed. According to the file review conducted during the committee study, approximately 80 percent of the certificates involve a lease. To the extent the leased or purchased spaces are not subject to any improvements that increase their assessed values, the assessed value subject to the abatement is actually value already on the grand list and presumably taxed.

Table IV-1. Summary of Abated Property Tax Assessments for Manufacturers in Enterprise Zone

Year	Total Value of Abated Assessment	Real	%	Personal	%	Total State Reimbursement
1993	$23,163,314	16,020,756	69%	7,142,558	31%	$494,157
1994	$29,868,010	22,450,638	75%	7,417,372	25%	$594,298
1995	$46,711,088	36,818,850	79%	9,892,237	21%	$833,150

*Does not include abatements in enterprise corridor zones
Source: LPR&IC Analysis of OPM data

Real property is taxed whether inhabited or not. The impact of the benefit, then, is that already taxed property is now subject to an 80 percent abatement for five years, reducing the property owner's tax obligation to 20 percent of its tax.

It is not possible to tell accurately from the file review what improvements might have been made to leased facilities, but it is reasonable to assume that some were made, adding some increased value to the grand list. Beyond any improvements, there is a benefit in filling previously idle space in terms of zone revitalization. However, when measuring increases to a town's grand list to determine the impact of the enterprise zone program, one cannot count the total value of the property tax abatement. Thus in 1993 (and over the previous four years, as the abatement extends for five years), for example, some amount less than $23.2 million in value was actually added to the tax bases of the zone municipalities. To determine a more precise figure would require a combination of effort between local tax assessors and DECD.

The last column in the table shows what the total state reimbursement is for each year. As noted earlier, the reimbursement is a part of the state cost of the enterprise zone program. The percentage of the total state reimbursement going to individual towns is another indicator of the different activity levels among the towns (of course it can also be affected by facility and equipment size). For the three years in terms of the percentage of the total revenue lost to the state (through reimbursement), the top two municipalities in each year have been: 1993-- Waterbury, 39 percent;

Bridgeport 23 percent; 1994 -- Waterbury, 36 percent; Norwalk, 15 percent; and 1995 -- Waterbury 31 percent; Stamford, 29 percent.

At the individual business level, the average tax amount not paid by an enterprise zone business because of the abatement in 1993-1995 was: $8,692; $8,247; and $9,267, respectively. The lowest tax abatement amount in those years ranged from $4.26 to $121, while the highest abatement amounts ranged from $71,399 to $166,897.

Corporate Tax Credit Usage

Another benefit available to certified businesses is a corporate tax credit for business income connected to the manufacturing facility. As described earlier, an enterprise zone business is automatically eligible for a 25 percent credit against the corporate income tax attributed to the manufacturing facility. If the business has actually created jobs as a result of the facility enhancement, and has filled at least 30 percent of those jobs with zone residents or JTPA eligible municipal residents, a certified zone business is eligible for a 50 percent corporate income tax credit instead of the 25 percent credit. As reported by the Department of Revenue Services (DRS), for the 12 years from 1983 through 1994, a total of 222 tax returns were filed by enterprise zone businesses for a total amount claimed of $1,655,500.

However, by cross-referencing DRS data with information obtained from DECD, the program review committee was able to determine the DRS figures overreport the use of the 50 percent tax credit by enterprise zone businesses. Table IV- 2 sets out the results of the committee analysis.

The analysis was possible because the committee obtained a breakdown of the companies DRS bases its report on the use of the enterprise zone credit. (The breakdowns were for 11 of the 12 income years, because DRS could not locate 1984 data). This reporting problem, in large part due to confusion about the program, will be discussed in the next chapter on program administration. Here, the interest is in providing an accurate picture of how the benefits are actually used.

Overall, in the 11-year period, the 72 enterprise zone returns accounted for a total amount claimed of $268,554, or 17 percent of the total credit amount reported by DRS (for the 11 years available). (The 72 returns were from 36 different companies) An average of $24,414 per year is the revenue "lost" due to the enterprise zone tax credit, with the average amount claimed on each return of $3,729. (The claims ranged from a low of $45 to a high of $51,593.)

Table IV-2. Enterprise Zone Business Use of Corporate Tax Credit		
Year	**Ttl Enterprise Zone Returns**	**Amt Claimed**
1983	1	$30,780
1985	1	$82
1986	3	$21,541
1987	3	$17,913
1988	5	$56,759
1989	3	$23,534
1990	3	$383
1991	7	$8,438
1992	12	$28,503
1993	16	$16,201
1994	18	$64,600
Totals	**72**	**$268,554**
Average	***6.5***	***$24,414***
Source: LPR&IC Analysis of DRS Records		

Jobs

What could not be determined from the DRS breakdown was how many of the claims were filed for the 25 percent credit as opposed to the 50 percent credit, the higher credit indicating a business had created new jobs, with an appropriate number of positions filled by appropriate persons. The fact that a business does not apply for the credit does not mean new jobs have not been created. Other reasons exist for why an eligible business would not file, including that no taxable income was earned, not an unusual position for a small and/or new business. (Also, although most are, businesses do not have to incorporated to be eligible for enterprise zone certification).

One of the central goals of the enterprise zone program, as with most other economic development tools, is job creation. The enterprise program with its emphasis on job creation for zone residents and JTPA-eligible municipal residents puts an even keener focus on that goal. Currently, the Department of Economic and Community Development does not collect job retention or creation information from certified businesses, either under the urban jobs or the enterprise zone program. In fact, DECD does not collect current employment information from businesses applying for certification (except when a business applies specifically for a job incentive grant.)

To try to get at least a rough sense of the job picture for enterprise zone companies, as well as business size, data were obtained from the Department of Labor (DOL). Every employer in Connecticut must report quarterly to DOL on employee numbers for unemployment insurance purposes. By cross-matching DECD information with DOL data, employment information was identified for 142 businesses certified for the enterprise zone program from January 1, 1988, through 1995.

Of these 142, 92 companies filed DOL data on December 30, 1996 (the most current available), indicating they were still in operation as of that date (50 companies had not filed on December 30, 1996, and had last filed anywhere from September30, 1989 to September 30, 1996). Table IV-3 shows that 46 percent of these enterprise zone businesses employed 19 or less employees, while over three-quarters employed 49 or less.

Table IV-3. Number of Employees at Enterprise Zone Businesses Certified in 1988-1995

No. Of Employees	No. Of businesses	State Average (for manufacturing businesses 1992)
1-4	10 (11%)	34%
5-9	11 (12%)	17%
10-19	21 (23%)	17%
20-49	26 (32%)	15%
50-99	14 (15%)	8%
100-249	5 (5%)	5%
250-499	4 (4%)	2%
500-999	1 (1%)	1%
TOTAL	92	

Source: LPR&IC Analysis of DOL Unemployment Records

To get a rough sense of job growth, employment data for the quarter immediately preceding the quarter in which the enterprise zone certificate was issued was used as a baseline. The numbers of employees at that time were compared with the number of employees on December 30, 1996. (Thus, the measurement period varies for each of the companies, depending on when each received its certificate). For the 92 companies, the average job change was an increase of seven jobs. The most negative change for a single company was a decrease of 87 jobs, while the largest increase was 121. The median was three.

Job incentive grants. The job incentive grant program, available to certified zone businesses but requiring a separate certificate process, offers some additional limited information about job creation. Based on program data for FYs 95-97, a total of nine companies used the grant program, creating a total of 200 jobs. Table IV-3 contains job incentive grants paid for fiscal years 95-97.

TABLE IV-3. Summary of Job Incentive Grants			
Year	No. Of Companies (Certificates)	# of Jobs	Total Grants Paid
94-95	4	34	$17,000 (at $500 per job)
		45	$67,500 (at $1,500 per job)
95-96	2	51	$25,500 (at $500 per job)
96-97	3*	45	$22,500 (at $500 per job)
		25	$37,500 (at $1500 per job)
TOTAL	9*	200	$170,000
		Breakdown: 70 (35%) Positions eligible for higher job grant, due to compliance with requirements related to hiring enterprise zone residents or JTPA-eligible municipal employees for certain percentage of positions 130 (65%) Positions eligible for lower job grant	
Source: DECD			
* Includes a company in an enterprise corridor zone			

Sales Tax Exemption

Businesses in enterprise zones may be exempt for the state sales and use tax on manufacturing replacement parts, whether or not it is certified by DECD.[14] There are no data

[14] The sales and use tax rate for manufacturing parts is 5.5 percent.

available on how many businesses take advantage of this benefit. The Office of Fiscal Analysis reports that in FYs 94 and 95, the state revenue loss for this exemption was $300,000 each year. For FYs 96 and 97, the exemption value was put at under $500,000 for each year. Using FY 94 as an example, $300,000 in exempted sales tax means $5.1 million worth of machinery replacement parts were purchased. For a certified business, if this machinery was taken into account when the original certificate was issued, and to the extent it is taxable, it could also be eligible for property tax abatements for five years.

Output Summary

Using 1993 and 1994, and combining the state reimbursement amount for the property tax abatement with the amount claimed for the corporate tax credit, revised after program review examination of DRS data, the amount that represents the state "cost" of the enterprise program for those years is $510,358 and $658,898 respectively. The property tax data indicate that tax base has been added in municipalities with zones, along with increasing occupancy of previously idle space. These two elements show the program has had a positive impact. As noted, more precise output data about those two elements would require a combination of effort between local tax assessors and DECD that currently does not exist.

The use of the corporate credit, per committee revision, is significantly lower than is annually reported by DRS -- 17 percent of what the department has reported over an 11- year period. Only seventeen percent of all companies certified through 1996 have ever claimed the benefit. As noted earlier, the absence of taxable income could be one reason why a small or start-up company might not utilize the credit. As will be shown in a later section on program administration, there is confusion about the credit, which also may inhibit its use. Some businesses may simply not be aware of it. Finally, the employment analysis utilizing a crossmatch between DOL and DECD data indicates some job growth on average.

CHANGING CONTEXT OF THE ENTERPRISE ZONE PROGRAM

In addition to program outputs, another important factor to understand about the enterprise zone program is how much has changed around it. In large part because of the significant economic downturn Connecticut experienced from the late eighties into the early nineties, many other programs were instituted to attract and keep businesses anywhere in the state. These efforts overlap and serve to diffuse the benefits afforded by the geographic entity known as the enterprise zone. Also, the presence of an enterprise zone in a municipality has increasingly been used to trigger other benefits available to that municipality. Finally, the establishment of enterprise zone-like entities, such as enterprise corridor zones, have muddied the original concept of incentives targeted to geographically specific, contiguous, sub-municipal areas. This section addresses these selected contextual changes.

Overlapping Benefits

One overlapping tax incentive program was established under the Manufacturer's Assistance Act (MAA) of 1990. The Manufacturing Machinery and Equipment Exemption Program allows a five-year, 100 percent personal property tax exemption for eligible new and newly acquired used manufacturing machinery and equipment. This exemption covers the same personal property as does the five-year 80 percent property tax exemption under the enterprise zone program, but at a more advantageous rate. In addition, towns are reimbursed for the entire exemption, as opposed to the 50 percent reimbursement for the enterprise zone benefit. Thus, it eliminates that benefit as special to businesses in municipalities with enterprise zones.

Another overlap example is the 1992 Manufacturers Recovery Act, which established a 50 percent sales tax exemption for manufacturing materials, tools, fuel, machinery, and equipment used in manufacturing. While the 100 percent sales tax exemption for the enterprise zone program is for manufacturing replacement parts, the extension of a similar benefit to manufacturers anywhere dilutes the zone benefit.

Zone as Trigger for Other Municipal Benefits

Due to the trigger mechanism noted above, the benefits available to a town that hosts an enterprise zone have grown so that the distinction between the zone and the rest of the municipality blur. Listed here are benefits accruing to a municipality deemed a "targeted investment community" (TIC) because it hosts an enterprise zone.

- For Manufacturing Assistance Act-funded projects, 90 percent of project costs can be covered, as opposed to 50 percent for other municipalities.
- The municipality can offer so-called urban jobs benefits to manufacturing businesses outside the zone -- five-year 80 percent property tax abatement and 25 percent corporate tax credit.
- Per the 1993 Economic Reformation Act, under the Regional Infrastructure Program, a TIC gets 15 extra points toward DECD's 100- point assessment of applications for funding, and 90 percent of project funds may be covered if in a TIC (66.6 percent if project is in region with a TIC).
- The municipality may create entertainment districts, railroad depot zones, and qualifying plant zones.
- State evaluation and site remediation funds are available to TICs for environmentally contaminated sites.

- Seventy percent of the Community Economic Development Fund, created in 1993 for community development projects in public investment communities, must be spent in the targeted investment communities.

Urban Jobs Connection

The link between enterprise zones and the availability of urban jobs benefits is significant. Three years before the enterprise zone program was enacted in 1981, the general assembly established the distressed municipalities program (commonly known as the urban jobs program), providing certain tax incentives to manufacturing facilities. Like the enterprise zone program, businesses had to be certified to be eligible for the benefits. In 1990, the urban jobs program was dissolved by the legislature into the enterprise zone program, and the ability to offer those benefits to a qualified business outside a zone became a municipal benefit from hosting a zone.

Compared to the enterprise zone program, the urban jobs program has been very active. Table IV-4 below summarizes certification activity for both programs, starting in 1978 with the establishment of the urban jobs program. Since 1978, a total of 1221 certificates have been issued for urban jobs, enterprise zone, and enterprise corridor businesses. From 1978 until the first enterprise zone business was certified in 1983, 209 urban jobs certificates were issued, a little less than the total number of enterprise zone business certificates issued through 1996. In total, since the enterprise zone program started, through November 1, 1997, 70 percent (709) of the business certificates issued were for urban jobs (non-zone businesses), while 26 percent (260) were in enterprise zones and four percent (43) are for businesses in enterprise corridors.

