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Enterprise Zones: An Urban Experiment

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ENTERPRISE ZONES: AN URBAN EXPERIMENT

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DEDICATION

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INTRODUCTION

Problem Context

The 1970 Census marked the first time in the history of the United States that more people lived in suburbs than in cities. Transportation improvements, federal mortage programs, and a national preference for a suburban life-style, facilitated this urban to suburban shift.

The population leaving the cities was more skilled and affluent, seeking quality of life advantages associated with suburban and rural areas. Those left behind were predominantly low-income, unskilled minorities lacking the necessary resources to move out of the city. Prohibitory land-use policies, such as large lot zoning, and discriminatory steering practices helped concentrate blacks and minorities in urban areas.

The fleeing of residents to the suburbs induced business movement out of the central city. Retail and services followed their upper- and middle-class patrons to the suburbs. Urban retail was undermined by the modern mall which offered a variety of goods and services under one roof, with plenty of free parking. As a result, downtown and neighborhood retail lost their vitality and the structures that once supported retail were often left to deteriorate.

Another factor altering the urban fabric was the exodus of manufacturing out of central cities, inspired by transportation, communication, and production improvements.

Manufacturing industries found that the suburbs offered large plots of inexpensive land, a less hostile labor force, and lower taxes. Consequently, as jobs moved out of the city, urban unemployment soared.

The subsequent transformation of cities from centers of production and distribution of goods to centers of information and service exchange has severely compounded the problem of central city unemployment. Employment in the high-paying, low-skilled, blue- collar jobs with advancement opportunity has sharply declined nationally, as well as in urban centers. Though the cities have witnessed a growth in the service sector, job growth in services has not compensated for the decline of manufacturing jobs. Furthermore, the new central city jobs require high education and skill levels. The few entry-level service jobs pay low wages, are less stable, and offer little advancement potential. The increasing gap between job opportunities and skill levels is responsible for high levels of urban structural unemployment.

Compounding the problems associated with urban areas is the erosion of the tax base resulting from business and residential losses. Tax revenues have lagged behind the demand for central city services. Decaying infrastructures, crime, and poor education further contribute to the plight of urban areas.

Throughout history the federal response to urban problems has been ambiguous. First, federal programs fostered the flight from the cities through housing and highway policies. Then the government tried to ameliorate some of the consequences of the residential and industrial shifts through urban renewal programs.

Beginning in the 1950's, the federal response to the urban dilemna was to subsidize urban projects designed to combat urban blight and decay. At this time there was a naive notion that social problems could be addressed through physical design solutions. The destruction of the architecturally acclaimed Pruitt-Igoe project exemplified the simplicity of this notion.

The government has also sought to improve the employability of urban residents through job-training programs. The most notable program emanated from the 1973 Comprehensive Employment and Training Act (CETA). In some individual cases the CETA program was successful, but the program did not have the expected impact on long-term employment and unemployment rates. Many times there was a gap in the training provided to the participants and the jobs available to them. Despite the billions of federal dollars that have been spent on urban programs the unemployment problem remains.

The Enterprise Zone Concept

In the present era of "new federalism," the concept of enterprise zones as the centerpiece of national urban policy was conceived. Enterprise zones coincide with the Administration's political philosophy: market forces are used to combat urban problems, and states and localities take on a greater role in solving urban problems.

The enterprise zone concept relies on a free market solution to urban problems. Theorectically, the removal of regulatory obstacles and the reduction of taxes will stimulate business creation in depressed urban areas, which will provide employment opportunities for zone residents. The idea is to recapture the entrepreneurial spirit that once flourished in the city.

In enterprise zones, small areas would be free from the regulations that hinder business formation. These areas of deregulation would act as incubators of new jobs and businesses. This supply-side economic concept assumes that economic activity can be stimulated, without increasing aggregate demand, by lowering the cost of production. The target of enterprise zones is small business since recent studies show that the small business sector is responsible for two-thirds of newly created jobs.

Enterprise zones, a British invention, were imported to America in the early 1980's. At this time, federal enterprise zone legislation was introduced. Although no federal legislation has been passed, over half of the states have implemented their own enterprise zone programs.

Methodology

This research project was undertaken to explore the role of enterprise zones in the urban revitalization process. Chapter 1 is a review of the literature on the determinants of business location, the obstacles to business development, and the job-generating powers of different firms. These factors are used to measure the effectiveness of proposed federal and implemented state enterprise zone legislation. Chapter 2 traces the evolution of the enterprise zone concept from its English origins to its American adaptations. The two proposed pieces of federal legislation--Urban Jobs and Enterprise Zone Acts (1980 and 1981)--are reviewed and critiqued. Chapter 3 examines enterprise zones on the state level where the majority of enterprise zone action has taken place. The different mechanisms for including community participation, and providing local employment opportunites are compared to assess how enterprise zones meet community development needs. Chapter 4 presents a case study detailing investment and job creation in Connecticut's Enterprise Zones. Recommendations and conclusions for the use of enterprise zones as an economic development tool are then ventured.

The central questions to be addressed are: to what extent do enterprise zones address community development needs?; and what are the ingredients that contribute to a successful enterprise zone program?

CHAPTER 1

Literature Review

A review of the literature is presented in order to: a) determine the factors that influence business location, b) assess the obstacles that may thwart business formation, and c) analyze the job generation process. These subjects are considered important, since the goal of enterprise zones is to encourage business formation and expansion, which in turn will create more jobs.

1.1 Business Location Decisions--Do Taxes Matter?

Business location decisions can be categorized into two groups: intermetropolitan decisions, and intra-metropolitan decisions. Intermetropolitan decisions are based on factors such as the proximity to markets, access to transportation, costs of labor, and docility of workers. Once a general area is selected, intrametropolitan decisions are usually based on production requirements, city's attitudes towards business, and quality of life factors. Taxes do not appear paramount to location decisions but they may act as a tie breaker once a general area is selected.

Business location decisions have been especially difficult to predict, suggesting that decisions are often based on subobtimal conditions and personal preference.

In 1964, Robert Spiegelman analyzed the location of precision-instrument manufacturing firms. While more than half of the firms studied considered tax differentials "relevant," only one firm cited them as the "most important factor."[1]

The Economic Development Administration conducted a national mail survey of 2,900 companies in high growth firms. It was discovered that 78 percent of the respondents found tax incentives relevant, but again, only eight percent rated them as critical. In the job stampings sector (SIC 34612), only five percent of the respondents rated taxes as critical to their location decision. Factors identified as critical for this sector were: fire protection, availability of contract trucking and police protection, availability of unskilled and skilled workers.[2]

Roger Schemenner examined location decisions of large firms. The factors that were identified as "musts," in ranking order included:

- o a favorable labor climate (76%)
- o proximity to market (55%)
- o an attractive place for engineers and managers to live (35%)
- o proximity to existing supplies and resources (31%)
- o low labor rates (30%)
- o proximity to existing facilities of division/company (25%)
- o ease of obtaining environmental permits (17%).[3]

The author concluded that "taxes do not appear important to location decisions." Schmenner recommends that tax and other financial incentives not be widely used because their benefits are "probably not worth the costs."

Instead, he recommends that states and municipalities: assist with the process of site selection and plant construction; help secure permits; provide infrastructure; and support job training.[4]

1.2 Firm Mobility v. New Firm Location

Because of moving costs, forces determining where new firms locate are different from those determining where an existing plant will expand, contract, or move. New firms are not tied down by fixed costs and their establishment is usually in response to current economic conditions.

Surveys have revealed that single establishment firms mostly locate in the area where the owner lives. In contrast, multiplant firms search over a wide region to find the best location. Therefore, the number of single plant start-ups is directly related to the number of entrepreneurs able to start such a firm and the economic conditions of the area. The number of potential entrepreneurs is not so important for multiplant firms since persons can be relocated once a site is chosen.

Research on firm mobility concludes that the majority of moves are intrametropolitan (Schmenner 1977). Besides personal preferences, the reason for this behavior is that information is limited and is more complete for nearby areas; also, firms desire to maintain their workforce and their suppliers.

Thresholds, or major changes in a firm's output, have also been found to influence location decisions. Minor changes in price, costs, or other factors will probably not induce location changes since reacting to them would be costly. If a firm believes it can capture a larger share of its market and sell more output if it moves, then a decision to move, expand, or branch will be made. Peter Bearse, the former executive director to the Governor of New Jersey explains the role of thresholds in decision making:

> The decision to move or build a plant is subject to thresholds and long gestation periods. Marginal adjustments in the cost of debt finance or in certain tax rates do not stand a chance of affecting a major decision unless a firm is at or near a threshold.[5]

Roger Schmenner's "evolutionary" theory of firm behavior reinforces the role of thresholds in decision making. According to Schmenner, firms change locations only when compelled to, and then they usually relocate in proximity to their existing location to retain their labor force and suppliers. The evolutionary model depicts the dynamics of firm relocation decisions. Unlike the neo-classical models, which stress the importance of profit maximization, Schmenner discovered that firms look for "acceptable" locations. The search for a new site is begun close to the existing plant, once an acceptable site is found the firm will usually locate there. Firms were willing to increase transportation costs in order to maintain their labor force and suppliers.[6]

In another study, Schmenner (1978) looked at manufacturing decisions in Cincinnati and New England. Here, Schmenner relates plant location decisions to the firm's production capacity. When a firm's production capacity exceeds a certain point, the company will decide either to expand on site, establish a branch firm, or relocate to another site. The decision is based on the problems faced by the firm. For example, the relocation alternative would probably be chosen to deal with problems of plant layout, materials handling, new process technology, and productions and inventory control. On the other hand, a branch plant may be chosen for problems concerning size of the work force and inadequate growth capacity.[7]

From his analysis, Schmenner makes the following recommendations concerning public policy:

- Public policy should focus on small firms, especially those on the margin of existence--either just beginning or about to fail. Larger, more established firms have traditionally had little impact on local employment levels.

- Most firms have moved because their space requirements have changed. Once the decision to move is made, the search time for a new site is usually just a few months. To be competitive, cities need to react quickly and decisively. Efforts in this direction may yield substantial benefits in retained employment.

- State and local fiscal incentives, especially property tax reductions and industrial revenue bonds, have not been shown to be cost effective, although part of the problem may stem from a lack of information and understanding regarding their availability.

- Public policy should focus on retaining and assisting the expansion of existing firms rather than emphasizing attempts to lure out-of-area plants.8

1.3 State Business Incentives

The most recent research on the impact of state business incentives has been performed by Harrison and Kanter. They discovered that, despite the poor quality of the research, the empirical literature "... fails to reveal significant plant relocation or expansion resulting from (or even correlated with) differentials in state business incentives."[9]

Harrison and Kanter studied the affect of property tax abatements, low-interest loans, and public guarantees for loans and mortagages on location decisions. The researchers claim that since taxes do not increase the demand for goods, it is unlikely that they will encourage expansion or relocation that might not have taken place without the tax incentive. It was concluded that: "these business incentives do not produce new output jobs, but they do have real costs in the form of foregone tax revenues which have valuable alternatives."[10]

The researchers assert, that if firms were to respond to these incentives, they would be the ones that offer the lowest wages, have worse working conditions, and offer less stable employment. In addition, it would be more difficult for labor to organize. According to the research team:

> business incentives appear to be policy instruments which -- if they work at all -- are most likely to stimulate increased capacity utilization in the sector of the economy with the least desirable jobs, while providing windfall profits to the segment of the business community that needs them least.11

In 1974, interviews were conducted in Connecticut and

Massachusetts to discover to impact of states' job creation tax credits. In both states It was discovered that the company moved or expanded according to thier plans, and then found out about the tax credits and took advantage of them.[12]

1.4 Small Business Obstacles

Business formation is sometimes discouraged by overly burdensome regulations and inability to obtain capital. If enterprise zones are going to be successful in creating new businesses, they must be sensitive to business needs. The literature supports the hypothesis that government regulations and unavailability of capital can hamper business formation.

1.4.1 Government Policies and Business Conditions

Both governemnt tax and regulatory policies, and local business conditions may discourage the formation of businesses. Small businesses are disproportionately burdened by government regulations, since they do not have the expertise or the available personnel to interpret the requirements and fill out forms. On the local level, inflexible, complex zoning regulations and outdated building codes often frustrate business development.

In the 1978 study by the Joint Economic Committee, it was discovered that businesses "overwhelmingly cited the need for reduced federal paperwork and regulation. This was the singlemost widely expressed sentiment and was universally stated by all types and sizes of firms."[13]

The cost and complexity of regulation can contribute to the business manager's perception of the local business climate. In the Joint Economic Committee study, the most commonly cited factor affecting the decision to stay and expand in the present location was the attitude of the city government, followed closely by the crime level. On average these factors rated above the market demand for the company's products, tax rates, and the availability of financing. A correlation between business' perception of a favorable climate and plans to increase their work force was also discovered.[14]

The study found that factors affecting the overall quality of life, such as the city government's attitude towards business, the crime level, the quality of schools, and cultural attractions were regarded as more important than production factors. Therefore, the author concluded that the direct financial support for city businesses in depressed areas is unlikely to be successful, unless cities upgrade their facilities and make a strong effort to cooperate with the business community:

> Local tax rate, and, most particularly, the city government attitude towards business are not only important, but also vary significantly between the most favorable and the least favorable cities...Regardless of federal initiatives...if the city government attitude towards business and the quality of life are not perceived as positive, the effectiveness of discreet programs and policies is likely to be diminished.5

The study further recommends:

> "improving the quality of life where it is poor, and maintaining it where it is good, can have an impor-

tant impact on decisions of firms to relocate, alter the size of their work force and reduce or expand operations."16

The First National Bank of Boston conducted research on measures needed to lure businesses back into the city. Among firms considering to move outside the central city, high property taxes were cited as the most important factor, followed closely by the nonavailability of skilled labor, and city crime. Non central-city firms responded that significant reductions in property taxes, adoption of a pro-business attitude by city officials, and reductions in crime were the most important factors.[17]

The Subcommittee on Banking, Finance and Urban Affairs (1978) found the following factors frequently mentioned as having a negative impact on decisions to remain or expand in central-city locations:

- the high cost, limited availability, and difficulty in assemblage of urban land;
- the low quality of public services, especially education and public safety, which in turn increase production costs;
- onerous and uncoordinated government regulation especially environmental regulations;
- the anti-business attitude of many local officials and needless red tape in local bureaucracies;
- that given the level of services, central city property taxes are too high compared to the suburbs; and
- that the work force in central cities is often inadequately educated, is inexperienced, and lacks adequate motivation to successfully compete for entry-level jobs.18

Businesses surveyed which had plans of remaining in the central city or expanding their operations listed the following reasons for their decision to stay:

- a desire to retain their present work force;
- the availability of a large labor pool;
- easy access to business services and contacts;
- it would be too expensive to scrap existing production facilities for a new plant; and
- an obligation to address the problems of the communities that fostered their original growth.19

1.4.2 Capital Shortages

In addition to regulatory obstacles, some start-ups are thwarted from the start by difficulties in obtaining financing. It has been documented that obtaining capital for business ventures is particularly difficult for small business and minority entrepreneurs, two of the targeted groups of enterprise zones.

Ed Hamilton, a fiscal consultant participating in a roundtable discussion on Urban Development Banking in 1977, identified capital gaps in four areas:

- There is a lack of venture capital or other expansion capital to enterprises between the sizes of $25 and $250 million in annual sales.
- There is a lack of venture capital for service or industrial firms with an after profit of less than 25% during the first five years of operation.
- There are great problems of capital access for minorities, especially those in depressed areas.
- There is a capital shortage in rural areas.20

James Howell, an economist with The First National Bank of Boston in hearings before the Subcommittee, found two distinct capital gaps. "The first gap is the nonavailability of long-term senior debt financing for small-to-medium sized business firms." The second gap is the inability of the new issue market to take a venture capitalist out of the first round of funding. The venture capitalist is thus unable to recycle his money and to engage in new start-ups.[21]

The problem of access to capital is further substantiated in research by Katzman and Daniels (1976). They researched the functioning of the private capital markets in New England and discovered the following capital shortages:

- o In small to medium-sized firms--the most efficient incubators of new products--finance for new product development must come from venture capital companies. However, these companies are not equipped to fill this gap.

- o There is a general shortage of equity funds for the start-up of new firms. The new issue market has essentially collapsed since 1969, and in turn has resulted in venture capital firms being locked into old investments. This "lock-in" has turned venture capitalists to firms with better track records than most new enterprises.

- o Some firms, especially small firms in locales where banking competition is limited, have to pay higher than market interest rates for working-capital loans.

- o Finance for medium and long-term expansion is generally more expensive for medium and small-sized firms because of the fixed cost of public offering and the requirement that they pay a high-risk premium.

- o Low-income municipalities have very limited access to organized municipal-bond markets because they are not rated by bond-rating agencies. 22

The small firms, though they are the ones that generate the most employment, are faced with difficulties in obtaining long-term financing for both operating and capital expenses. The problem is compounded in distressed urban areas. Entrepreneurs usually depend on their own savings or money from friends or relatives to start a new business. The problem is, in enterprise zones, entrepreneurs are unlikely to have the capital to start a business and probably do not have friends with capital either.

1.5 Job Generation

Current research on the job generation process and small business' contribution to employment creation has forced legislatures and policy makers to rethink urban policy.

David Birch of the Massachusetts Intitute of Technology surveyed 5.6 million businesses, representing 80 percent of all private sector employment to determine the job- generating prowess of certain firms according to size, region, and other variables.

Birch concluded that two-thirds of all new employment was created by firms with 20 or fewer employees. The independent, free-standing entrepreneurs, not the branches or subsidiaries of large corporations, were responsible for the majority of jobs created. Almost 60 percent of all jobs created were attributable to independent firms.