In the last four years, the number of urban jobs and enterprise zone certificates issued has been almost identical.[15] This does not diminish the significance of the urban jobs program, as one would expect the number of zone certificates to increase over time as the number of zones increased.

Table IV-5 shows the results from comparing the number of urban jobs certificates issued to the number of enterprise zone certificates issued in the six original municipalities with zones. In four out of the six, the urban jobs program was used more frequently than the enterprise zone benefits. This result shows the importance of the urban jobs program to the municipalities with enterprise zones. (Appendix B contains graphs depicting certification activities in the first 11 zones over time).

[15] This comparison does not include enterprise corridor zone certificates. If added to the regular zone certificates, that number would increase by 25 percent.

Table IV-4. Summary of Certification Activity: Urban Jobs and Zone Businesses				
	Pre-EZ Program Creation	**Post-Enterprise Zone Program Creation**	**Post-Creation of TIC (Merger of EZ and UJ programs)**	
Type	1978 through 1982	1983 through 1990	1991 through 1997	All Years
UJ	209 (100%)	500 (89%)	209 (46%)	918 (75%)
EZ	0	62 (11%)	198 (44%)	260 (21%)
ECZ	0	0	43 (10%)	43 (4%)
Total	209	562 (100%)	450 (100%)	1221 (100%)
Source: LPR&IC Analysis of DECD Records				

Table IV-5: Ratio Of Urban Jobs Certificates to Enterprise Zone Certificates: 1983-96		
Town	**Ratio**	**Actual Certfication Numbers**
Bridgeport	3.5	80 UJ; 23 EZ
Hartford	1.9	27 UJ; 14 EZ
New Britain	5.3	58 UJ: 11 EZ
New Haven	4.8	58 UJ; 12 EZ
New London	0	0 UJ; 7 EZ
Norwalk	0.57	21 UJ; 37 EZ

At the committee public hearing, more than one person testified that the enterprise zone program was so intertwined with the urban jobs component that it would be difficult to assess the enterprise zone separately. Although they obviously know the programs are different, DECD personnel that administer both programs stated in interviews they think of the program as one and the same. This is logical in one way because they are so similar. Since 1990 and the creation of "targeted investment communities," the ability to offer tax incentives to businesses outside zones has been a direct benefit of hosting a zone. The availability of job incentive grants in addition to some reduced eligibility standards in recognition of small business needs remain the primary distinguishing characteristics of zone benefits.

The program review committee finds the actual program utilization experience of the urban jobs and zone programs, along with the fact that only municipalities with zones can offer the urban jobs benefits, has served to blur the geographic distinction between a zone and the rest of the host municipality. Because the urban jobs program has been so active, a logical question is how has that incentive program aided municipalities and the state in terms of economic development. Although beyond the scope and resources of this study, the program review committee knows the same issues noted in the next chapter about the lack of monitoring and collecting output data exist for the urban jobs program as well.

Another question is whether there should be a more direct connection between the urban jobs program and the enterprise zone program. At the committee public hearing, one speaker suggested some level of job incentive grants be available to urban jobs certified companies for hiring enterprise zone residents. He argued this way companies outside the zones would be aiding in zone revitalization through employment of zone residents. Development of this idea would require a closer examination of the urban jobs program.

Enterprise Corridor Zones

As described earlier, the enterprise corridor zone concept was established just three years ago, in 1994. Though the corridor zones are created in the same section of the statutes as the original enterprise zones and utilize many of the same benefits, the two programs are very different. Because the corridor zone program is relatively new, and configured differently than the regular zone program in a key way, they have not been examined in detail in this study. However, the committee believes creation of the corridor zones impacts the context of the enterprise zone program by creating at least a perceived expansion of the program.

Unlike a regular enterprise zone, which is one contiguous area within a municipality, a corridor zone is actually made up of a collection of "industrial districts", scattered throughout towns, within which an eligible business may receive enterprise zone benefits. Thus, there is no one "zone" in an enterprise corridor zone. By taking away the concept of one contiguous geographic area, the corridor program really is a very different animal than the enterprise zone, and is more like the former distressed municipality program.

Like the regular zone program, the corridor zones are based on an initial need determination, although the measure is different. All the towns in a corridor by definition have to be "public investment communities", which means they rank in the top quartile of service-needy towns, based on a multi-factor formula. The corridor towns do not have TIC status, meaning they are not eligible for the various municipal priorities under other development programs listed earlier in this section. This also means that if a manufacturing business is located in an area of a town not designated as an industrial district, the town cannot offer urban jobs benefits to that business. As noted though, there is much more flexibility in the corridor zones about the areas designated as eligible for zone benefits.

What is interesting about the corridors is the regional model they create for economic development. The towns are required to enter into an intermunicipal agreement: "specifying how they would cooperatively share in the marketing, promotion, and development of the industrial districts that would comprise the enterprise corridor zones" as part of the application.

Context summary. The selected contextual changes around the enterprise zone program are presented to illustrate the point that state economic development efforts have not been static in the last several years. This is perhaps an obvious point, but when attempting to assess a relatively small, focused program, it is important to keep these changes in mind as they can impact program administration and effect. More, rather than less, attention needs to be paid to zone program activities and outcomes, as these data show how the program actually operates and, to the extent possible, its impact.

Chapter Five: Program Effectiveness and Administration

- In 1993, the legislature identified four goals of the enterprise zone program: 1) Private investment increases; 2) local tax base expansion; 3) job training and job creation for enterprise zone residents; and 4) reducing property abandonment and housing blight in the zones. Based on information about the use of the property tax exemption, there is evidence the first two goals are being met. The degree to which private investment has increased and the tax base expanded cannot be answered without more consistent and dependable monitoring by municipalities and DECD.

- One way to test the impact of the zone program is to look for changes in the original need criteria used to qualify the areas in the first place. Based on the comparison between 1980 and 1990 census tract data, need has not diminished in Connecticut's municipalities.

- Municipal personnel from areas with active programs support the program as an important tool for them when seeking to retain and attract businesses and, although immeasurable, believe having enterprise zone status provides a psychological boost to the area.

- On balance, given the continuing needs of Connecticut's municipalities, the program support from municipalities with zones, and the fact that relatively speaking, the enterprise zone program does not represent a large revenue loss to the state, the program should continue, but with a renewed commitment to accountability and collaboration from all parties.

- In particular, while acknowledging difficulties from staff changes and transitioning from the agency merger combining economic development and housing, a renewed commitment from DECD is needed in moving from a passive stance to a more proactive relationship with the zone program, as envisioned by legislative changes in recent years.

- An ongoing performance evaluation component remains an important strategy for the enterprise zone program and the related urban jobs component. DECD as the lead agency must be able to assess as well as administer programs under its jurisdiction.

- The revitalization plan requirement for municipalities offers a good opportunity to assist DECD's overall evaluation effort, allowing the department to tap into extensive municipal experience.

- Revenue services data overreport the use of the corporate tax credit by enterprise zone businesses. Part of the problem is a reporting issue, but also indicated is that companies not eligible for the 50 percent enterprise zone benefits may be claiming them.

Recommendations

- DECD shall maintain a comprehensive database on enterprise zone activities and outputs.

- DECD may request and shall receive from state agencies and municipalities such information as it deems necessary to fulfill its program monitoring responsibilities

- DECD shall collect data on the use of the local seven-year tax abatement.

- DECD shall report annually to the general assembly on enterprise zone activities.

- The deadline for DECD to develop goals and performance standards for the enterprise zone program is amended to October 1, 1998. In developing the goals and standards, the department is required to consult with the zone municipalities and review municipal revitalization plans.

- The statutory roles and responsibilities of the community boards shall be standardized.

- DECD shall host informational and training seminars for municipal personnel.

- The additional staff person targeted for the enterprise zone program in the department's reorganization plan should be filled as soon as possible.

- The forms used for enterprise zone businesses to obtain the corporate tax credit shall be more clearly stated and, if a business claims the 50 percent credit, require an affirmation by the business that it has met the requirements for that credit.

- DRS should conduct an audit to ensure that ineligible businesses have not claimed the 50 percent credit.

Chapter Five

Program Effectiveness and Administration

As noted earlier, Connecticut first established its enterprise program in 1981. The program is one of many tools available to manufacturing businesses and municipalities to encourage and assist economic development. It is primarily a program of tax incentives in contrast to grants, loans, loan guarantees, or lines of credit. Since 1981, the core benefits available to manufacturing businesses located within zones -- property tax exemption, corporate tax credits, sales tax exemption, and job incentive grants -- have not changed. As discussed, however, other changes have occurred.

The program has grown from six zones to 17, plus two corridor zones, expanded the definition of "manufacturing facility", and is linked as a trigger for other benefits available to the municipalities in which they reside. Further, the recession that settled in the state in the late eighties through the early nineties, and the series of state efforts to mitigate its impact, significantly changed the world in which the state enterprise zone program operates. For example, when certain property and sales tax exemptions are made available to manufacturing businesses anywhere in the state, the availability of similar benefits in zones loses cachet.

Finally, in recent years the state administration of the program has been impacted by key personnel changes, resulting in a loss of institutional memory. The experience of being part of a major agency restructuring due to the merger of the Departments of Housing and Economic Development has also affected the program administration.

This chapter addresses the issues of program effectiveness and administration, and sets out committee findings and recommendations resulting from the enterprise zone study. For the zone program, questions about program effectiveness and administration are intertwined.

Does the Enterprise Zone Program Work?

The enterprise zone program may be assessed in many different ways. In this chapter, the program is assessed from three perspectives: meeting program goals; continuation of need; and views of program participants.

Program goals. In 1993, the legislature identified four goals of the enterprise zone program: 1) Private investment increases; 2) local tax base expansion; 3) job training and job creation for enterprise zone residents; and 4) reducing property abandonment and housing blight in the zones. *Based on information gathered about the use of the property tax exemption, the committee finds evidence the first two goals are being met.* The degree to which private investment has increased and the tax base expanded cannot be answered without more consistent and dependable monitoring by municipalities and DECD.

In terms of jobs, from the data available from DOL, it appears new jobs are being created. However, DOL data do not identify who the new jobs are being filled by or what the net gains or losses to an area might be. Only through the job incentive grant program can DECD provide any information about job growth for zone residents. Finally, with respect to the fourth goal, the property tax abatement use for previously idle space provides some insight into efforts to avoid property abandonment, but DECD collects no information in this area.

Change in need. One way to test the impact of the zone program is to look for changes in the original need criteria used to qualify the areas in the first place. Using the original criteria for designating zones--census tract poverty and unemployment statistics--1980 census data, used when the program first began, and 1990 census data, the most recent available, was compared to get a rough idea of how need has changed in Connecticut.

As described earlier in the report, a zone had to contain at least one census tract that met what is called the primary level of need, meaning one of the following conditions is met: 25 percent or more of the population earned income below the poverty level; 25 percent or more of the families received public assistance; or the unemployment rate was double the state average.

If at least one census tract met the primary level, a second tract could be included in the zone even though it met a lesser, secondary, level, which requires a lesser 15 percent for the poverty and public assistance criteria or only 150 percent of the state's average unemployment.

At the outset of the program in 1982, based on 1980 census data, 92 census tracts qualified at the primary level, while 103 qualified at the secondary level, for a total of 195 tracts. Nineteen municipalities contained census tracts that met the primary criteria. The 1990 census data show the number of tracts with the highest level of need did not lessen, but in fact increased. Those data show 102 census tracts qualified at the primary level, while 79 qualified at the secondary level for a total of 181. When the census tracts that are already part of zones are subtracted, 70 tracts remain that meet the primary criteria, and could qualify for zone status. All but one of those tracts, though, are in the municipalities that already have a zone or are part of a corridor.

Of course, overall economic strength on the municipal level varies between the municipalities with zones. One way to see this is to look at the results of the "public investment community" (PIC) rankings, which refers to a municipal ranking based on a formula determined to show service need.

The top quartile in the list are considered "public investment communities", and therefore eligible for certain benefits.

Based on the most recent ranking by OPM for FY 1998, 14 of the 17 enterprise zone towns qualify as public investment communities, with the top eight PICs containing zones. Table V-1 shows the municipalities with enterprise zones and their PIC ranks.

The remaining three zone towns are not considered public investment communities, ranked at 86 (Southington), 94 (Norwalk), and 121 (Stamford). The fact that relatively well-off communities may still qualify to host enterprise zones highlights the concept of a targeted geographic area at the sub-municipal level.

Based on the comparison between 1980 and 1990 census tract data, need has not diminished in Connecticut's municipalities. That the enterprise zone program has not turned that circumstance around does not mean the program has not worked, but reinforces the fact that the zone program is one of many economic development tools.

Table V-1. Municipalities with Enterprise Zones that Qualify as PICs (PIC rank)

Hartford (1)	Windham (7)
Bridgeport (2)	Meriden (8)
New Haven (3)	East Hartford (11)
New Britain (4)	Norwich (13)
Waterbury (5)	Bristol (19)
New London (6)	Middletown (28)
Hamden (29)	Groton (40)
Source: OPM FY 1998 Public Investment Community Eligibility Index	

Perspective of program participants. The effectiveness of enterprise zones has been discussed quite often in development literature. One commentator summed up the enterprise zone experience:

> While state and local officials heralded the success of the programs, pointing to billions of dollars invested and hundreds of thousands of jobs created and retained in enterprise zones, critics were unimpressed. First, they claimed, it was difficult for zone proponents to attribute increased economic activity to zone incentives. Second, unemployment among local residents remained high in nearly all state and local zones. Third, in too many cases community residents and existing and potential

employers within and outside of the zones were unaware of the benefits offered by state programs.[16]

All those statements can be made about the Connecticut program. However, based on interviews conducted during the committee review, municipal personnel from areas with active programs support the program as an important tool for them when seeking to retain and attract businesses and, although immeasurable, believe having enterprise zone status provides a psychological boost to the area. At the committee public hearing, a development assistant from Waterbury testified:

> The program has worked out very, very well for the City of Waterbury and attracting new businesses, particularly in the field of promoting start-up businesses. We've always viewed or I've always viewed the enterprise zone program as a tool, particularly in the last six or seven years. It's not the cure all and I've always conveyed that to people out there, but if you combine a variety of different programs, the enterprise zone program is a key component of that.[17]

The Norwalk Director of Marketing and Business Development also testified at the hearing:

> Norwalk is the city that got the enterprise zone first fifteen years ago. One of the first group and actually was the first one. And its been very, very helpful to us... It's been extremely helpful to the City of Norwalk to attract businesses and retain businesses because of the enterprise zone program. And it's really a key to us in attracting manufacturers.[18]

As an example of the business perspective, a representative from one enterprise zone business that decided to locate in a zone as opposed to move out of state told committee staff the manufacturing tradition and skill levels available here were a main advantage. However, the bottom line of cost made the fact that tax breaks were available here very important, also.