In the Northeast, the small independent firms (0-20 employees) were especially important. These firms were responsible for virtually all net new jobs created, while firms with more than 50 employees experienced employment declines.

It was the smaller younger firm that generated the most jobs, yet these firms were also the most unstable. After the initial four years, a firm's job creation powers sharply declined. New firms (less than five years old) created 80 percent of all replacement jobs, but 65 percent of these small firms failed during the critical first four years. However, of the firms that survived, small companies were four times more likely to expand than contract; larger firms were 50 percent more likely to decline than grow.

The older and the less economically vital an area, the more it depended on smaller business, especially in the service sector to generate employment. Birch explained:

> Whatever the cause, it is clear that the only source of net new jobs in the older areas is in small businesses and most of them are in the service sector rather than in manufacturing.23

Birch concluded that the net job generators had certain characteristics:

> The job generating firm tends to be small. It tends to be dynamic (or unstable, depending on your viewpoint) -- the kind of firm that banks feel uncomfortable about. It tends to be young. In short, the firms that can and do generate the most jobs are the ones most difficult to reach through conventional policy initiatives.24

Birch further explained:

> It's no wonder that efforts to stem the tide of job decline have been so frustrating -- and largely unsuccessful. The firms that such efforts must reach are the most difficult to work with. They are small. They tend to be independent. They are volatile. The very spirit that gives them their vitality and job-generating powers is the same

> spirit that makes them unpromising partners for the development administrator.25

Research conducted by the Joint Economic Committee reached similar conclusions on the importance of the small business sector. In the report, Central City Businesses--Plans and Problems, it was stated that, "(t)here is evidence that the smaller firms generally provide the greatest number of all new jobs and expanded operations."

A review of the literature concerning business location decisions, business obstacles, and job generation reveals important information needed to assess enterprise zone legislation. While taxes do not appear to be critical to decisions, the literature suggests that urban taxes are too expensive for the quality of services received and may hamper business development or growth. Low taxes may also represent a "pro-business" attitude that is important in expansion plans. Taxes alone will not attract business. Cities must also enhance the quality of life, improve infrastructure and services, provide job training, and make government regulations less burdensome.

The literature documents the problems confronted by small business and minority entrepreneurs in obtaining start-up and operating capital. The need for venture capital cannot be ignored, if enterprise zones are to encourage small business formation.

Studies reveal that job loss is not the main problem contributing to unemployment. Policies that try to attract large companies or policies that attempt to reduce deaths ignore the job generation process. It is job births and the small businesses that are the primary employment creators. Therefore, enterprise zone policies should be geared at improving the birthrate of small businesses by removing the barriers to the development of small independent firms. Finally, it is essential that city governments form cooperative partnerships with the private sector, and the community if enterprise zones are to be successful.

CHAPTER 2

Evolution of Enterprise Zones

2.1 Enterprise Zone Origins

The concept of enterprise zones was first articulated by Peter Hall, a British urban planning professor, after he visited and studied free trade zones in the Far East. Impressed by the economic activity in Hong Kong and Singapore, Hall proposed a similar system of free ports and tax-free zones to stimulate the economy of depressed areas in Britain.

In free trade zones duties are not paid on imported goods until the product leaves the zone for the domestic market. And duties are not paid at all if the product is re-exported. This provision attracts warehousing and trans-shipping facilities providing jobs which do not require highly skilled labor.

If components are imported into a free trade zone and assembled into finished products for sale in the domestic market, duty is not payable on the value added within the zone. Foreign companies selling in the domestic market have been enticed to these areas to reduce customs liability costs. In this case, the country receiving the goods has the benefit of increased employment opportunities for local residents.

Hall believed that the welfare state's bureaucracy stifled the creation of new entrepreneurial ventures, once an integral function of central cities. As large scale production moved out of the city, the failure of new firms to take over meant there were no jobs available for urban residents. Hall argued:

> What is necessary is to find new sources of innovation and enterprise, to replace that which is gone forever....The city was always a seedbed for innovation, for new development impulses. Some entreprenuers succeeded and grew large. As they did they (often) took their business out of the city in search of larger scale, rationalized production processes. Others stagnated or even died; but there was always others to take their place, and again some of them would succeed. Now we have succeeded in killing off an abnormal proportion, and too little innovation is happening to fill the gap. The job is to discover how to get the innovation going again.26

Critical of the large-scale, capital intensive, interventionist policies practiced in Britain, Hall suggested the creation of free ports in the worst slums as a means of attracting businesses and enterpreneurs. These free ports would be excluded from immigration controls and other governmental regulations, and tax incentives would be offered to spur investment.

Hall's plan entitled "Freeport" encompassed three central elements:

- The encouragement of entrepreneurship and capital formation. The specified areas would be free of national exchange and customs control, and foreign capital would be welcome. All goods could be imported and sold free of duty, and it would be legal to export them from the Freeport area also free of duty (perhaps after reprocessing and assembly). Areas of this kind do already exist for example the Canary Islands and Shannon Airport in the Republic of Ireland.

- These areas "would be based on fairly shameless free enterprise, free of... taxes, social services industrial and other regulations. Bureaucracy would be kept at an absolute minimum. So would personal and corporate taxation. Trade Unions would be allowed, as in Hong Kong, but there would be no closed shop. Wages would find their own level."

- o Residence in the area would be based on free choice Existing residents would be free to leave or stay under the new system of deregulation, low taxation and low social benefits.27

Hall proposed the Freeport solution for the most severely blighted areas in Great Britain, and he viewed it as "an extremely last-ditch solution to urban problems." The plan was to be administered on a small scale in areas "...largely abandoned and denuded of people, or alternatively areas with very grave social and economic problems." Freeports would be established where other policy solutions had failed.

Subsequently, Hall's "Freeport" concept provided the framework for Sir Geoffrey Howe's "Enterprise Zone" proposal. Sir Geoffrey (the economic spokesman for the British Conservative Party at the time) conceived of enterprise zones as a general economic development tool to be used in depressed urban areas in general. According to Sir Geoffrey, the zones would be testing grounds for policies that, if successful, could be tried on a larger scale. Sir Geoffrey stated that the "...idea would be to set up test market areas or laboratories in which to enable fresh policies to prime the pump of prosperity, and to establish their potential for doing so elsewhere." According to Sir Geoffrey:

"The idea would be to designate, in four or five places for a start--Clydesdale, Merseyside, the west Midlands, and East London say--substantial areas of land with the intention that most of them could be developed with as much freedom as possible--to make profits and to create jobs."28

Sir Geoffrey's proposal, outlined in 1978 included the following elements:

- An area of approximately a square mile or so in the most depressed part of the city would be designated as an enterprise zone.
- Planning controls of any detailed kind would cease to apply. Any building that complied with the very basic anti-pollution, health and safety standards, and was for a legal purpose, would be allowed.
- Public Authorities owning vacant land or abandoned property would be required to dispose of it to private bidders in an open market auction.
- New developments in the area would be free from rent control.
- Entrepreneurs who moved into the zone would be granted a reduction or exemption from property taxes, and there would be a reduction in capital gains tax on development.
- Businesses in the zones would be guaranteed that public laws affecting depreciation, investment, etc. would not be changed to their disadvantage. However, no special grants or subsidies would be payable to any enterprise in the zone.
- Wage and price controls would not apply in the zone.
- All the above conditions would be guaranteed for a stated and "substantial" number of years.29

2.2 British Enterprise Zones

It was not until the Conservative Party took office in 1979 that the enterprise zone idea gained legislative attention. British Enterprise Zone measures were unveiled in March of 1980, and were implemented by the end of the year.

The enterprise zone program is similar to Sir Goeffrey's proposals with the exception of wage and price controls, rent control, and government land and housing sales. At the time, these items were not included because wage and price controls had previously been abolished, and the government was already studying both means of reducing the impact of rent control and ways of selling government-owned land and housing.

2.2.1 British Enterprise Zone Incentives

The goal of the Enterprise Zone Program as stated by the Department of the Environment "...is to see how far industrial and commercial activity can be encouraged by the removal of certain tax burdens, and by relaxing or speeding up the application of certain statutory or administrative controls."

The British program allows an exemption from local property taxes for industrial and commercial property within the designated zone. Revenue lost to a city council because of this tax holiday is reimbursed by a grant from the government. Businesses locating in the enterprise zone also receive a reduction in capital gains tax levied on development, and a 100 percent capital allowance against corporate income tax for commercial and industrial buildings.

A simplified version of planning controls applies specifically to zone development. Businesses must adhere to basic environmental and safety regulations, however, developments that conform with the published enterprise zone plan do not require individual planning permission. Regulations are further minimized by a speedy application process for planning controls remaining in force. In addition, requests for customs warehousing are given priority and certain criteria are relaxed. Within the zones, government statistical inquiries are kept at a bare minimum, removing some of the burdensome governmental red tape. British enterprise zones will last for 10 years, but, zone status will be renewed if the program proves successful.

There are now twenty-five zones in the United Kingdom, eleven were designated in the first round up to April 1982; the remainder were designated between July 1983 and April 1984.

These enterprise zones were selected on the basis of local unemployment figures and the willingness of local authorities to give up some of their planning powers. The Department of the Environment, the administering agency, also looked for areas that were reasonably accessible and predominantly comprised of vacant land. The Secretary of State for the Department of the Environment selects the zones from requests made by local authorities and, so far, the bids have exceeded the number of zones available.

2.2.2 Preliminary Results of the British Enterprise Zone Program

Results from the British enterprise zones are mixed, and they have not solved the country's unemployment problem. Data on the initial eleven zones has been compiled by British consultants. The following is a list of conclusions drawn from the first enterprise zones:

- It is clear that a considerable number of jobs have been created in the zones. About 10,000 jobs have been created in 1,000 firms. Half the jobs are in new firms.

- Many of the jobs are diversions. It is estimated that about 75 percent of the incoming firms would have located in the same county and most of the new firms would have set up. However, if a firm is staying in the inner city rather on the urban fringe of a county, it is creating employment where it is most needed.

- Some of the fiscal advantages of the zones have been consumed in higher land prices.

- Higher land prices have a beneficial effect in some cases. They result in difficult sites being brought onto the market, especially as the life o f zones only lasts for ten years--a critical factor in making things happen quickly.

- More significant is the reduction in some areas in the value of other developments outside the zone. This is particularly the case where there is little distinction between land inside the zone and that immediately beyond it.

- The zones are an excellent marketing tool. The reduction in bureaucracy ensures a good image. The limited life encourages both the local authority and the landowner to promote them actively.

- The most valued incentive is the property tax relief. This cost about $14- $20 million in 1984. Capital allowances are also attractive to firms, especially as they are no longer available in the rest of the country. The relaxed planning regime has been welcomed by the developers for the certainty it provides.

- The relaxation in planning controls did not cause a decline in standards. This may be due to the fact that much of the land in enterprise zones is owned in large blocks. Owners do not want poor buildings as they would reduce the value of the rest of their holding.30

British zones seem to have attracted development in the first stages of operation, however, the relationship between zone incentives and investment is questionable. Firms attracted to the enterprise zones appear to be capital intensive, these firms are less likely to generate employment.

There has been an increase in development since enterprise zones were initiated. Development increased from 128,000 square meters in 1981 to 235,000 square meters in 1982. In 1983, another 260,000 square meters were committed or under construction.

Although enterprise zones rely on market forces, the public sector plays a crucial role in stimulating development. Land and property improvements were initiated by the public sector under British rehabilitation programs. Public involvement is responsible for 30 percent of the increase in development in 1983 and total expenditure amounting to $132.9 million.[31]

The information suggests that for enterprise zones to work, they should try to encourage small business formation and local business expansion. They should not try to lure out-of-area firms. Also, enterprise zones cannot rely on the private sector alone. Local and state governments must take an active stance in improving the physical environment and improving the quality of services if enterprise zones are going to attract business.

2.3 Enterprise Zones in America

In the late 1970's, enterprise zones were introduced to America through Stuart Butler, a British economist working with the Heritage Foundation. Butler's publications entitled, "Enterprise Zones: A Solution to the Urban Crisis?" (1979) and "Enterprise Zones: Pioneering in the Inner City"(1980), put forth the first American enterprise zone proposals.

Butler's support of the enterprise zone approach is based on his observations of urban problems. Butler concludes:

- o Major injections of government money, either for housing projects or for commercial purposes, may not only be wasteful but even lead to a deterioration of the situation. Projects with limited outside support, and drawing heavily from local inventiveness and effort, are relatively successful.

- o The greatest economic problem of the inner city is the poor birth rate of businesses--and especially small businesses. Small businesses are the most effective creators of jobs in the economy, and provide the types of jobs most suitable to the inner city....Studies show that these types of enterprises either shun, or are shunned by government agencies and the larger commercial lending institutions. The best way of encouraging this sector is thus to remove obstacles in the path of the entrepreneur in the cities and to give these individuals the kind of business climate that will provide the incentive to take risks.

- o Neighborhood residents have shown themselves eager to put their own time, effort, and limited resources into housing rehabilitation if given genuine encouragement to do so. Rather than funding new projects, governments would achieve more if they created a climate in which essentially self-help projects would be more likely to succeed.32

These conclusions shaped the first enterprise zone proposals. The earliest versions of the enterprise zones introduced by the Heritage Foundation included five components: the elimination of minimum wage laws;

innovative action on housing and the suspension of rent control; a turnover trigger point to discourage companies from using the zones for purely tax-saving purposes; free trade zones; and experimentation with different policies.

2.3.1 Elimination of Minimum Wage Laws

The minimum wage law is cited by Butler as an example of a policy that has actually contributed to economic decline in central cities. Butler blames minimum wage laws for creating high rates of unemployment especially among young and unskilled workers. The laws work to keep wages artifically high, making it uneconomical to employ those with the least amount of training or education.

Butler suggests lowering the minimum wage for youths in enterprise zones, to provide greater employment opportunities for young unskilled workers. Butler admits that the elimination of minimum wages probably would be politically unfeasable, however, he argues that:

> The denial of a job at even a very low wage rate means the denial of an opportunity to enter the labor market, and with it the chance to gain the experience and skills needed to achieve a more acceptable income in the future. It is mobility that has largely been eradicated in the cities.33

I do not agree with Butler's conclusions and strongly oppose the elimination of minimum wages within enterprise zones. Such a scheme would only offer jobs in the secondary labor market which would not provide a chance for zone residents to assimilate into the economic mainstream.

2.3.2 Innovative Housing Action

According to Butler, rent control is another culprit of urban decline, blamed for creating housing shortages and deterioration in rental housing stock. The goal of rent control is commendable: making it more economical for low-income families to pay for housing, however, the policy has deleterious consequences.

Rent control keeps rents below the market value, discouraging investment in rental housing. Those units already being rented will not be properly maintained since the landlord will not be able to cover his investment by increased rents.

Butler proposes the phasing out of rent control in inner cities, to allow property owners to receive sufficient revenue from their rental units in order to maintain and improve their properties. Instead, Butler advocates a subsidy program targeted at low-income families.

A second alternative to stimulate rehabilitation proposed by Butler is a reduction in property tax and an increase in the capital gains deduction on property appreciation.

Butler also suggests experimenting with a homesteading program, whereby cities sell abandoned buildings to buyers who agree to rehabilitate them. The city would be able to raise revenues on the properties after they are renovated.

Although Butler introduces several programs that could be instituted in an enterprise zone program, some of these programs will require subsidies that local governments in

America may not be able to afford. A rental housing subsidy could only be successful if the federal government became an active participant, but under the current Administration, this is highly unlikely.

A homesteading program is one option that could be adopted on the local scale and could represent an opportunity for local governments to provide more affordable housing.

2.3.3 A Turnover Trigger Point

Enterprise zones have been criticized for offering incentives that attract large corporations seeking tax subsidies. In order to make zones less attractive to large corporations, Butler proposes the use of a "turnover trigger point". Below a certain point, businesses would be able to benefit from the zone tax incentives. But when a business becomes more profitable and reaches a trigger point, it would have to pay an increasing portion of taxes. Since different types of businesses have lower profit/turnover ratios, different trigger points could be applied to different sectors. Large corporations would be less inclined to move to enterprise zones for solely tax purposes since their tax savings would be reduced.

Enterprise zone legislation should strive to attract small businesses while discouraging the relocation or branching of large corporations seeking tax shelters. To discourage relocation, firms moving into zones could be disqualified from incentives unless they increase their work force. Or incentives can be targeted to the development of small, independent businesses.

2.3.4 Free Trade Zones

Butler borrows the idea of Halls' "Freeport" and proposes the establishment of free trade zones within enterprise zones where ever possible. This would attract warehousing and assembly jobs to the inner city and would provide employment for low-skilled workers.

2.3.5 Experimentation

Butler agrees with Sir Geoffrey Howe that enterprise zones should be laboratories for testing policy alternatives. Butler advocates the use of "trial and error" within Enterprise Zones so that the " most appropriate combination of businesses will evolve." New policies could be tested on a small scale before applying them uniformly. Also alternative policies could be tried to determine the best one for achieving the stated objective.

Butler suggests testing the effect of a youth minimum wage. Employment results could be compared with other zones not incorporating the sub minimum wage provision.

Although some of Butler's proposals were considered politically unpopular, such as the elimination of minimum wages, his ideas sparked interest among policy makers, legislators, and academic researchers.

Federal Enterprise Zone legislation was introduced in May 1980 when conservative Jack Kemp (R-N.Y) presented his first version of the enterprise zone bill to congress (H.R. 7240). One month later, Kemp was joined by liberal Robert Garcia (D-N.Y.) in the sponsorship of the Urban Jobs and Enterprise Zone Act 1980 (H.R. 7563), a second version of the bill. This partnership of conservative and liberal illustrated that the enterprise zone concept spanned the political spectrum. Although the collaboration between Kemp and Garcia was unusual considering their differing political philosophies, Garcia felt the program had potential, and he owed it to his South Bronx constituents to work on the bill. The South Bronx has been cited as a possible enterprise zone site and will be considered for designation if federal zone legislation is passed. Garcia stresses that enterprise zones are not intended to replace CDBGs, EDA projects, and UDAGs. He states, "...as I see it, those grant programs go hand in hand with enterprise zones."