On balance, given the continuing needs of Connecticut's municipalities, the program support from municipalities with zones, and the fact that relatively speaking, the enterprise zone program does not represent a large revenue loss to the state in terms of the property tax reimbursement and

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[16] Michael Wolf, *U.S. Urban Areas Seek New Path to Prosperity*, Forum For Applied Research and Public Policy, Winter 1995 (pp. 85-86)

[17] Testimony of Tom Gentile, Development Assistant, Naugatuck Valley Development Corporation, Program Review and Investigations Committee Public Hearing Transcript, Sept. 11, 1997 (p. 30).

[18] Testimony of Jim Banks, Director of Marketing and Business Development, Program Review and Investigations Committee Public Hearing Transcript, Sept. 11, 1997 (p. 21).

the corporate tax credit[19]*, the committee concludes the program should continue, but with a renewed commitment to accountability and collaboration from all parties.* In particular, while acknowledging difficulties from staff changes and transitioning from the agency merger combining economic development and housing, a renewed commitment from DECD is needed in moving from a passive stance to a more proactive relationship with the zone program, as envisioned by legislative changes in recent years. Also, participating municipalities and businesses will have to accept the need for useful information on program results, and work in collaboration with DECD.

In regard to DECD commitment, the 1995 act that established the Department of Community and Economic Development also charged the DECD commissioner with developing a reorganization plan that, among other items, was to: 1) set forth policy goals for the department; and 2) determine strategies to encourage economic and community development and the provision of housing in this state. The committee is concerned that the enterprise zone program is not mentioned at all in the Strategic Action Plan that serves as the guide to the reorganization. (The plan was developed by an interdisciplinary group led by the governor's Chairman of Development.) At the committee's public hearing in September, however, DECD testified the enterprise program was an "integral part of our plan" for the future.

Program Administration and Compliance

Implementation of the enterprise zone program crosses both state agency and governmental lines. However, DECD is clearly the lead agency. Solutions to many of the problems identified in this section by the program review committee actually already reside in statute, but the provisions have not been fully implemented.

Program activity monitoring and evaluation. The original 1981 enabling legislation contained no reporting or activity monitoring requirements, although the department on its own developed a municipal reporting mechanism. Until 1993, DED required activity reports from the zone municipalities. Municipalities were asked to submit data by type of project, broken into four categories: 1) manufacturing/industrial; 2) commercial/retail; 3) residential; and 4) mixed use. The information requested was on the number of projects in each category, and the total investment by project type. Information about job creation and retention was also required, and was reported by the two business types. Finally, information about resource creation and/or utilization was requested, such as new square feet used as well as rehabilitated space. In 1986, the statute was amended to require the economic development department to "compile information on activities and programs which are conducted in enterprise zones...and shall serve as a resource center for the dissemination of such information upon request."[20]

[19] As some argue, there may not be much of any loss because the benefits are only triggered by activity with some revenue gain that might not have happened otherwise.

[20] C.G.S. Sec. 32-70 (e)

The reports combined so many different elements that the data are not very useful, especially from an historic research perspective. For example, a main feature of the enterprise zone program is that businesses must be certified in order to use the property tax and corporate tax benefits. To get a loan or grant under the state financial loan/grant program that targets businesses in enterprise zones, no certificate is needed. It appears these two different types of benefits were merged under the term "projects", eliminating the ability to connect results with a particular feature of the program. Further, the data were not verified by DED upon receipt. In 1993, DED stopped requiring activity reports from municipalities.

1993 changes. As five more zones were created in 1993, three major new strategies were introduced into the enterprise zone program: state-level goal setting and performance evaluation; municipal strategic planning; and community involvement. Implementation of the three strategies has varied.

State-level goals and performance evaluation. Legislation passed in 1993 established a five year goal-setting and evaluation process requiring a joint effort between DECD and the towns. As noted earlier, work in late 1993 and early 1994 was done on developing draft goals, but beyond that no implementation occurred. If the evaluation process had proceeded as planned under the statute, the DECD commissioner would, by January 1, 1998, be reporting his assessment on the performance of all the enterprise zones, and further, removing zone designations if performance standards had not been met. The process as envisioned is set out in Figure III-4 in Chapter Three.

Considerable turnover has occurred at DECD since 1993, and DECD personnel currently responsible for the enterprise program do not know why implementation of this provision did not occur. Prophetically, when the bill was being debated in the house chamber in 1993, a question was raised about whether the legislation gave the economic development department enough time since the law mandated the goals be established by October 1, 1993.

Municipal revitalization plans. In the same 1993 legislation, a provision was passed requiring each municipality to adopt an "enterprise zone revitalization plan". The plan was to "specify goals and objectives for the enterprise zone, describe strategies to attain such goals and establish an implementation schedule." Part of the opportunity and challenge of preparing such a plan was to identify what other programs and local efforts a community is using to augment the incentives offered. This provision had no apparent connection to the simultaneous requirement for the department to develop goals and performance standards for the entire program.

During the committee study, plans from seven of the 10 enterprise zones in existence in 1993 (one in draft form) were reviewed. Apparently, not all towns submitted plans, and there was no DECD "review and comment" as envisioned by the statute on the plans that were submitted. What is striking about the plans is that despite the general similarities of problems, each zone has its own very specific set of issues and priorities.

Community involvement. The legislature in 1993 determined that community involvement in zone policy and planning was important as it created five new zones. Therefore, the legislature required of any municipality that was designated as the host of one of the five new zones to establish a community enterprise zone board within 30 days after the zone was designated. The board has certain specified responsibilities, and its composition is set out in the law. During the same legislative session, but via a different bill, the statutes were amended to require all zones to create similar community entities. The concept of community involvement was not part of the zone program when the earlier zones were created, and signaled a significant shift in the way the zone program was perceived. The legislative requirements for all zones are much less specific than those for the newly created zones, however, and overlap. Table V-1 compares the two provisions. In practice, the community organizations are active in some towns, as in Stamford, while in others they have not been.

From an overall perspective, *the committee finds all three of the 1993 strategies have not received the attention and effort deserved.* The following recommendations are intended to address the issue of program monitoring as well as these strategies.

Table V-1. Comparison of Community Entities Required for Enterprise Zones	
Requirements for Entity in Five Zones Created After 1993	**Requirements for Entity in Any Zone**
Entity	
Community Enterprise Zone Board	Enterprise Zone Advisory Committee
Duties	
Establish policy for the promotion and development of the zone	Assist in the planning and implementation of enterprise zone activities.
Coordinate economic development programs in the zone with related job training and social services programs	
Adopt a zone revitalization plan that specifies goals and objectives for the zone, describe strategies to attain such goals and establish an implementation schedule.	
Composition	
1) Municipal officials or their designees, including the official responsible for economic development activities; the chief executive officer; a legislative body representative, appointed by that body; the police chief; the housing administrator; and a school board representative, appointed by the board 2) a representative of the regional community-technical college serving the municipality's region, if applicable; 3) two business community representatives, one of whom is a Chamber of Commerce member 4) two business owners from the zone; 5) two representatives of neighborhood community organizations serving the area, if any exist, or two zone residents (Representatives cited in 3,4,5 appointed by chief executive officer)	May consist of elected officials, representatives of municipal agencies performing functions such as public safety, planning, housing, job training and economic development, school officials, representatives of community based organizations and residents of and representatives of businesses located in the enterprise zone.

RECOMMENDATIONS

Program Monitoring

DECD must establish itself as the central repository of information about enterprise zone activity, including urban jobs certifications and job incentive grants. Municipalities, other state agencies, and businesses have data responsibilities also, but DECD needs to be the leader. It is important for many reasons to collect and report useful and dependable information on an ongoing basis. The first is simply to understand how the program is being used. What is known from just comparing the number of certificates issued among the zones is that there is a wide variety of activity out there. The variation may be explained by the makeup of the zone, or point to specific barriers amenable to change.

As evidenced in the chapter on program outputs, it was disturbing that in the course of the committee review so many ad hoc methods for obtaining these data were needed because DECD does not currently monitor and collect them. *While limited resources and agency transition might be part of the explanation, the program review committee finds in recent years DECD has been passive in monitoring program outputs. This is particularly clear in the job creation and retention area, a major program goal.* The rough proxy for job growth data the committee created was because DECD does not currently monitor job creation and retention, and does not even require current employee numbers as part of the certification process. This lack of attention extends to the corporate tax credit utilization also. The Department of Revenue Services is responsible for the tax system, but that should not be a rationale for DECD to not track one of the benefits of the enterprise zone program.

The department currently maintains a spreadsheet on certified businesses under the enterprise zone program and its urban jobs component, which contains information from the certificate application process This spreadsheet would be a useful starting point for a more comprehensive database. **The program review committee recommends DECD maintain a comprehensive database on enterprise zone activities and outputs, including its urban jobs component, that includes the following elements:**

1) **Whether a company is a start-up, relocating and from where, or an expansion;**

2) **The current number of employees (if applicable) at time of certification;**

3) **Job retention and creation numbers;**

4) **The <u>actual</u> increase in assessed value of any real property due to acquisition, expansion, construction or renovation;**

5) **Whether the certified business submitted a claim for personal property and real estate property abatement for the preceding October 1 Grand List, and the amount of the abatement;**

6) **Whether the certified business claimed a corporate tax credit, for what amount, at the 25 percent or 50 percent level, and how many jobs have been created if the 50 percent tax credit is claimed;**

7) **Whether a company within the enterprise zone, certified and otherwise, received grants, or loans under the targeted Growth Fund, or any other targeted state financial assistance programs, and for what amount;**

8) **Whether job incentive grants have been applied for and/or received and in what amount; and**

9) **If a company has gone out of business, or moved out of the zone or municipality.**

The committee is aware some of the information to be included in the database resides with other agencies, or at the local municipal level. Some, such as the tax credit information, is maintained in a confidential manner. DECD will have to work out protocols between the various entities to obtain the data, including any confidentiality agreements. The committee is also aware there is a timing issue related to the collection of some of the information, such as the property tax assessment data and the corporate tax credit data. Over time, the committee believes this issue can be resolved. To assist the data collection effort, **the committee recommends the statute be amended as follows:**

DECD may request, and shall receive, from state agencies and municipalities, such information as it deems necessary to fulfill its program monitoring responsibilities.

Another aspect of the enterprise zone program is the availability of a local seven-year tax abatement for commercial and residential property improvements. This aspect of the program appears to be used quite differently from municipality to municipality, and in some cases, not at all. The City of Hartford, for example, has had no claims for this benefit over the last four years. It is an area in which DECD has no certification responsibilities. However, it is a part of the overall concept of the enterprise zone program that commercial and residential improvements should be encouraged along with industrial growth, a goal to which participating municipalities pledge support as part of their applications. Data on the utilization of that part of the enterprise zone program is important to an ongoing understanding of the program.

DECD shall collect data on the use of the local seven-year tax abatement, including the type and amount of each claim.

Report. The database will allow DECD to fulfill its responsibility to "compile information on activities and programs... conducted in enterprise zones." DECD already is required to annually report on the job incentive grant program to the legislature, which is now just a piece of the zone program. This report requirement could be folded into a more comprehensive report.

The committee recommends DECD shall report annually to the legislature on enterprise zone activities. The report shall summarize data from the comprehensive data base

recommended above, by municipality, and include certificate activity for both enterprise zone and urban jobs, job incentive grants, benefit use and level, and utilization of the local seven year abatement benefit.

This database and reporting requirement places the enterprise program on the same par as the DECD financial assistance programs on which the agency is required to report every six months. There is a similar requirement for the Connecticut Development Authority and its programs. A benefit of the enterprise zone report is that it will show the full array of benefits--tax incentives as well as grants and loans--that a business might obtain.

Performance Evaluation

It is unfortunate the evaluation process has not been carried out as intended. At this point, though, the focus must be on how to proceed in the future. *The committee finds an ongoing performance evaluation component remains an important strategy for the enterprise zone program and the related urban jobs component. DECD as the lead agency must be able to assess as well as administer programs under its jurisdiction.* The process needs to get back on track, with a stronger link to the communities taking advantage of the zone program.

The committee finds the revitalization plan requirement for municipalities offers a good opportunity to assist DECD's overall evaluation effort, allowing the department to tap into extensive municipal experience. (Eleven of the 17 zones have been in existence at least 10 years, with the original six in place for 15 years. The remaining six came into existence between 1993 and 1995, and have had obviously less time for program development experience, although Stamford has been very active). Further, the goal and performance standard setting process should take a cue from the federal empowerment zone/enterprise community program: every zone is different, specific objectives will most likely vary, and concrete, measurable benchmarks should be used. The following recommendation supports and modifies the 1993 evaluation components established in statute, and recognizes the need for an extended deadline for completion of the process.

The committee recommends DECD review the revitalization plans it has obtained, and require those municipalities that did not submit plans to do so by July 1, 1998. The municipalities with plans shall submit status reports on implementation measures in the plans up through July 1, 1998. DECD, in consultation with municipalities with the zones and upon review of the plans, shall develop goals and performance standards for the enterprise zone program by October 1, 1998. Annually thereafter, the municipalities shall report on their progress in meeting the standards. The DECD commissioner shall still have the authority to remove any zone designations from municipalities not meeting the standards.