2.4 The Proposed Urban Jobs and Enterprise Zone Act 1980

In the ill-fated Urban Jobs and Enterprise Zone Act of 1980, an area with excessive poverty and unemployment could apply for enterprise zone status. The requirements for poverty and unemployment were as follows:

- o the average unemployment for the past 24 months must be greater than or equal to twice the national average and 30 percent or more of the families living in the areas must be at or below 85 percent the Bureau of Labor Statistics lower living standard; or
- o the average unemployment rate for the past 24 months must be greater or equal to three times the national average; or

- o 50 percent of the families within the zone are at or below 85 percent of the Bureau of Labor Statistics lower living standard.

In order to be considered, a zone would have to contain at least 4,000 persons and be defined by a continuous boundary. Also, local governments would be required to reduce property taxes within the zone by at least 20 percent for the next four years. If these requirements were met, the Secretary of Commerce would declare the area an enterprise zone.

If zone status was awarded, businesses and property owners would be entitled to a package of zone benefits, which would last for a minimum of ten years.

Individuals owning property in the zone used predominantly for business purposes would be entitled to an increase in the capital gain deduction from 60 percent to 80 percent.

To encourage employment of younger workers, a group with particularly high unemployment rates, the bill provided a 90 percent reduction in social security tax for employees under 21 years old and a 50 percent reduction for workers 21 years of age and older.

Providing that 50 percent of a business' work force lived in the zone, a business would be eligible for four benefits: a 15 percent reduction in corporate income tax; a three year straight-line depreciation for all property (except for land) up to $500,000 per year; a loss carry-forward up to ten years; and a cash method of accounting if the business' gross income does not exceed $1.5 million.

Corporations in the zone would receive a reduction in capital gains tax from 28 percent to 15 percent on property (except for land) used for zone trading purposes.

2.4.1 Criticisms of the Urban Jobs and Enterprise Zone Act 1980

Both the general thrust and the individual components of the 1980 bill were criticized. It was feared that the goals of small business generation and employment opportunities for zone residents would not be achieved through the proposed measures.

2.4.2 Types of Business Attracted

While the enterprise zone concept stresses the creation of small business and local entrepreneurship, the bill's tax benefits were most appealing to large corporations or their branches and subsidiaries seeking tax credits. The loss carry-forward, reduced social security costs and decreased taxes would not help most small businesses since they make little or no taxable profit in their early years. Small firms typically lack large investments in depreciable machinery and plants, and they require years to generate significant profits or capital gains.

The capital subsidies available are higher than the labor subsidies. Therefore, more capital-intensive firms, as opposed to labor-intensive firms would be attracted to the zones. Opponents argue that this is not the best way to encourage employment growth.

Critics also warned that the depreciation incentive could be used to install large amounts of equipment, without employing new workers.

Susan Clarke, in an article entitled Enterprise Zones: Seeking the Neighborhood Nexus, states that the provision of future tax deductions are unlikely to overcome the initial business start-up costs; "(f)ront capital, not future tax deductions is the critical problem for most small, independent enterprises."[34] She also notes that the administration's budgetary proposals would remove the direct loans, loan guarantees, and venture capital programs available through the Small Business Administration, the Economic Development Administration, the Community Services Administration, and the Urban Development Action Grant (UDAG) programs.

In addition to the problem of obtaining funding, Clarke points out that small businesses are especially prone to failure in the first four years of operation. Some instances of failure can be attributed to lack of managerial and technical skills. However, the proposed legislation does not include provisions for technical assistance, management, or marketing skills. Clarke states, "without venture capital and business operation and preparation skills it is unlikely that small businesses will flourish in enterprise zones."[35]

2.4.3 Social Security Tax Breaks

The use of social security tax decreases was seen as a dangerous precedent in the time of concern over Social Security solvency. Furthermore, this benefit did not guarantee that low-income persons would be employed since social security tax reductions could be used for highly payed executives as well as low-income persons. In fact, Social Security savings for a middle-level executive would be far greater than hiring a low-skilled person at or slightly above minimum wage.

2.4.4 The Residency Requirement

The residency requirement, designed to increase zone employment, did not guarantee that local residents would benefit from increased employment. The requirement had the potential of attracting skilled workers into the zone with possible displacement of local residents. Since the residency requirement did not specify types of persons to be employed, such as CETA or JTPA eligible, the measures were not strong enough to ensure employment to low-income residents. This measure was further criticized for the amount of red tape involved in administration.

2.4.5 Job Relocation

Another concern over the proposed bill was that instead of job creation, city businesses would move into the zone, merely relocating jobs rather than creating new employment. Also, businesses located across the street or in close proximity to the zone would have an unfair competitive disadvantage. The problem of land speculation and the possible displacement of local residents also generated concern.

2.4.6 Costs

The Joint Committee on Taxation estimated that the enterprise zone program would cost $1.5 billion anually. Advocates argue that these are not revenues lost because businesses taking advantage of the tax breaks would not exist without the program.

Sternleib and Listoken are not convinced by this logic: "...the program as now presented is too much a blank check in costs and too obscure in benefits to inspire total acceptance."[36]

A final shortcoming was that in some states isolated tax reductions are illegal. Even in areas where differing tax rates are allowed, mayors protested the reduction in city revenues which would result from property tax cuts.

2.5 The Urban Jobs and Enterprise Zone Act 1981

The bill was revised on June 3, 1981 to address some of the criticisms wagered against the 1980 bill. The new bill attempted to place a greater emphasis on small business development. A provision for low-income housing was also incorporated in the new bill. <u>The Urban Jobs and Enterprise Zone Act of 1981</u>, was introduced in the House (H.R. 3824), while a companion bill was introduced in the Senate (S. 1310). Hearings were held in 1981 and 1982.

In response to criticisms that enterprise zones would be used as a substitute for other urban programs, site selection was moved from The Department of Commerce to The Department of Housing and Urban Development (HUD).

Unlike the 1980 bill, a limit on the number of zones to be designated was included. During the first three years of the program between 10 and 25 zones would be chosen. Since enterprise zones are considered an experimental tool, this is an important change. This would allow for a careful analysis of the existing zones before applying the concept on a larger scale.

In order to be considered for designation, local governments would not have to reduce property taxes but instead they would be required to show their commitment to development by reducing "the various burdens borne by employers and employees." The bill suggested reductions in tax rates or fees, improvements in local services, streamlining business and employment regulations, and commitments from private entities to provide training and other assistance for zone residents.

New eligibility criteria required an area to be characterized by "pervasive poverty, unemployment and general distress." Sites had to meet the eligibility requirements of the Urban Development Action Grant Program. In addition, the areas had to display at least one of the following indicators of distress:

- o Unemployment for the most recent eigtheen-month period is at least one and a half times the national average.
- o At least 20 percent of the population is living in poverty, as defined by the Bureau of Census.

- At least 70 percent of the area residents have incomes below 80 percent of the median income for the area as a whole.
- All census tracts within the area suffered at least a 10 percent decrease in population between 1970 and 1980 and are characterized by chronic abandonment or substantial property tax arrearages.

Both urban and rural areas would be eligible for enterprise zone designation in this bill. Urban areas needed populations greater than 4,000 and rural areas needed populations exceeding 2,500 persons to be considered. Indian reservations would also be eligible for designation.

The tax incentives were redesigned to provide more cash flow to businesses and to discourage the branching by larger firms. The new tax measures included: refundable tax credits for employees and employers; a reduction in capital gains tax for zone property; and a 50 percent tax allowance for income received in the zone for business establishments.

2.5.1 Refundable Credits for Employers and Employees

An employer could take a tax credit equal to five percent of the wages paid to a "qualified employee" (a CETA-eligible person who performs at least 20 percent of his/her service in the zone). The credit was refundable if the total tax credit exceeded the employer's tax liability.

An employee of a "qualified business" could also take a credit against his or her personal federal income tax equal to five percent of the income received from services performed for the business within an enterprise zone. A qualified business would be a business where at least 50 percent of gross receipts came from trade within an enterprise zone and at least 40 percent of new hirings were qualified employees. Already established businesses would qualify if the average amount of full-time employees was at least 10 percent greater than for the year immediately before designation.

2.5.2 Capital Gains--Corporations and Non Corporate Taxpayers

Taxpayers were not required to pay any capital gains tax on tangible property installed after Enterprise Zone designation if the property has been used for business purposes. The provisions could be used for new and substantially rehabilitated low-income rental housing.

2.5.3 Reduction in Taxation of Gross Income

A 50 percent tax allowance would be available to any qualified business for income received in the zone. The same allowance would be available for income received from loans, mortgages and other financing used by qualified businesses.