To illustrate the types of performance standards, or objectives that may be set, the following public hearing excerpt is offered. At the committee hearing, one municipal representative testified that program evaluation in the zone program was "complicated" because of the different program goals, requiring different performance measures. He cited three such goals: jobs; filling those jobs with enterprise zone residents; and revitalizing distressed neighborhoods:

> To succeed the incentives have to be used in combination with a placement function if you are going to get any enterprise zone residents in jobs. So if somebody is actually using this program with just the incentives without somebody working to place enterprise zone residents in the jobs you create, then it should be no surprise to anyone that it fails because the incentives by themselves don't do that. Likewise, if you really want to revitalize a neighborhood incentives and placement aren't enough. It's not enough to create the job and get a resident in that job. You've got to do things that make the neighborhood the kind of place that once a resident has choice they'll stay in and invest in rather than move to a better neighborhood.[21]

Community Involvement

The concept of community participation in policy development and planning is key to any geographically-based, neighborhood development process. It underpins the complementary neighborhood revitalization zone program established in 1995 by the general assembly. However, the current statutory provisions requiring community boards for enterprise zones are confusing and duplicative, as illustrated above by Table V-1.

The program review committee recommends the statutes be amended so the roles and responsibilities of the community boards will be the same regardless of when a zone was established.

Program Assistance

During interviews with municipal personnel, considerable interest was expressed in obtaining more information and training about the program from DECD. There seems to be frequent turnover in the ranks of municipal personnel responsible for the program, which increases the need for regular communication about the program. On the other hand, there are some experienced municipal personnel who could share ideas about the program to the benefit of all. **The committee recommends that DECD host seminars on matters of general or specific interest at least once a year for municipal personnel involved with the enterprise program.**

Topics could vary from marketing the program to job placement strategies. DECD indicated at the public hearing that the agency:

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[21] Testimony of Kip Bergstrom, Director, Office of Economic Development, Stamford, Program Review and Investigations Committee Public Hearing Transcript, Sept. 11, 1997 (p. 4)

...planned to increase our involvement with the communities that we serve. Training sessions are planned that will update town officials as well as DECD field staff on the benefits of enterprise zones. This will enable us to increase awareness and promotion of enterprise zones and can only help to improve our service to municipalities and private companies.

The committee applauds this effort and makes the recommendation in support of the department's plans.

Staffing. The committee is aware the recommendations made above increase workload. Currently, only one person is assigned full-time to the enterprise zone program, which includes handling job incentive grants and urban jobs certificates. According to the DECD reorganization plan, there are to be two full-time persons assigned to these functions. **The committee recommends that this additional position be filled as soon as possible.**

Corporate Tax Credit Administration

One of the benefits of the enterprise zone program is a corporate tax credit at a 25 or 50 percent level. Tax collection is of course under the purview of the Department of Revenue Services. *As noted earlier in the report, in the process of more closely examining how the corporate tax credit benefit is used, it was discovered that the DRS figures overreport the use of the tax credit by enterprise zone businesses. The committee finds part of the problem is just a reporting issue, but also suggests that companies not eligible for the 50 percent enterprise zone benefits may be claiming them.*

DRS captures and aggregates data from the Business Tax Credit Summary (CT-1120K), a business tax return document, to prepare its reports on the use of eight different tax credits available to corporations. One such credit is the enterprise zone credit, which DRS assumes to mean the 50 percent tax credit only available to businesses in an enterprise zone that meet specific criteria (i.e., the company has made some kind of facility improvement that makes it eligible for a zone certificate, and has created new jobs, filling at least 30 percent of the new jobs with zone residents (or JTPA eligible municipal residents)).

However, an enterprise zone business is eligible for a lower, 25 percent tax credit, just by being certified, without any job creation requirement. This is the same credit for which a business certified under the so-called urban jobs program may file. Confusion has arisen because there is no place for a business claiming the 50 percent tax credit to positively affirm the specific statutory requirements have been met (creating new jobs with at least 30 percent or 150 of them being filled by appropriate persons). The DRS process now presupposes that by virtue of having a enterprise zone certificate, an enterprise zone business is eligible for the 50 percent credit, which is inaccurate.

DECD forms add to the confusion. DECD provides identical claim forms both for urban jobs and enterprise zone businesses to submit as part of their business tax returns. When the initial certificate is issued to the business, the DECD transmittal letter specifically discusses the different requirements for the enhanced benefit. However, a year can pass before the business actually applies for the tax credit, and the tax forms are silent on the criteria.

In reviewing a 10 company sample of DRS files, there appears to be evidence of confusion about the credits. Some companies certified as urban jobs companies, but not zone companies, used the enterprise zone tax credit form, but only claimed 25 percent. (On one of these forms, 50 percent was crossed off, and 25 percent was written in on the final calculation line.) Three enterprise zone companies claimed the 50 percent tax credit, while another appears to have used both forms, claiming the 25 percent credit and the 50 percent credit on the same income. Two urban jobs companies not eligible for the 50 percent credit used the enterprise zone tax credit form and appear to have claimed the 50 percent tax credit. As there are a significant number of non-enterprise zone companies reported by DRS as claiming credits as enterprise zone companies, DRS should take steps to assure the credit has not be misused.

The program review committee recommends the enterprise zone and manufacturing facility credit forms be amended to reflect what the actual options are, and require a business to affirm it has met the specific requirements of the 50 percent enhanced tax credit. Also, DRS should conduct an audit to ensure that ineligible businesses have not claimed the 50 percent credit.

The committee is aware DECD and DRS have discussed this issue, and assumes DECD is assisting DRS in understanding the program nuances that impact the tax credits, including the difference between an urban job certificate number and an enterprise zone certificate number. In a letter to the program review committee after the briefing, DRS noted the corporate tax credit forms are "considered part of the taxpayer's return. The corporate return, prior to its being filed with the Department, is signed by a corporate officer who, by doing so, attests to its accuracy." The department also believes there should be no confusion:

> Clearly, the CT-1120 MCEZ is to be completed if the taxpayer has qualified for the 50% Enterprise Zone tax credit, while the CT-1120MC is for taxpayers who do not qualify for 50% credit, but meet the criteria for the 25 percent credit.[22]

The program review committee agrees the responsibility rests with the taxpayer to follow the tax rules. However, in face of evidence that there is confusion, with a potential for credit misuse, steps need to be taken to ensure appropriate program implementation.

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[22] Letter dated 9/15/97 from Commissioner Gene Gavin, Department of Revenue Services, to Sen. Fred Lovegrove and Rep. Michael Jarjura, Co-Chairs, LPR&IC.

APPENDICES

APPENDIX A
AGENCY RESPONSE

THE DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT

AGENCY RESPONSE

TO THE

LEGISLATIVE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE

ENTERPRISE ZONE STUDY REPORT

James F. Abromaitis, Commissioner
Department of Economic and Community Development

The resultant report of the Enterprise Zone Study, prepared by the staff of the Legislative Program Review and Investigations Committee, is extremely comprehensive and is, in and of itself, a detailed and useful guide to the intricacies of this very complex incentive program. However, due to the very nature and complexities inherent in this program, we are concerned that certain statements and phraseology utilized in the report, while generally accurate, may lead to misinterpretation of how the program is utilized and implemented when read by the uninitiated. Therefore, prior to commenting on the specifics of the recommendations section of the report, we wish to address certain elements contained in the body of the report. By doing so our intent is to clarify both the program utilization and implementation aspects, as well as to broaden the foundation forming the basis of our comments concerning the recommendations section.

- Page 33, Figure III-1. The second item in the lower right hand corner states that "current assessed value of property (pre-work) and cost of renovation and expansion" is included as part of formal application submittal to the Department of Economic and Community Development (DECD). The application is being revised to avoid confusion since this requirement only applies to those applicants applying for certification on the basis of a major renovation to occupied space. In this case we are determining that the cost of renovations is in excess of 50% of the assessed value of the space being renovated. Only one out of the 117 certificates issued in 1997 were approved on this basis. There were none in 1996. Otherwise, the cost of a renovation, or expansion, is not necessarily relevant to assessed value figure determined by an assessor for the October 1 grand list. In many cases, while some form of renovation may be anticipated, the actual work does not take place until well after the applicant has relocated to the space, and well after a DECD eligibility certificate is issued. Data on the actual assessed value of any renovations or improvements would be available once they are added to the grand list.

- Page 33, Figure III-1. While this diagram is meant to capture the essence of the certification process, we are concerned the uninitiated reader may infer that DECD staff activity terminates at the point when the certificate is issued. After certification DECD is required to respond to numerous questions from certificate holders, property owners, various community officials, and other state agencies concerning follow-up procedures necessary for accessing benefits. In addition, we would note the Urban Jobs Program is actually initiated by the applicant, usually via a municipal official, requesting the Commissioner declare that this incentive program is an inducement for consideration of the proposed project. This must take place prior to the inception of the proposed project and the application process. Also, in regard to Figure III-3, Job Incentive Grant Program activity actually terminates when DECD staff delivers the grant check to the recipient, not when the Comptroller issues the check. While these may all be fine points, they convey the fact that there are numerous variables involved in the incentive program administration process.

- Page 34, first paragraph. The statement is correct. However, very detailed information concerning current employment, as well as future job creation projections, was required for those applicants applying for job incentive grants. DECD is presently revising the application forms. DECD collected employment related data from all applicants certified in 1997. All applicants will be required to provide current, pre-project employment data, and projected employment estimates for all future certifications.

- Page 34, second paragraph. The focus of this paragraph is on requiring an applicant to report on expenditures for facility enhancement. As referenced in our comment concerning page 33 (above) and the current assessed value issue, this requirement is exercised very rarely, and only under special circumstances. Many, if not most, facility acquisitions do not contain an element of enhancement which requires a building permit or certificate of occupancy. If, in this case, the term enhancement also references the actual acquisition of a property, by purchase or lease, proof of such is required. Applications are being revised to avoid such confusion for the 1998 incentive certification round.

- Page 34, footnote. The reference that under the Job Incentive Grant Program expansions are defined by whether the expenditure equaled at least 50% of the assessed value of the facility is correct. This reference is contained in statute, and is part of the language detailing eligibility requirements under the former distressed municipality program. However, DECD has historically viewed this requirement to be a vestige of the old distressed municipality program which was superceded when job incentive grants were applied to the Enterprise Zone Program. The programs now operate in tandem, and such a threshold requirement does not exist for facility expansion certifications under the Enterprise Zone Program.

- Page 38, Figure III-3. The upper left hand corner reference to the acquisition of equipment being a qualifier for the receipt of job incentive grants is also viewed as a vestige of the now defunct distressed municipality program. Once the statute was modified to apply job incentive grants solely to enterprise zone projects the acquisition of equipment element became irrelevant since only real estate related projects may be certified for enterprise zone incentive benefits.

- Page 46, next to last paragraph. Obtaining figures defining the assessed value of the existing facility as well as the assessed value of any improvements would be ideal for measuring the actual increase to the grand list of municipalities participating in the incentive programs. While accurate figures may not be available at the time an application is submitted to DECD, such information should be available from the assessor's office after October 1 of each assessment year. Obtaining the initial figures will simply necessitate additional staff time commitment at DECD as well as within each assessor's office. In terms of obtaining such information for the following four years of eligibility, one solution may be to have the Office of Policy and Management (OPM) modify their M-55 form which is utilized by tax assessors to obtain state reimbursements for our certified projects. The assessor could itemize the base line assessed value as well as the assessed value of any improvements as they take place. The base line figure would usually be a constant, but could change substantially should a reevaluation take place. Another possibility would be to require the municipality to submit such information directly to DECD annually as part of the newly required performance standard guidelines. Based on the fact that 117 certificates were issued in 1997, and DECD anticipates that number to increase each year, ultimately there will be in excess of 600 projects to track at any given time during the five year eligibility periods. While this information may be desirable, we question the need to enter into such a long term cumbersome process for which OPM and DECD are not equipped to conduct. The project acquisition/new construction phase takes place prior to DECD certification. Renovations, if any, take place either just prior to occupancy, or within the first year after occupancy. DECD estimates 99% of any increases to the real property grand lists would be captured by obtaining such information during the first two years of eligibility. The aggregate real property data could then be captured from OPM records. Since the abatement for personal property is applied to what is new to the grand list, such information should be readily available on a per company basis from the local assessor, and may also be available at OPM.

- Page 60, paragraph 2. Concerning jobs, DECD now requires applicants to provide information on the number of full time positions existing prior to the inception of hiring for the project, and a projection of the number of full time positions the applicant plans to create as a result of the project (reference page 67, paragraph 2 as well). It is correct that DECD only maintains actual job creation figures for those applicants applying for and receiving a job incentive grant. This figure is obtained via an audit of the applicant's employment records conducted by DECD staff. By statute, the time frame for the audit eligibility period must be within two years after the project was certified. A single audit generally takes a minimum of several hours due to the time it takes to establish which positions were new, track individual employees in and out of these positions, and then determine if any of the employees in the qualifying positions are enterprise zone residents or Job Training Partnership Act (JTPA) eligible residents of the community. To obtain that accuracy level of job creation information for all companies certified by DECD would require additional staff commitment. While not ideal, requesting that information concerning job creation be provided by the applicant, either directly to DECD, or via a local zone coordinator, may be the best alternative. Based on DECD job audit experience for job incentive grants, it is apparent that generally all the full time hiring for a certified project takes place well within the first two years after the project is completed. After that the employment figure remains somewhat static, or if it increases substantially, the applicant comes back for certification for an expansion project. Also, based on the DECD audit experience, tracking newly created positions beyond two years, and determining who is filling these jobs, appears to become even more cumbersome since job titles and duties are modified over time. Many of the elements cited in the report, such as job opportunities and training for enterprise zone residents, the impact of the program on property abandonment, housing blight, and the expansion of the tax base, are addressed in the Goals and Performance Standards document recently developed by DECD, and solicited of host communities.

- Page 65, paragraph 1. While legislation requires Community Enterprise Zone Boards be established in the five enterprise zones created after 1993, it appears all, not just the remaining ten enterprise zones existing at the time, are technically required to establish Enterprise Zone Advisory Committees. There appears to be an inconsistency and an overlap which should be rectified with future legislation.

RESPONSE TO REPORT RECOMMENDATIONS

In November of 1996, upon the departure of the former manager of Enterprise Zone Program, new staff was assigned at DECD to manage this, as well as other aspects of the department's business incentive programs. These included the Urban Jobs, Job Incentive Grant and Enterprise Corridor Zone Programs in addition to the Enterprise Zone Program. Also, the new staff was charged with implementing the newly legislated Railroad Depot Zone, Entertainment District and Qualified Manufacturing Plant Programs which are all subsets of the Enterprise Zone Program.

As part of the process of learning to manage and implement the above programs, staff reviewed the files and existing databases for past years. What became readily apparent was that while much of the very basic information existed in various formats, very little was organized in such a manner as to provide for easy access to meet any informational or reporting requirements. Also apparent was that a new comprehensive database was necessary for the programs to be managed properly. The MS Access data base program was selected due to the it's capacity to expand with the needs of our programs on a year to year basis, as well as it's ability to allow us to merge various fields with other major software computer programs in order to create the necessary certification documents. By September/October of last year all data necessary, including existing and projected job figures, was inputted in the MS Access database for the 1997 certification process.

One factor which became evident during our review process was that during the years since the inception of the incentive programs this agency was transformed from having virtually no computers, to one which has very recently developed sophisticated computer capabilities. The interim period involved experimentation with various computer options and data bases, none of which are compatible with today's equipment, thus this information is only available through hard copy research. Information was difficult to obtain, difficult to input efficiently, and not necessarily compatible with the year to year changes to the software utilized. In addition, during this same time period the incentive programs were greatly expanded, while the number of agency staff committed to the programs was severely decreased. This alone necessitated the need to determine what data or information was absolutely necessary for the purpose of managing the incentive programs versus what would be prudent to have or of limited functional long term value, and to concentrate one's resources accordingly. In any event, while the agency now possesses top of the line computer and data base capabilities, the desired process is still limited by state agency capacity and municipal resources. This is true for DECD as well as for those other agencies and municipalities on which we rely for information.

While DECD now has the capacity to gather and input the data and information necessary to properly support the issuance of program certifications, we are greatly concerned about the apparent recommendation for DECD to maintain long term databases for each client for the life of each certification. The recommendation for property tax data follow-up would entail five years of detailed tracking by local assessors and staff at the Office of Policy and Management (OPM). Local assessors are presently voicing concern over how time consuming the current relatively low demand process has become. The recommendation for detailed job creation information for those certified for, and receiving, the enhanced corporate tax credit benefit will create a ten-year detailed tracking commitment by the staff of the Department of Revenue Services (DRS). DRS is presently modifying the process involved in certifying that a company is eligible to receive the enhanced corporate tax benefits. However, the proposed ten year process involved in certifying the number of new full time positions, and the number of new positions which are filled by employees who are enterprise zone residents or JTPA eligible community residents, will be time consuming and difficult, and will represent new and significant agency responsibilities. Unless a company keeps extremely detailed position tracking records, and most do not, after a few years it will be virtually impossible to determine which filled positions existed prior to the certified project and which were created due to the project. Certifying that any of the eligible "new" positions are actually filled by enterprise zone residents or JTPA eligible individuals five to ten years after the initial certification only compounds the problem.

There is little if any correlation between the certification for the enhanced job incentive grant benefits ($750 vs. $2,250 per full time position created), and the certification of the enhanced corporate tax credit benefit (25% vs. 50%). For the enhanced job grant benefit a minimum of three new full time positions must be created, must exist a minimum of three months, a minimum of 50% of which must be filled by enterprise zone residents or JTPA eligible residents of the community. The job certification audit is conducted by DECD staff, and is done once, at the request of the client, anytime with a two-year time period after certification. To qualify for the enhanced corporate tax benefit there is not a minimum full time position creation requirement. However, a minimum of 30% of the new full time positions created, existing for a minimum of the three months prior to the end of each fiscal year of the company, must be filled by enterprise zone residents or JTPA eligible residents of the community, for each of the ten years of eligibility. As an aside, in an Enterprise Corridor Zone the 50% JTPA threshold requirement for obtaining enhanced job incentive grant benefits may be met by hiring JTPA certified residents from any of the participating communities. However, for the enhanced corporate tax credit, the minimum 30% threshold for JTPA certified residents may only be met if those employees reside in the community in which the project was certified.

In terms of specific recommendations DECD responds as follows:

A. That DECD establish a comprehensive database for the Enterprise Zone and Urban Jobs Programs. DECD has established such a database in 1997 utilizing MS Access. For the purpose of consistency we also included the Enterprise Corridor Zone Program, and plan to include Entertainment Districts, Railroad Depot Zones, and Qualified Manufacturing Plant designations as those programs activate. In terms of specific items listed beginning on page 56, numbers 1,2,3,and 8 are items currently available and can be added to the data base as appropriate. In terms of process, the number of employees at time of certification in number 2 and the number of jobs retained in number 3 would be the same. Items number 4 through 7 and number 9 would necessitate close cooperation by such entities as local municipal officials, OPM, DRS, and the Connecticut Development Authority. DECD believes that implementing this process in a meaningful manner would require the assessment of the capacities of all involved entities to assure effective compliance.

B. Amending the statute in order that DECD may request, and receive, such information deemed necessary to fulfill the its program monitoring responsibilities. This would provide DECD with the capability to acquire the data referenced in A above. We have met with representatives of DRS and OPM concerning related issues, and plan to maintain such a dialog on a regular basis.

C. DECD shall collect data on the use of the local seven-year tax abatement, including the type and amount of each claim. This requirement has been included in the Goals and Performance Standards document issued to targeted investment communities by Commissioner Abromaitis in January 1998.

D. DECD shall report annually to the legislature on enterprise zone activities. The reporting requirement should be achievable, subject to the data gathering elements, and the database, being fully operational. In addition to the recommendation that the reporting requirement apply to Enterprise Zone, Urban Jobs, and Job Incentive Grant activities, for consistency purposes, we submit that similar information should be developed for Enterprise Corridor Zones and other related newly implemented incentive programs. We must remain cognizant of the fact that, even with all components functioning, due to the nature of the process, certain data elements will have a lag time prior to becoming available to DECD. For example, while current information on certifications will be available, complete data relative to the actual assessed values may lag by several months. The current data concerning actual state property tax reimbursements will reflect those provided for the previous year. In addition, the data concerning the value of the corporate credit will lag for at least a year since that benefit does not go into effect until after the completion of the first full corporate year of the applicant after certification. While the applications for job incentive grants are usually submitted as part of the incentive application process, the actual grants may not be approved for payment until two years after initial certification.

E. Recommendation concerning municipal revitalization plans and the development of goals and performance standards. Goals and performance standards have already been developed by DECD and have been provided to targeted investment communities. A preliminary response is anticipated in March 1998, with the first complete response scheduled for July 1998. A report will be required yearly. DECD is cognizant of the fact that enterprise zones are different, and that actual goals may vary. DECD will take this into account when measuring actual performance versus goals. DECD has requested that all targeted investment communities submit copies of their most recent revitalization plans as part of this process.

F. Recommendation that statutes be amended so the roles and responsibilities of the community boards be the same regardless of when an enterprise zone was established. DECD agrees such an amendment is in order, and will incorporate such a measure in the rewrite of the incentive related legislation we propose for the 1999 legislative session.

G. Recommendation that DECD host seminars at least once a year for municipal personnel involved with the enterprise zone program. Such a process has already been initiated on a regional basis. DECD has included all elements of the incentive programs, including programs for Enterprise Corridor Zone community coordinators. Also, DECD has initiated an in-house training program for DECD urban and regional staff.

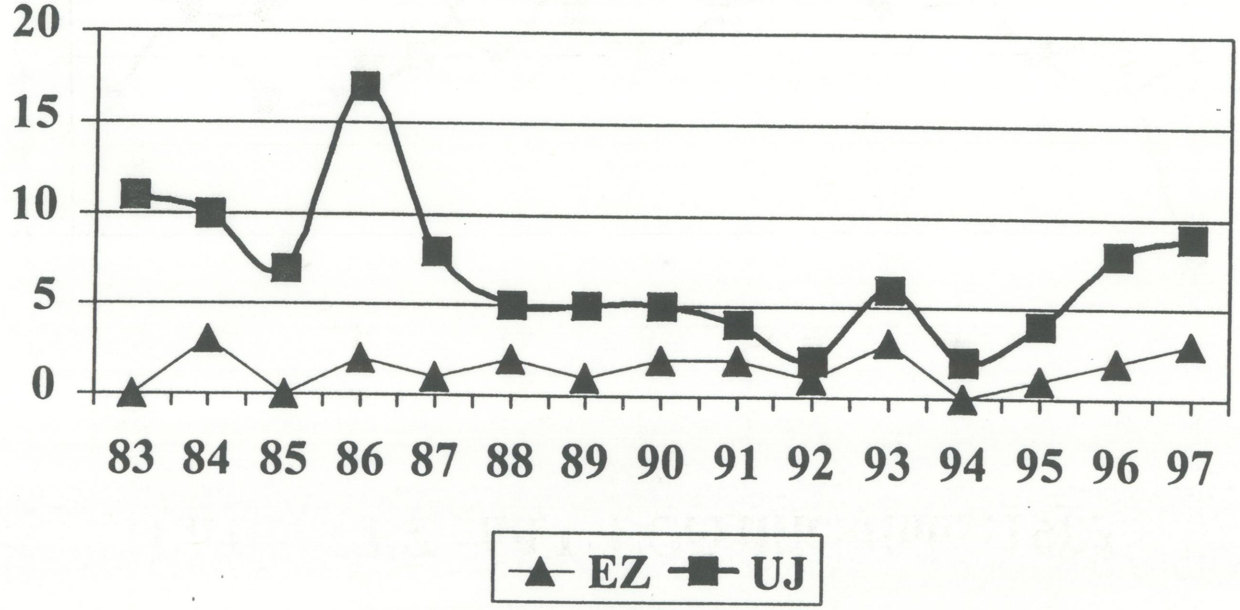
H. Recommendation that another full-time person be assigned to support these programs. DECD is taking this under advisement subject to various other budgetary and staffing considerations.

I. Recommendation concerning modification of Department of Revenue Services (DRS) forms. While this recommendation is specific to DRS, DECD hopes any modifications to forms or process will take into account related data reporting requirements recommended in previous sections. For its part, DECD will plan to modify its forms in order that they very clearly specify for which program they apply.

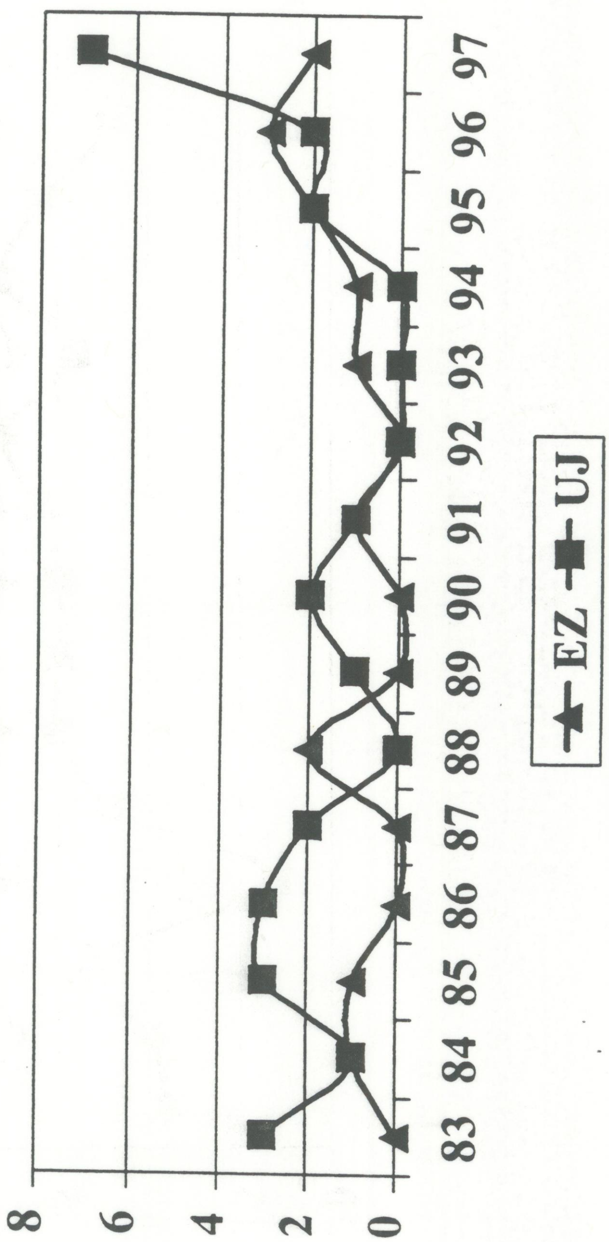
DECD plans to work with the legislature and municipalities to develop a complete revision of the enterprise zone and other related incentive programs. We plan to have this prepared for the 1999 legislative session. We have come to the conclusion that, over the years, there have been so many modifications and additions to the statutes concerning these programs as to make them extremely confusing and less than user friendly. Many of the recommendations included in this report have already been implemented, and others are in the process of being implemented. However, some recommendations require legislation. While we agree with the intent of the recommendations, we submit these recommendations should be incorporated into our proposed revised legislation in order to insure a seamless process.