2.5.4 Other Provisions

Foreign Trade Zones would be established whenever possible and the Foreign Trade Board would expedite the application process.

The provision for net operating loss carry-over and the cash method of computing taxable income would be retained. The new limit would require the business' total receipts not to exceed $2 million in the tax year. The new bill scrapped the three-year straight depreciation allowance for capital equipment.

Enterprise zones would be considered "small entities" under the terms of the 1980 Regulatory Flexibility Act (P.L. 96-354). This would remove unreasonable regulation imposed on small businesses.

Even with the proposed changes, the tax and regulatory measures are of marginal consideration by businesses deciding to start up in an enterprise zone. More significant businesses inducements would have to be offered by state or local governments if businesses are to be attracted to enterprise zones.

2.6 The Administrations Enterprise Zone Tax Act (1985)

Although Reagan spoke of enterprise zones as the centerpiece of his urban policy in 1980, the Administration's legislation did not come forth until 1982 with the proposed Enterprise Zone Tax Act of 1982. The Act has been revised in 1983 and 1984. As it currently stands, The Enterprise Zone Tax Act of 1985 has similar eligibility requirements to the Urban Jobs and Enterprise Zone Act (1981). The Administration's Act includes the following incentives:

- An additional investment tax credit (ITC) for investment within zones equal to three percent for three-year recovery period and five percent for longer life recovery period. For nonrecovery property, the additional ITC would equal 50 percent of the regular applicable percentage for personal property.

- A ten percent credit for new construction or reconstruction of buildings, including residential property.

- Exempt capital gains on business property in the zones and on interests in zone businesses.

- The use of small issue tax-exempt industrial development bonds (IDB) used to finance enterprise zone investments beyond the 1986 sunset date applicable for small issue IDBs elsewhere; and permit property financed with such IDBs to be depreciated under the Accelerated Cost Recovery System.

- A nonrefundable tax credit for employees equal to five percent of the first $10,500 of wages earned in the zone, up to $525 a year.

- A nonrefundable credit for employers equal to ten percent of total enterprise zone payroll for the first $17,500 paid to each qualified employee.

- For employers, a separate credit equal to 50 percent of the wages paid to disadvantaged individuals employed in the zone. The credit would decrease by ten percentage points in the fourth year and each year thereafter, ending after seven years.

All incentives would be in effect for the life of the zone, (20 years), to be phased out in the succeeding four years.

Enterprise zones have met resistance in Congress, especially from the Chairman of the Finance Committee, Robert Dole, whose panel must approve the legislation. Dole has voiced concern over the Administration's heavy reliance on tax credits and the possibility that the program may just redirect existing capital and jobs instead of creating new ones. Passage of federal enterprise zone legislation has also been hindered by concentration on major budget and tax reform measures, concern over the federal deficit, and resistance by key members of the Ways and Means Committee. The most recent concerns over terrorism and foreign affairs has shifted national emphasis away from enterprise zones.

Federal Enterprise Zones: A Critique

Since inception, enterprise zones have provoked much debate. As a sole policy, enterprise zones are unacceptable. If the estimated costs of the program could be recovered, states and localities would benefit more from direct subsidies.

Comparing the federal programs to Chapter 1 which outlines the location determinants of firms, the legislation is not strong enough to encourage business location. The incentives only provide operating cost reductions. Operating subsidies are usually more important for ongoing businesses rather than new business ventures. The federal proposal would not offer venture capital, the most crucial need for small business creation.

In order to attract private investment, local governments must increase their services, improve their infrastructure, and enhance their quality of life, however, no federal grants would be designated to communities for this purpose.

The types of jobs created by enterprise zones has sparked much criticism, especially from labor groups. The AFL-CIO attacks enterprise zones as being "little more than a localized version of `trickle down' economics." Another opponent asserts: "enterprise zones are a component of the current drive by multinational corporations and their allies in federal government to drive down wages and working conditions in the United States."[37]

Critics charge that enterprise zones will only offer jobs in the secondary labor market, limiting the opportunity for advancement or upward mobility. Jobs that will be attracted to zones will pay lower wages and offer worse working conditions. Also, it would be more difficult for labor to organize in these industries.

Enterprise zones are compared to "Operation Bootstrap" in Puerto Rico which used many of the same features as enterprise zones. In Puerto Rico companies flocked to the island to take advantage of the tax savings, and then left after the tax breaks ended. The types of industry enticed to the island were low-profit, low-wage, sweatshop operations which have not contributed to the long-term economic stability of Puerto Rico.

In spite of "Operation Bootstrap," Puerto still has one of the highest levels of unemployment in the nation, a stagnant economy, and severe poverty. The government is unable to finance itself because of the lost tax revenues resulting from tax holidays.

Dr. Goldsmith, a professor of urban and regional planning at Cornell University refers to enterprise zones as "bringing the third world home." According to Goldsmith, enterprise zones would depress wages and reduce labor's bargaining power. Similarly, Antonio Stevens-Arroya writes, in Civil Rights Quarterly Journal that enterprise zones will result in "dead-end jobs with marginal salaries" that will "condemn the poor to second-class citizenship."

Since urban problems are complex and multi faceted, a single approach to problem resolution will not ameliorate these problems. Another critic states it is doubtful that enterprise zones can promote "...national urban policy goals of rational concentrated land use in support of optimal economic growth...(t)he highly place oriented proposal shifts emphasis away from coordination of revitalization tools and objectives."[38]

One author doubts the credibility of enterprise zones, and calls them "nostalgic."

> Government subsidies, tax incentives, and regulatory relief are not nearly enough to overcome technological end market driven forces redistributing blue-collar jobs and shaping the economy of our major cities.39

Policy should be "future oriented" and should not try to inhibit change. This author believes that:

> ..(w)ithout an expanding of the national economy, improved education and technical training programs for the urban disadvantaged, stricter enforcement of civil rights legislation, and the mobility of the underclass from economically depressed ghettos, the permanence and growth of the underclass will be assured.40

The author suggests that enterprise zone policy may keep poor and minorities concentrated in urban areas. He advocates providing the urban disadvantaged access to suburbia where the jobs already exist.

The President's Commission for a National Agenda for the Eighties criticized the Administration's "place-oriented" approach of enterprise zones. The report stated that the welfare of cities is directly related to the vitality of the national economy. Cities' long-term economic interests are better served by federal program that promote national growth than by place-specific urban development policies that try to counter the effects of change. Cities need to adapt to change instead of trying to change its process. The Commission recommends, "spatially neutral national social and economic policies," as opposed to the place-oriented enterprise zones.[41]

In Planning magazine enterprise zones are critiqued as follows:

> Like other urban policy proposals of the past, the enterprise zones promise more than they can deliver. They cannot combat structural unemployment, and they ignore other social and economic problems of our cities: insufficient private and public investment, inadequate education opportunities, concentration of elderly and of people who have never experienced work, and a deteriorating physical environment. These problems cannot be solved by substituting "free enterprise" for government.[42]

The federal cuts in Community Development Block Grants and Urban Development Action Grants signify that if there is any new urban policy at all, it will probably consist only of enterprise zone legislation.

Enterprise zones as the nation's urban policy will not suffice. The federal government must take more of an initiative than to cut business taxes and operating expenses if urban problems are to be addressed. Although enterprise zones may be used as an economic development tool, they should not be viewed as a general urban policy.

The proposed legislation does not target the group of businesses that create the most employment opportunities. Furthermore, the federal government has cut back grants that could be used in coordination with enterprise zones to improve the quality of life in the cities. The federal program would have to be restructured to foster small business development if enterprise zones are to be successful on the national level. And then they would have to be one component of an overall economic growth policy. Enterprise zones cannot solve urban problems alone.