APPENDIX B
ENTERPRISE ZONE/URBAN JOBS
BUSINESS CERTIFICATIONS
BY ZONE OVER TIME

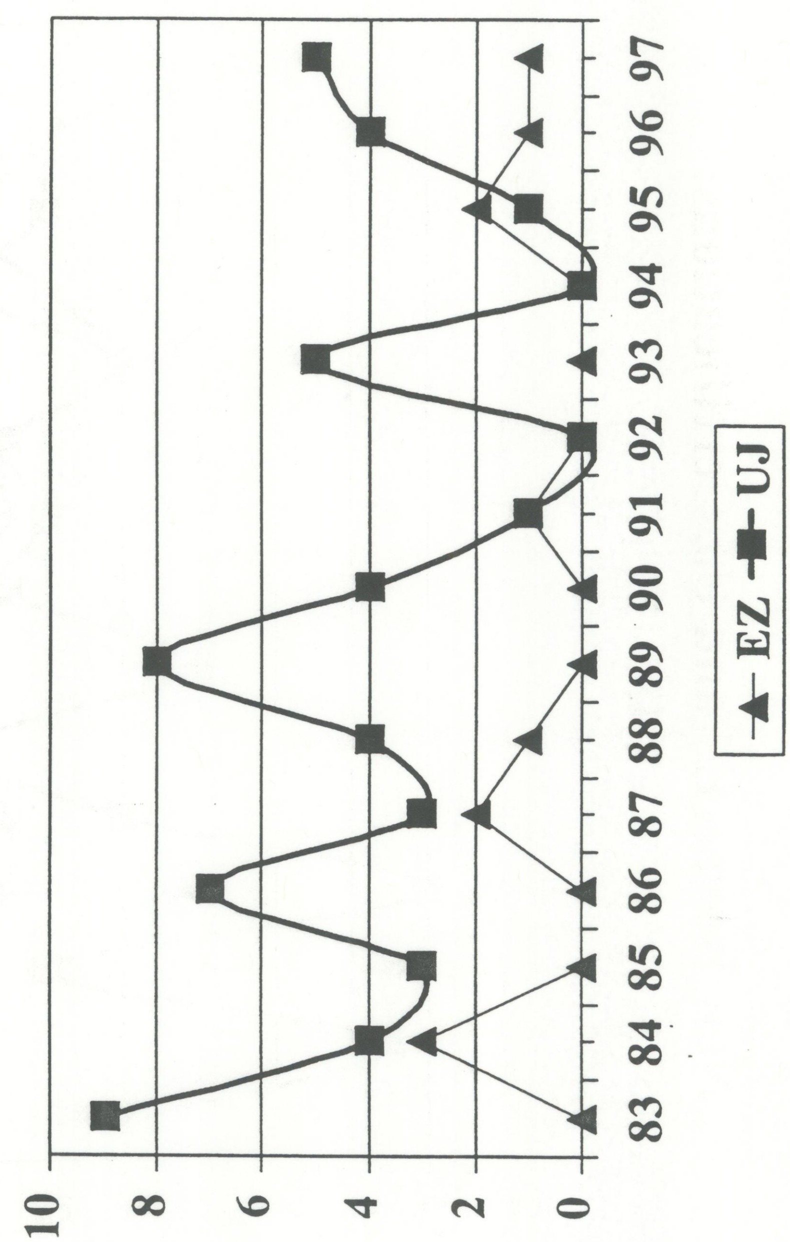
Bridgeport EZ and UJ Certifications:1983-1997



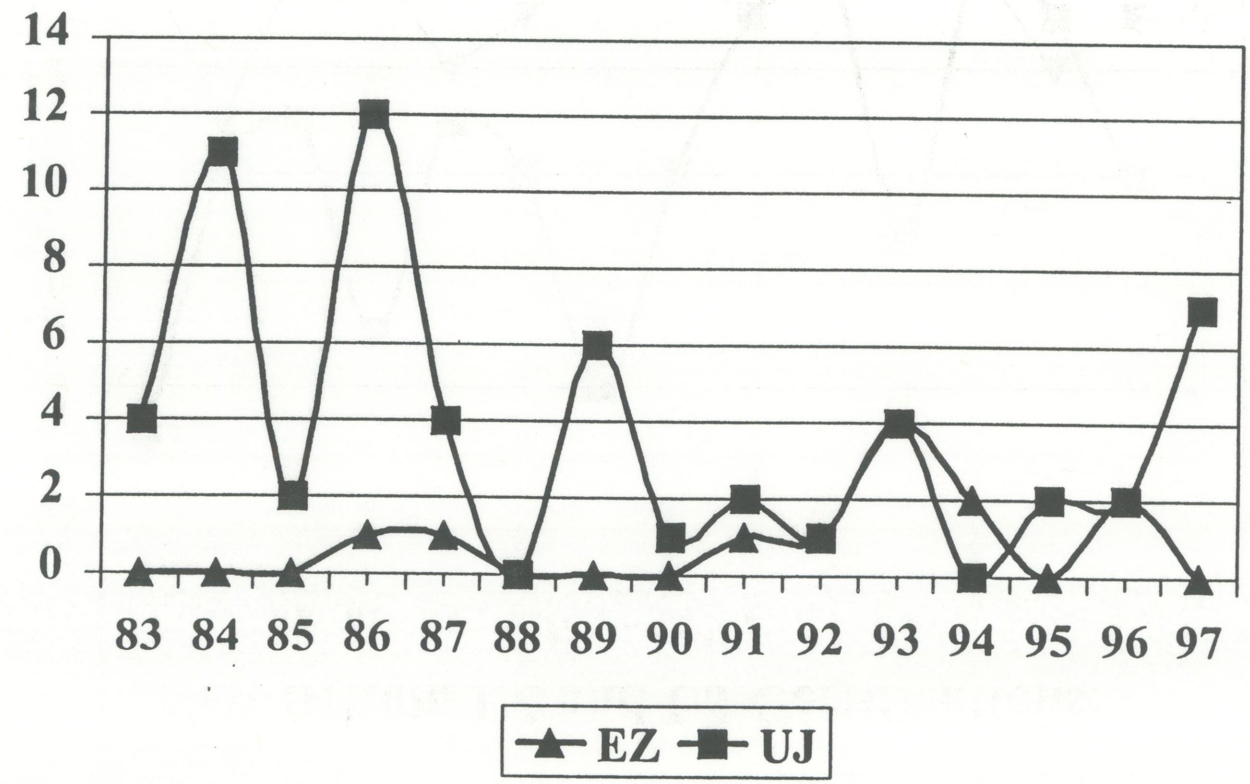
Hartford EZ and UJ Certifications:1983 1997



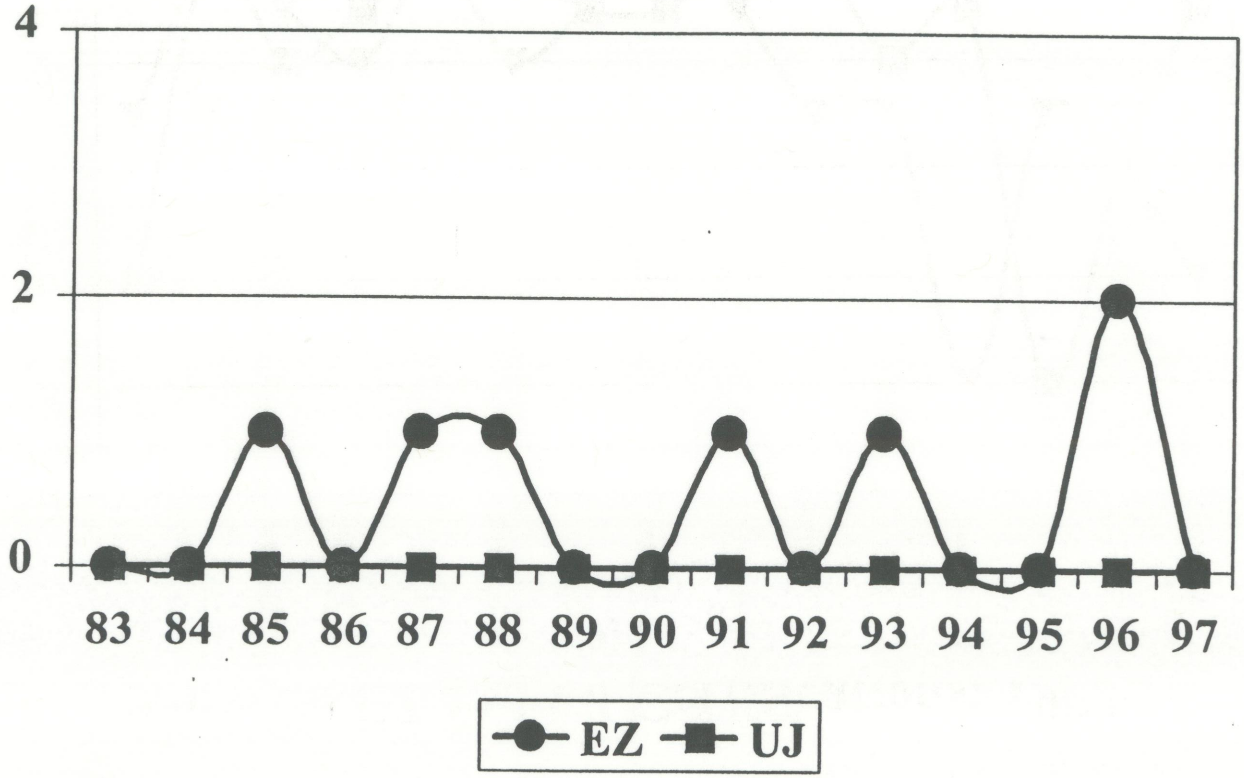
New Britain EZ and UJ Certifications: 1983-1997



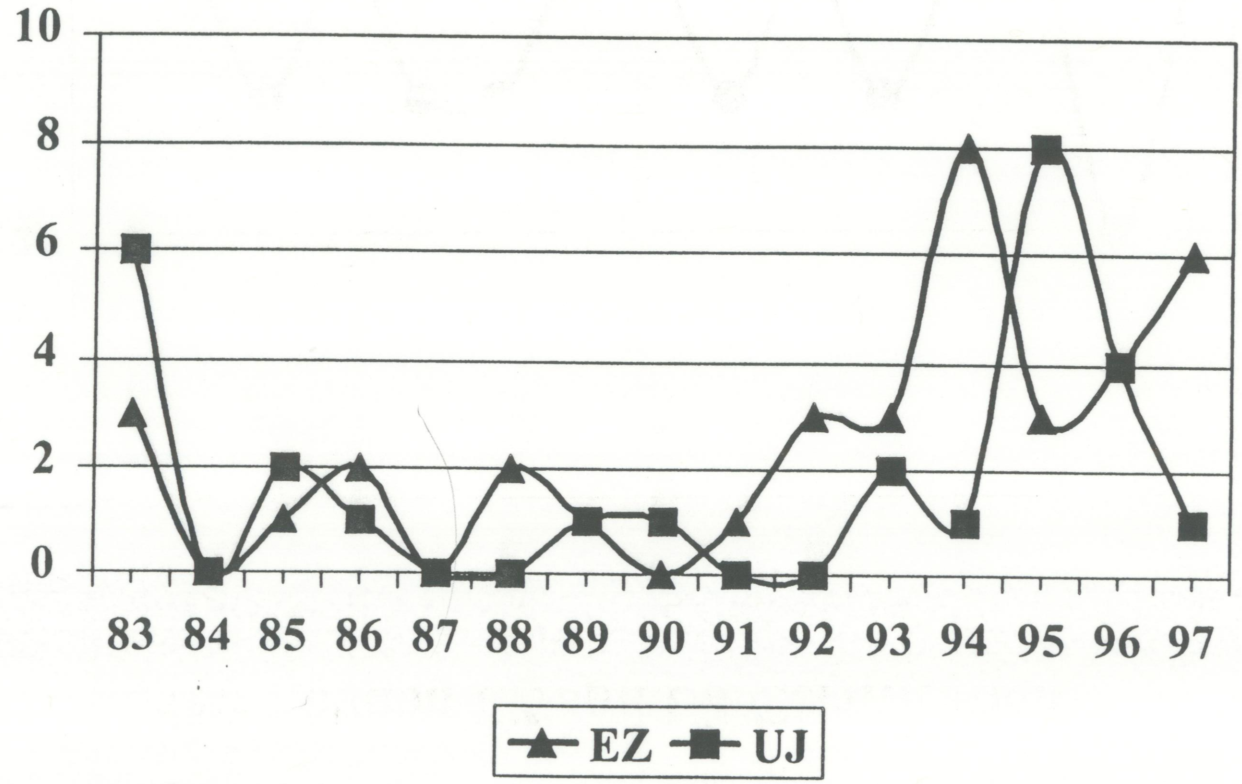
New Haven EZ and UJ Certifications: 1983-1997



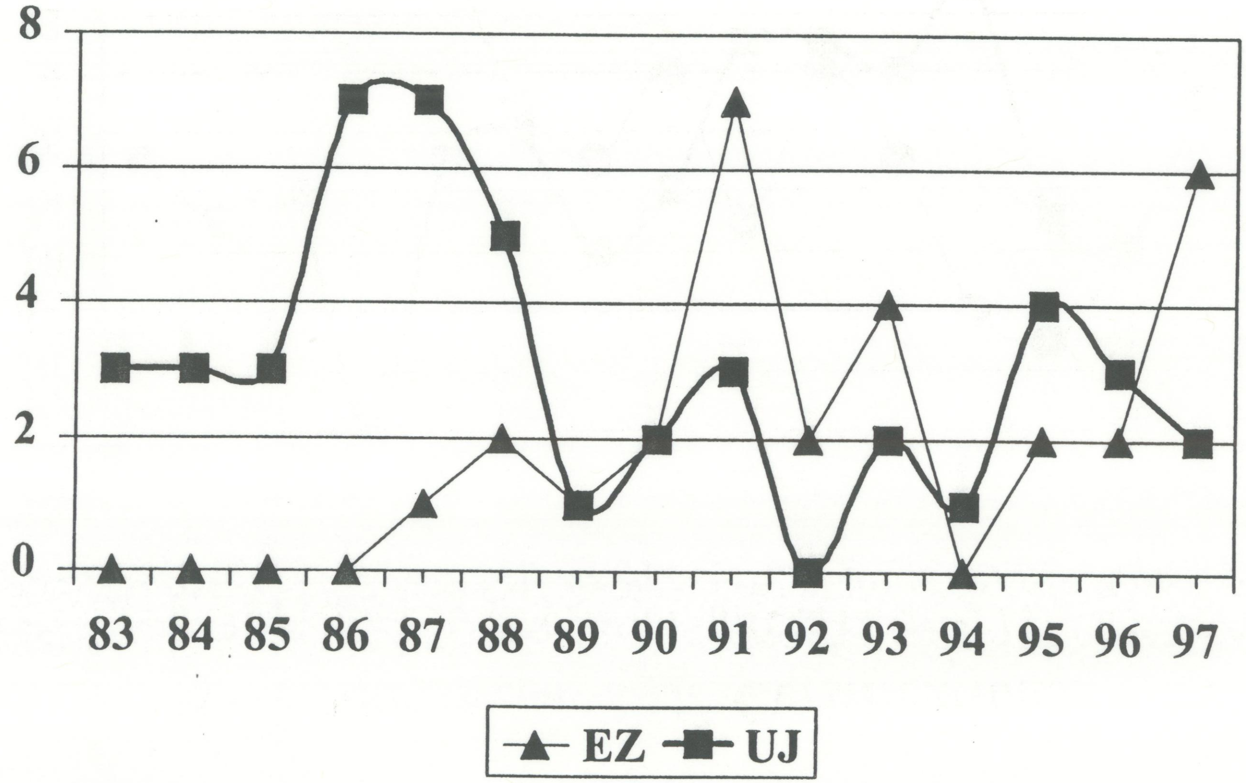
New London EZ and UJ Certifications: 1983-1997



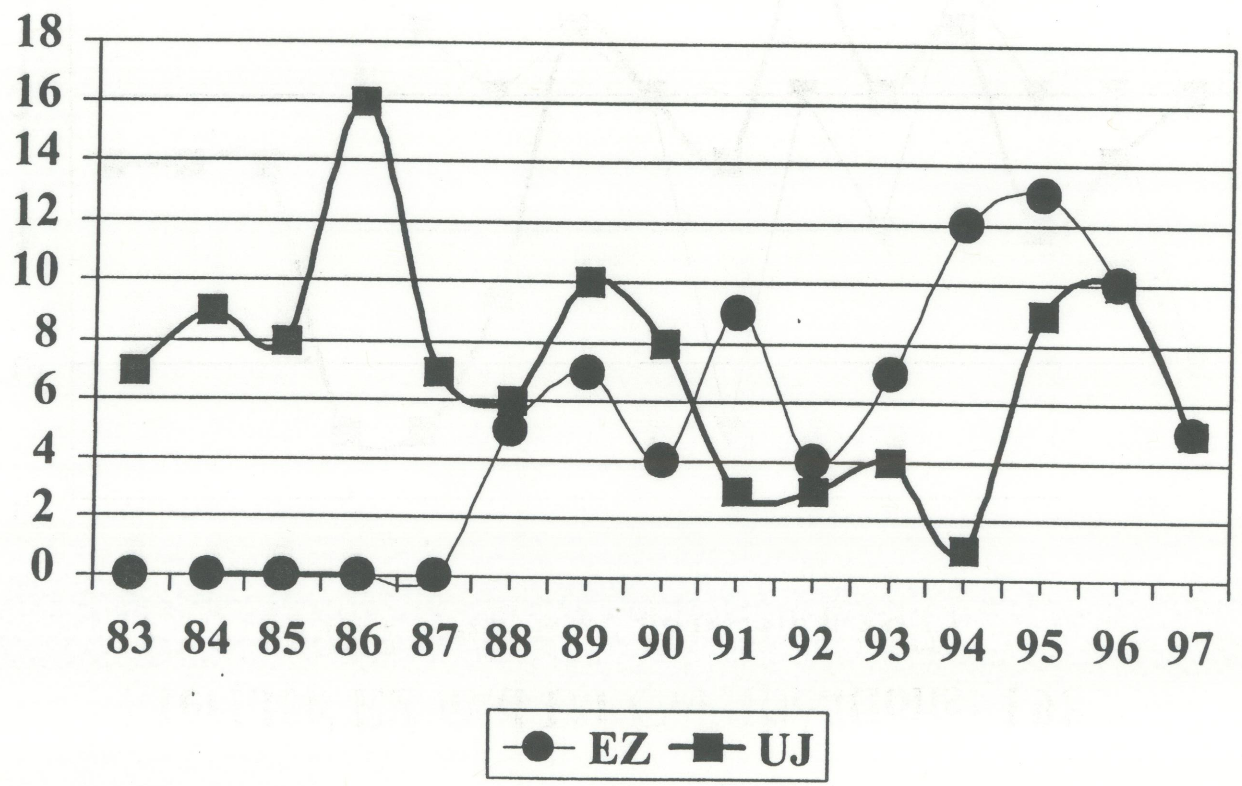
Norwalk EZ and UJ Certifications: 1983 1997



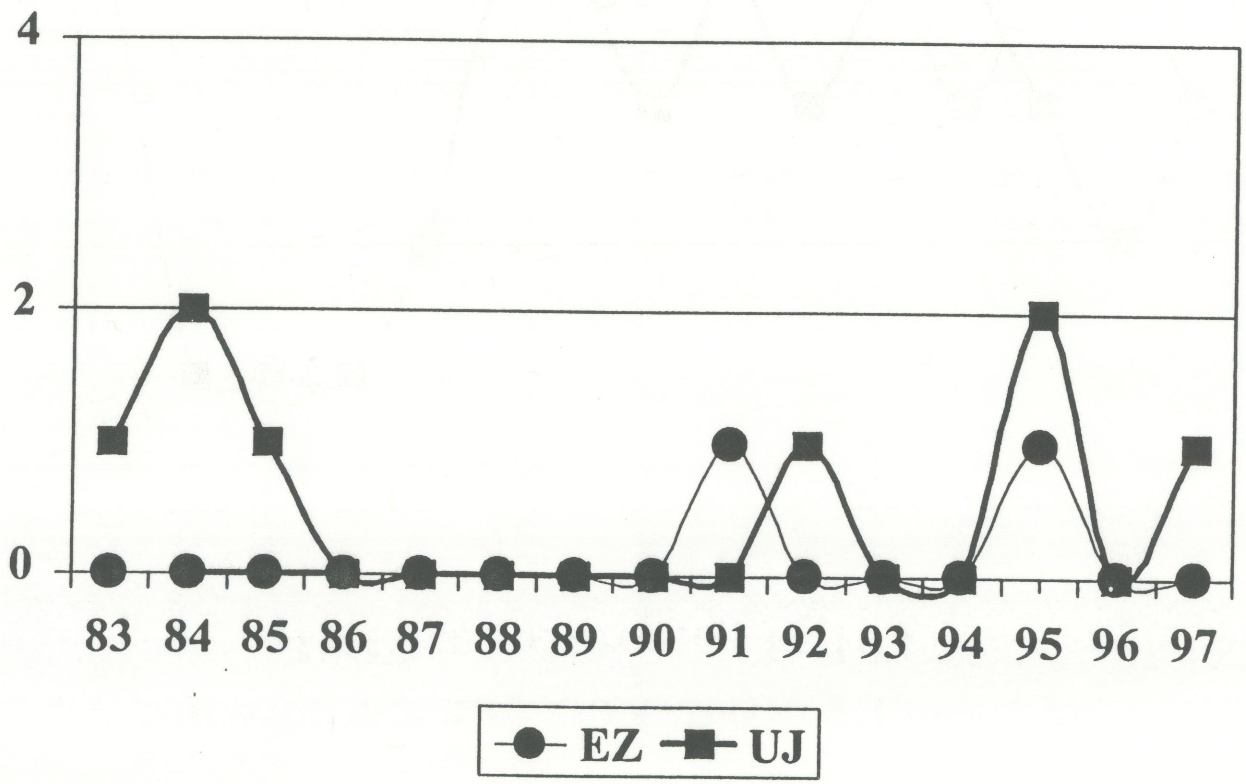
Meriden EZ and UJ Certifications: 1983 1997 (became zone in 1987)



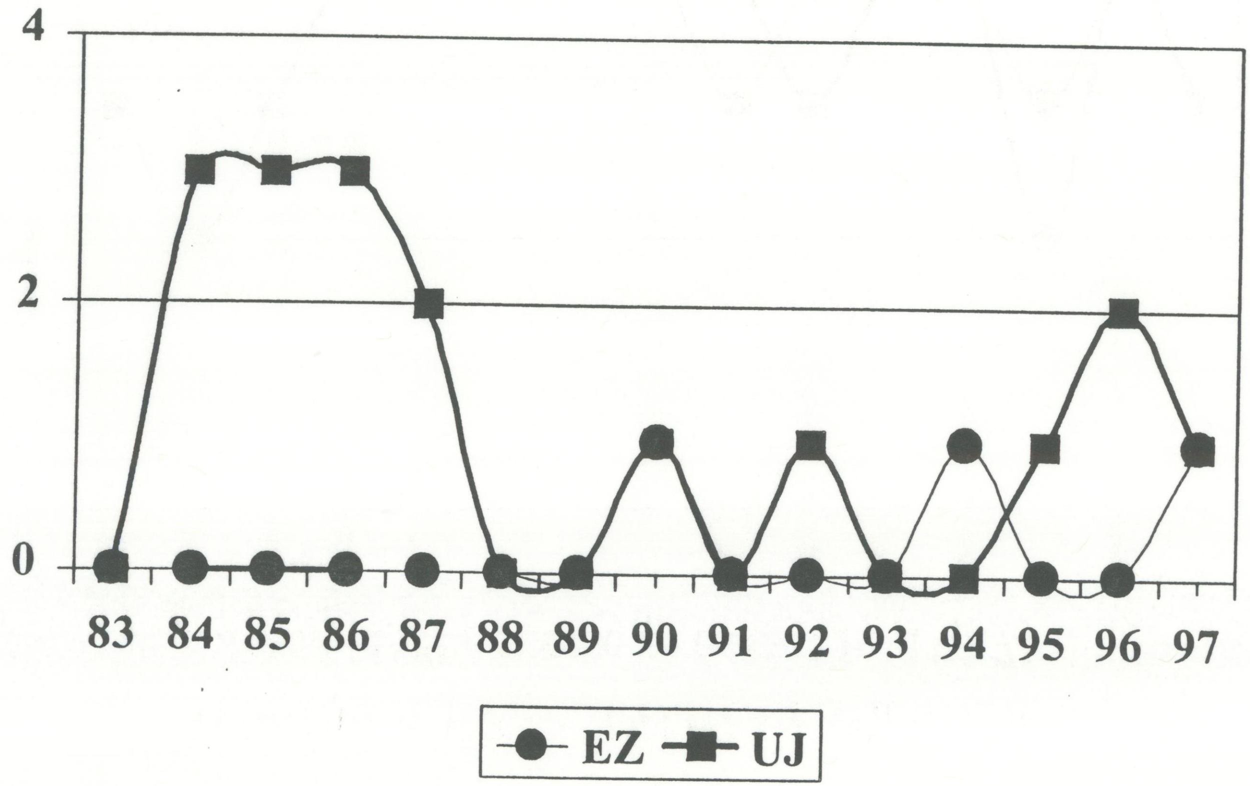
Waterbury EZ and UJ Certifications: 1983-1997 (zone created in 1987)



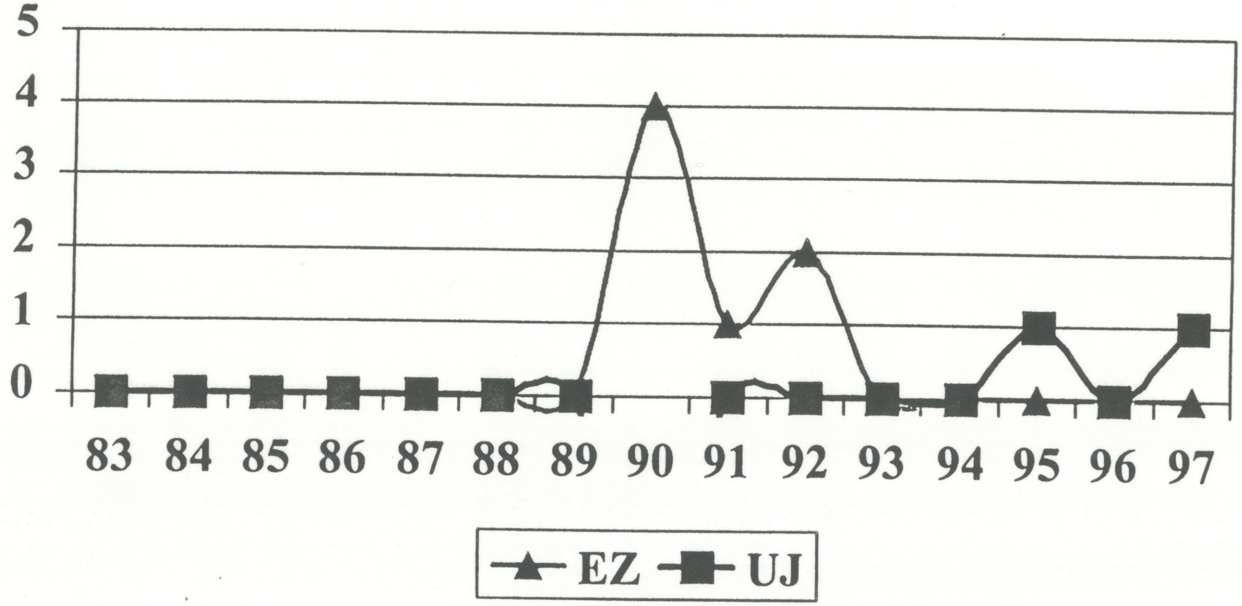
Windham EZ and UJ Certifications: 1983-1997 (zone created in 1987)



Norwich EZ and UJ Certifications: 1983 1997 (zone created in 1987)



Hamden EZ and UJ Certifications:1983 1997 (zone authorized in 1986)



APPENDIX C
OTHER SELECTED JURISDICTIONS

APPENDIX C

OTHER SELECTED JURISDICTIONS

A total of 36 states, including Connecticut, and the District of Columbia have enacted enterprise zone programs. There is considerable variety among the state approaches. This appendix presents information about the enterprise programs in California, New Jersey, and Pennsylvania. These states are highlighted because their programs began around the same time as Connecticut's. They also illustrate the variations of zone programs among states.