CHAPTER 3

State Enterprise Zones

3.1 State Enterprise Zone Legislation

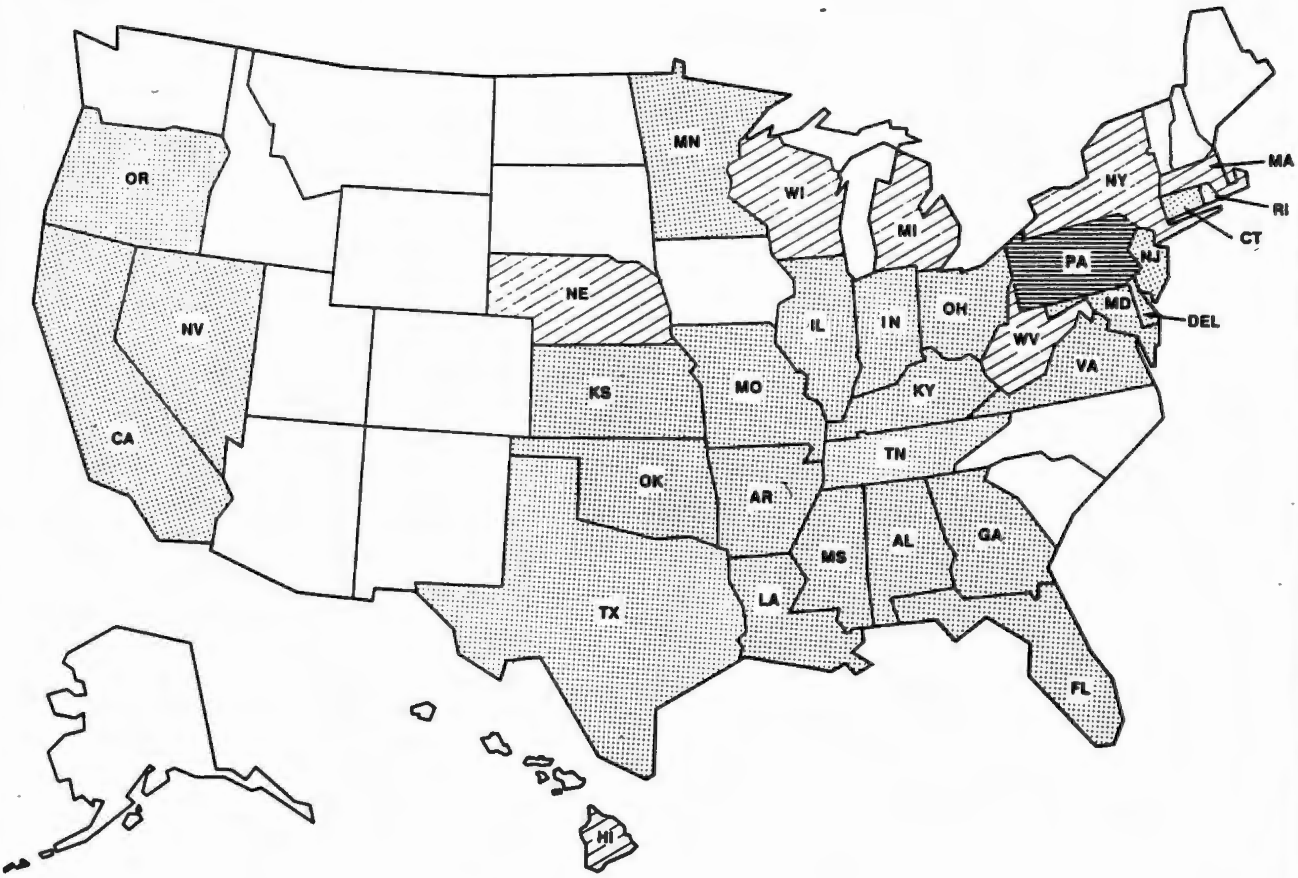
Federal legislation continues to be debated, meanwhile, 27 states have incorporated enterprise zones into their overall economic development stategies (Map 3.1) and (Table 3.1). One state, Pennsylvania, has implemented an enterprise zone program administratively, instead of passing state legislation.

Enterprise zones are usually designated based on unemployment, poverty, or population loss. All states have at least one of the following incentives available within their enterprise zones: regulatory relief, sales use and tax exemption, public service improvements, property tax abatement/reduction, job tax credit, employer income tax credit, and preference in Industrial Development Bonds (IDBs).

Generally, enterprise zones are targeted to urban areas, but some states consider rural areas for designation. The enterprise zone designation process is either competitive or noncompetitive. With a competitive method, only a specific number of zones can be designated annually. In noncompetitive states, the number of zones to be designated is unlimited. In both cases, the town or city applies for enterprise zone status through the lead agency. The application is evaluated according to the degree of local distress and local commitment to zone development.

MAP 3.1

State Enterprise Zone Legislation



Georgia (for Enterprise Zone in Atlanta)
Rhode Island (effective upon passage of Federal legislation)

- **States with Legislation enacted**
- **State with Administrative EZ Program**
- **States in which enabling Legislation proposed in 1985**
- **States in which zones have been designated**

Source: U.S. Department of housing
and Urban Development

10/85

TABLE 3.1

STATE ENTERPRISE ZONE PROGRAM SUMMARY TABLE

STATE	Program Status ACTIVE	Program Status PENDING	Unlimited number of zones	Limited number of zones	Designation Criteria: Unemployment considered	Designation Criteria: Percent receiving public aid/below poverty levels considered	Designation Criteria: UDAG criteria considered	Designation Criteria: Percent population decrease considered	Enterprise Zone Incentives: Regulatory relief	Enterprise Zone Incentives: Sales and use tax exemption	Enterprise Zone Incentives: Public service improvements	Enterprise Zone Incentives: Property tax abatement/reductions	Enterprise Zone Incentives: Job tax credit	Enterprise Zone Incentives: Employer income tax credit	Enterprise Zone Incentives: Preference in IDB allocation
Alabama	•		•			•			•		•				
Arkansas	•			•	•	•			•	•	•		•	•	
California	•			•	•		•			•			•	•	•
Connecticut	•			•	•	•				•		•	•	•	
Delaware	•			•		•							•	•	
Florida	•			•	•				•	•			•		
Georgia	•			•	•	•				•					
Illinois	•			•	•	•	•			•		•	•	•	•
Indiana	•			•	•	•						•		•	
Kansas	•		•		•	•	•	•	•	•			•		
Kentucky	•			•	•	•		•		•		•			
Louisiana	•			•	•	•		•		•			•	•	
Maryland	•			•	•	•		•				•		•	
Minnesota	•			•						•		•		•	
Mississippi	•			•	•	•		•		•	•		•	•	
Missouri	•			•	•	•	•					•	•	•	
Nevada	•			•					•						•
New Jersey	•			•	•	•			•	•			•	•	
Ohio	•		•		•	•	•	•		•		•		•	
Oklahoma	•		•		•	•	•			•					
Oregon	•			•	•	•			•		•	•			
Pennsylvania	•			•	•	•	•	•			•				
Rhode Island		•	•		•	•	•					•	•	•	
Tennessee		•	•		•	•	•	•	•		•		•	•	
Texas		•		•	•		•	•	•	•					
Virginia	•			•	•	•				•					

Source: National Association of State Development Agencies

Each state has uniquely designed its program to meet its individual needs and objectives by integrating state and local incentives. Monitoring the results of state programs is particularly important since their results will play a key role in deciding over federal zone legislation.

Because of the newness of enterprise zones, their long-term results are unknown. Since every state has a different program and each program consists of a unique blend of incentives, it is hard to deduce from previous programs the outcome of enterprise zones. Preliminary studies have been conducted by the Sabre Foundation. They found that "almost none of the companies operating in the enterprise zones represent relocations....Major growth has come about from expansion of existing firms and from start-ups that otherwise appeared unlikely to occur." The study revealed that unemployed and low-income workers accounted for 30 percent of all hirings related to enterprise zone growth. Futhermore, many jobs have been saved from businesses reconsidering moving because of enterprise zone incentives.

Dick Cowden, Associate Director of the Sabre Foundation, has recently proposed a study to be performed on enterprise zones. He will be surveying between 100-200 businesses to determine their reasons for locating in enterprise zones. He also plans to address the following issues: the firm's prior knowledge of the zone incentives, the effects of investment within the zone, the climate for future investment and expansion, the zone's effects on area property values, the amount of public expenditures necessary to help business locate in an area, the red-tape barriers that impede zone location, and the ramifications of a possible federal enterprise zone program on future development.

Earl Jones, an urban planning professor at the University of Chicago/Urbana, is currently researching the relationship between state enterprise zone incentives and business location.

The Council for Urban Economic Development (CUED) has concluded that successful enterprise zones have the following characteristics: political and bureaucratic support, private sector support, local capacity and ability, changing market conditions, and zone management.

A study by the National Association of State Development Agencies (NASDA) concludes that in order for enterprise zones to be effective, they must be aggressively marketed: "An enterprise zone will have little success if communities and businesses are unaware of its existence. To work, an enterprise zone must have an effective marketing program."

Enterprise zones have potential to provide jobs for local residents and act as a catalyst for development. However, in order for enterprise zones to be successful there must be input from all aspects of the community--state and local governments, businesses, community leaders, and residents.

As part of a comprehensive development plan, enterprise zones can address the issues of local unemployment and declining tax bases. However, used alone, enterprise zones cannot solve urban problems. Enterprise zones work best when they are combined with other state and local economic development strategies.

In order for an enterprise zone to be successful, it must encourage small business creation, provide local employment opportunity, and allow community residents to partcipate in enterprise zone decision making. In addition, local governments have the power to augment state programs by using innovative local initiatives. A review of state programs illustrates the uniqueness of each program and the varying degrees of response to community development needs.

3.2 Community Development Needs

How states address the issues of community participation, employment creation, and small business financing is explored to illustrate the different approaches used in the states, and how responsive the legislation is to community needs.

3.2.1 Community Participation

Most of the zone legislation does not provide residents with a direct role in day-to-day zone decision making. Although zone participation may be encouraged on the local level, only seven states have provisions in the state legislation that require local input into zone decision making.

Kentucky, Ohio, Minnesota, Missouri, New Jersey, Indiana, and Texas are amongst the states with legislation requiring some form of participation.