The federal enterprise zone program is also described in this section. As mentioned earlier, anticipation of a federal zone program in 1981 prompted Connecticut as well as other states to initiate their own programs.

California

Background. The California Legislature passed the Enterprise Zone Program and the Employment and Economic Incentive Areas Program bills in 1984. These two tax incentive programs were targeted at distressed areas to cultivate and boost economic activity. In January 1997, the two programs were merged. California has a total of 39 designated zones. Municipalities do not have a limit on the number of zones allowed within their boundaries. However, consideration is given to the effect that the size and placement of a potential zone will have on surrounding areas.

Eligibility for zone status. For an area to qualify, it must: (1) meet specified unemployment, poverty, and income levels; (2) have experienced a plant closure affecting more than 100 workers; or (3) have a history of gang related activity. A qualified municipality must submit a preliminary application to the Trade and Commerce Agency (TCA). Once selected as a finalist, the municipality must submit a draft environmental impact report with the final application. Before designation, the municipality completes a final environmental impact report. No additional environmental impact reports are required if: (1) project effects are avoided or mitigated; or (2) project alternatives or mitigation measures are economically, socially, or otherwise unfeasible. Areas maintain their enterprise zone status for 15 years.

Benefits. Table C-1 summarizes state tax incentives offered. Local incentive programs vary among municipalities. Common local incentives include: a reduction or elimination in local permit and construction-related fees, expeditious processing of plans and permits, reduced utility rates or taxes, and low interest revolving loans.

Table C-1. State Tax Incentives Offered
Tax credit up to 50% of qualified employees' wages
Tax credit for sales or use tax on machinery and machinery parts (used to manufacture, assemble, process, or fabricate a product; produce renewable energy resources; or control air or water pollution)
Business expense deduction up to 40% for the cost of tangible personal property for the first year of its exclusive use in the EZ. (This does not include real estate or office supplies.)
Net operating loss carryover (This is determined by computing the business' loss which results strictly from business activity in the EZ)
Net interest deduction from income for lenders (This is the full interest amount minus direct expenses incurred in making the loan, such as loan representatives' commissions and cost incurred in funding the loan.)
Carryover of unused tax credits into future years
Preference points for EZ companies seeking to obtain state contracts

Business requirements. Companies within the zone do not need to be state certified to participate in the program. The amount of tax credits and net operating loss deductions are claimed on a California tax return but is limited by the amount of income tax attributable to the enterprise zone. This amount is computed by comparing the total property, payroll, and business sales located in the EZ. to the total (inside and outside the zone) business' property, payroll, and sales.

Administration. The TCA is responsible for: (1) providing needed assistance to the zones; (2) helping businesses participate; (3) developing a marketing program and ensuring the locality has a marketing program; (4) coordinating activities of other state agencies; and (5) monitoring the enterprise zones' progress. Beginning in 1998, the agency is required to submit an evaluation report to the legislature every five years on the program's effect on employment, investment, income, and state and local tax revenues in designated enterprise zones. The Franchise Tax Board will make the dollar value of enterprise zone tax credits claimed by businesses each year available to the TCA and the legislature.

New Jersey

Background. The New Jersey State Legislature established 10 urban enterprise zones (UEZ) in 1983; 1993 and 1995 legislation authorized 17 more zones. The program's intended impact is to revitalize distressed urban communities through private-sector job creation and investment in targeted areas. To date, there is a total of 27 zones. 29 municipalities have a zone ; there are two joint zones shared by four municipalities.

Eligibility for zone status. To qualify for UEZ status, municipalities must have an annual minimum average of 2,000 unemployed persons and an unemployment rate that exceeds the state's average. Population size, density and class designation are also qualifiers for gaining UEZ status. Only one zone is allowed per qualified municipality. Urban enterprise zones are designated for 20 years and not renewable.

Benefits. The Act authorizes the following zone incentives:

- qualified retailers may charge 50 percent of the New Jersey sales tax on "in-person" purchases;

- sales tax exemptions for materials and tangible personal property;

- a one-time $1500 corporation tax credit for the full-time hiring of a qualified municipality resident, who has been unemployed or received public assistance for 90 days;

- a one-time $500 corporation tax credit for hiring a resident within the zone, within another zone, or within a qualifying municipality;

- subsidized unemployment insurance costs for certain new employees;

- tax credit equal to 8 percent of a qualified business' investment in the zone under an agreement approved by the UEZA;

- state regulatory relief by zone request; and

- priority financial assistance from the New Jersey Development Financing Fund and Job Training Program.

Business requirements. Businesses submit certification applications to their local zone coordinators. The State Urban Enterprise Zone Division grants approval for an one-year period. The New Jersey Division of Taxation issues tax related permits. Businesses must complete a recertification form each year to continue exercising their enterprise zone benefits. Businesses supply full-time, part-time, and seasonal employment data, and capital investment and sales tax exemption savings information for the prior certification year when reapplying. To date, over 6,000 businesses have participated in the zone program.

Businesses locating in a zone after its designation are required to meet a "25% Employment Factor". At least 25 percent of new full-time hires during their first or second year in the UEZ program must be: (1) a resident of the municipality with an urban enterprise zone, (2) a New Jersey resident who has been unemployed or a New Jersey Public Assistance recipient six months prior to being hired, or (3) an economically disadvantaged individual according to the Federal Job Training Partnership Act (JTPA).

Administration. The New Jersey Urban Enterprise Zone Authority (UEZA) consists of the Departments of Commerce, Energy, Economic Development, Community Affairs, and Labor Commissioners, the State Treasurer and five public members. UEZA is responsible for the following:

- promulgating criteria for zone designation;
- receiving and evaluating municipalities' applications for zone designation;
- entering into discussion with applying municipalities regarding zone development proposals;
- determining State-furnished components to be included in zone development proposals;
- designating zones as well as promulgating rules and regulations for the zones;
- reviewing and supervising zone development plans' implementation;
- receiving and evaluating proposals of qualified municipalities for funding of projects and increased municipal services;
- assisting and representing qualified municipalities in negotiations and proceedings before state or federal agencies;
- assisting municipal government agencies in the gathering, compiling, and organizing data to support a zone designation application;
- providing assistance to state and local government agencies to assure expeditious handling of regulatory requirements of any zone business, association or neighborhood association;

- assisting the state in applying for federal enterprise designation; and

- reviewing the UEZ Act's implementation and reporting annually on the effectiveness of enterprise zones.

Pennsylvania

Background. The Pennsylvania Enterprise Zone Program was established in 1982 and became operational in 1983. Pennsylvania's program is unique because it can be modified by administrative initiative; it does not require special legislation to change the program. There are 48 designated enterprise zones. The program's goals are to (1) bolster economic development and (2) create new jobs in areas of high economic distress levels. The program's objectives are as follows:

- Enable local governments to formulate a business development strategy that addresses local needs for economic growth;

- Increase the access of local firms to financing by lending institutions;

- Provide expert business development technical and financial assistance to specific smaller firms in the enterprise zone as identified and requested by each firm's principals;

- Arrange assistance in opportunities for export market expansions;

- Arrange assistance in technology transfer application or new product line technology assessments;

- Improve community infrastructure facilities; and

- Enable local governments in disadvantaged communities to increase the number and value of taxable entities in their municipal tax bases.

Eligibility for zone status. Municipalities must be designated as a financially disadvantaged community by the Pennsylvania Department of Community and Economic Development (DCED). Designation as a financially disadvantaged municipality includes consideration of the following factors:

change in fund equity; cash position; debt service; expenditures in relation to resources; pension payable; unfunded pensions; government services which are fixed costs; real estate market value; earned income tax change; assessed valuation trend; per capita debt; percentage of population below poverty level; population change; percentage of population over 65; and per capita income.

There is not a size criteria for a zone's designation.

Benefits. The following incentives are available to Enterprise Zones:

- priority consideration when requesting state resources (i.e. capital for small businesses, infrastructure improvements, low interest loans for industrial land and buildings, and customized job training);

- state corporate tax audits (20 percent of real property improvement with a five-year carry forward venture);

- local real estate tax abatement up to 10 years which declines in equal increments yearly (e.g. 100 percent, 90 percent, 80 percent , for 10 years or 100 percent, 80 percent, 60 percent, for 5 years);

- competitive grants to businesses (these loans can provide up to 30 percent of the total project investments and can be used for real property, machinery, and equipment costs).

Business requirements. There is no certification process which the business has to undergo. Generally, businesses that have a statewide market are eligible for zone benefits. Primarily exporters, manufactures, and service firms (e.g., banks, insurance firms, etc.) qualify for benefits.

Administration. DCED is responsible for selecting qualified municipalities and administering the Enterprise Zone Program. An approved applicant will receive planning assistance grants to prepare business development strategies. These plans are based on a survey of the local business community to help determine what types of assistance would be useful in facilitating business growth. The plan includes how the municipality will utilize the requested reimbursements for community development projects and neighborhood services in the enterprise zone. It also describes how these projects and services meets the zone's needs. An emphasis is placed on long-term physical improvement and the plan's consistency with the enterprise zone program's strategies and objectives. A municipality is designated as an enterprise zone after DCED approves its proposed business development strategy.

Enterprise Zone coordinators provide assistance in preparing and revising business plans, new product market and technological assessment, customized job training, and business siting services. Coordinators assist in federal procurement bids, technology transfer applications, and labor-management conflict resolutions. In addition, they work to develop export markets and small business incubators.

The Federal Experience

Background. Congress began considering enterprise zone legislation in 1980. Several bills were introduced but failed to pass until 1987. The initial Federal Enterprise Zone Program was created by Title VII of the 1987 Housing and Community Development Act and was modified by the 1988 Stewart B. McKinney Homeless Assistance Amendments. Under these original statutes, the Secretary of the Department of Housing and Urban Development (HUD) was authorized to designate 100 hundred enterprise zones to stimulate investment and jobs in depressed neighborhoods.

The nominated zones had to be experiencing economic distress defined by poverty, unemployment, income, and population loss indicators. In addition, the lead entity (local government or not-for-profit organization that will manage the EC or EZ activity) had to demonstrate it would receive financial and other support from state and local governments. State and local governments would be required to cooperate by reducing taxes, governmental fees and bureaucratic involvement while increasing the delivery of public services. The act required private entities to provide jobs, training, and other assistance to zone employers, employees, and residents.

The zones would have retained their designations for 25 years and would have been reviewed every four years. Jack Kemp, then HUD Secretary, refrained from designating zones because the act did not give HUD the authority to grant federal tax breaks to companies locating in the zone. No federal incentives were enacted and the enterprise zone legislation expired before any zones were selected.

In 1992, President Bush vetoed a $27 billion tax bill which included, among other items, tax breaks and assistance for inner cities. Bush believed the original purpose of the bill (to provide tax benefits to help revitalize urban areas) was “lost in a blizzard of special interest pleadings.” (CQ 11/7/92)

The Empowerment Zones/Enterprise Communities Program now in effect resulted from the 1993 Omnibus Budget Reconciliation Act signed by President Clinton. The Secretary of Housing and Urban Development is responsible for selecting urban zones; the Secretary of Agriculture is responsible for selecting rural zones. The act allowed the designation of nine empowerment zones and 95 enterprise communities before 1996. Empowerment zones are larger geographical areas than enterprise communities. Presently, there are nine empowerment zones (six urban and three rural) and 90 enterprise communities (60 urban and 30 rural). Zones and communities maintain their status for 10 years.

Eligibility for empowerment zone or enterprise community status. For an area to qualify as an empowerment zone or enterprise community, it has to meet poverty, unemployment, income and population criteria. Next, the areas have to be nominated by state or local government. A strategic plan must be submitted describing the planned activities to address the area's problems, state, local, and private resources available in the nominated area, and the plan's evaluation measures.

Benefits. Table C-2 shows the incentives for empowerment zones and enterprise communities.

Table C-2. Federal Incentives

Empowerment Zones	Enterprise Communities
20% wage credit on the first $15,000 paid to certain zone employees	Work Opportunity Tax Credit (maximum credit of $1,050 for each qualified employee's wages)
tax credit up to $20,000 on plant expansion and equipment against federal income tax	Not applicable
Expanded use of tax-exempt private activity bonds	Expanded use of tax-exempt private activity bonds
$720 million in Social Service Block Grants ($100 million to each urban empowerment zone; $40 million to each rural empowerment zone)	$280 million in Social Service Block Grants ($2.95 million to each enterprise community for economic or social development activities outlined in its strategic plan)

Connecticut's federally designated enterprise communities. Bridgeport and New Haven have Federal Enterprise Community status. Bridgeport and New Haven benefit from the Social Service Block Grants and Work Opportunity Tax Credits. Bridgeport's enterprise community is comprised of 16 census tracts; the state designated enterprise zone is included. The Bridgeport Office of Planning and Economic Development is responsible for its administration.

New Haven's enterprise community consists of 10 census tracts; this also includes the state designated zone. The New Haven Development Administration is responsible for its management.