Kentucky's legislation allows for the formation of a Neighborhood Enterprise Association Corporation (NEA). The association must make available, at no cost, a share of zone stock to eligible zone residents. In addition, all state and local property not being used can be leased to the neighborhood association for 99 years for no more then $1.00. The NEA is exempt from state or local taxes for the life of the zone. Although citizens are not given a direct role in zone decision making, residents are provided with an equity stake in zone development.

In Illinois a tax credit is given for contributions made to Neighborhood Enterprise Associations (NEA). Again, this does not require that residents take part in deciding or recommending zone development, but it does encourage local organizations to establish support systems in enterprise zones.

Ohio has adopted a provision to require the establishment of a local zone governing authority. The statute stipulates that once a zone is designated, a Tax Incentive Review Council must be established. The function of the council is to review a firm's compliance with the goals and conditions of the act and to make recommendations to the city. Although there is no requirement that zone residents comprise the council membership there is an opportunity for zone inhabitants to become involved in the council.

At the beginning stages of zone designation, residents in Minnesota and Missouri are allowed to comment on the desirability of zone designation to the state agency. The decision to designate an area is based partially on community commitment and interest.

Texas Neighborhood Associations are authorized to provide public services with approval and coordination with the responsible government agency.

Indiana and New Jersey have the most effective zone participation structure. In these two states there are governing boards appointed by public officials who are directly involved with zone decision making.

Indiana's statute requires a State Enterprise Zone Board and an Enterprise Zone Association for each local zone. The board consists of 13 members appointed by the governor. Representatives from business, labor, and neighborhood associations make up the Board.

The Urban Enterprise Association (UEA) operates on the local level. Members of the association include: five public sector members, three local business representatives, and three zone residents. Public sector members are chosen from the local planning department, the local economic development department, the state legislature, the state department of commerce and the local governing body.

The UEA is charged with coordinating zone development, marketing the enterprise zone, and initiating and coordinating community development activity that effects employment, the physical environment or turnover in the zone.

The UEA gives local residents a voice in the decision-making process and allows residents to determine the future of their zone.

New Jersey has a mechanism for community involvement in zone decision making but zone participation is not mandatory, here, municipalities may create local non profit zone corporations.

If a corporation is established the Board of Directors would be made up of members from local government, business and community organizations. The corporation is responsible for drafting a zone development plan and proposing ways of fostering involvement in zone economic development by coordinating private entities, neighborhood associations, community organizations and residents.

3.2.2 Job Creation for Disadvantaged Residents

The encouragement of local employment and the availability of job training is crucial to success of enterprise zones. The majority of states target incentives for employment creation. In some cases, incentives for hiring local and disadvantaged persons are offered. In other instances, a business is required to hire a certain percentage of zone and disadvantaged persons in order to be eligible for economic incentives. A sample of states' employment incentives are provided in Table 3.2.

3.2.3 Job Training

Availability of employment training is crucial to providing employment opportunities for zone residents. Although some states provide job training at the local level, only five states incorporate job training measures in their enterprise zones: Alabama, Connecticut, Missouri, New Jersey, and Ohio. Ohio allots $1000 per employee for training costs. Missouri offers a $400 training credit for each new employee who is a zone resident or is considered "unemployable." A job training voucher is issued to zone residents in Connecticut. Participants can use the vouchers to buy job training sponsored by the Labor Commission. Zone firms are encouraged to hire voucher holders. New Jersey and Alabama tarket state job-training programs to zone residents.

TABLE 3.2

State Job Creation Provisions

State	Enterprise Zone Employment Incentive
Arkansas	$2,000 employer tax credit per net new employee, if at least 35% of the employees live in the same county as the zone and receive some form of public assistance or have been considered hard to employ.
California	Tax credit for hiring disadvantaged individuals reduced by the amount of federally funded payments for job training, as follows:

	50% of qualified wages in year 1 40% of qualified wages in year 2 30% of qualified wages in year 3 20% of qualified wages in year 4 10% of qualified wages in year 5
	Employee tax credit of 5% up to a total credit of $450, reduced by $.09 for each dollar in wages earned above $9,000.
	Bidder preference for contractors hiring persons with high risk of unemployment.
	Tax credits for hiring persons unemployed at least six months.
Connecticut	50% reduction in state corporate business tax for 10 years, provided that 30% of the firm's employers are zone or city residents or JTPT-eligible municipal residents. $1,000 provided to manufacturers for each new job created provided that 30% of the firm's employers are zone or city residents or JPTA-eligible municipal residents.
Delaware	For each new employee for which at least $40,000 in new investment has been made, a $500 tax credit for industries, and a $250 tax credit for commercial and retail firms.
Florida	A corporate income tax credit equal to 25% of the first $1,500 in monthly wages of new employees for a period up to 12 months. Employees must reside in the zone.
Illinois	A taxpayer conducting a trade or business in an enterprise zone may receive a $500 tax credit per eligible employee, if the tax payer hires five or more eligible employees and full-time employees increase by at least 5 over the previous tax year.
Indiana	Employer tax credit of 10% of qualified resident employee wages up to $1,500 per employee; resident employee tax deduction equal to one-half of adjusted gross income up to $7,500.
Kansas	Employee tax credit of $350 for each employee living in Kansas; $500 for each disadvantaged employee.
Louisiana	Qualified businesses receive $2,500 tax credit per net new employee.

Missouri	Businesses are only eligible for incentives if their work force is at least 30% zone residents or workers considered "unemployable."
New Jersey	Unemployment insurance tax credit for workers making $1,500 or less per month on following schedule: o Years 1-4 50% of tax paid; o Years 5-8 40% of tax paid; o Years 9-12 30% of tax paid; o Years 13-16 20% of tax paid; o Years 16-20 10% of tax paid. $1,500 tax credit for each new employee who was unemployed for 90 days or on welfare before receiving a job; $500 to a person residing in a qualified municipality.
Ohio	In order for business' to qualify for incentives, they must hire new employees, at least 25% of whom are: - unemployed and residing for four months in the county of the facility; - CETA eligible employees residing for six months in the county; - recipients of AFDC, general welfare, or unemployment compensation residing for at least six months in the county. - handicapped persons residing in the county for six months. - residents of the county for at least one year.

Source: U.S. Department of Housing and Urban Development

3.2.4 Venture Capital

Availability of venture capital is especially important for small business development; yet only seven states make venture capital available for their enterprise zones. Connecticut, Florida, Indiana, Maryland. Mississippi, Oklahoma, and Pennsylvania provide state venture capital funds.

3.3 Innovative Approaches

A review of states' enterprise zone benefits and criteria for designation reveal the uniqueness of each program. In addition to the measures discussed above, a variety of innovative approaches are being used in different states. In Tennessee, the importance of education in enterprise zones is stressed. State educational assistance grants and loans are set aside for qualified zone residents. Tax credits are available for contributions used in the creation, operation, maintenance, or improvement of public schools within an enterprise zone.

Florida offers a 50 percent credit on state income tax for donations to local community development, such as community development corporations and community action groups. Annual credit is limited to $200,000 per firm up to an aggregate credit amount of $3 million. Unused credits can be forwarded up to five years.

In Ohio it is recognized that to increase zone employment especially for disadvantaged persons, day care is needed. Here, a tax credit for day-care services up to $300 a child per year for 24 months is available.

3.4 Local Inititiatives

Most local governments show their commitment to enterprise zones by reducing taxes, improving local services, providing regulatory relief, performing infrastructure construction and repair, tarketing local funds to enterprise zones, providing technical assistance, and performing marketing strategies.

One innovative local technique used in cities that can not afford to offer tax incentives, yet need to perform public improvements, is Tax Increment Financing (TIF). In Florida, Indiana, Kansas, Nevada, and Texas local governments are authorized to use TIF within their enterprise zones. TIF funds resulting from zone projects in Indiana may be used for job training, job enrichment activities, and basic skill development.

TIF is a method of funding public investment in an area targeted for redevelopment by capturing the increased tax revnenues generated from new development. As private investments add to the tax base within a targeted area, tax revenues are placed into a special fund. These funds are used for public purposes. Often bonds are sold initially for infrastructure or other improvements. Increased revenues resulting from the public investment are used to pay off the bonds. After bond repayment, funds are used for community and public projects.

Another zoning alternative used in some states is incentive zoning. Businesses are granted more floor space than the zoning allows if they agree to donate sidewalks, parks, maintenance, security, or parking. Some localities have experimented with homesteading and shopsteading programs offering houses and stores to persons agreeing to rehabilitate them. In other zones neighborhood crime watches have been instituted. Some municipalities set up support systems within the zones offering day care, transportation, education, and job training.

Enterprise zones offer great potential on the local level for innovativeness. Local zone managers can pool together local resources to make development happen. Local managers have to be innovatiove in the age of new federalism and figure ways of using limited resources in concert to achieve the maximum public benefit.

The first ingredient to an effective enterprise zone is the state legislation. State's that provide communities a say in planning for enterprise zones, encourage employment, provide job training, and provide venture capital for new business ventures are most responsive to community development needs. Local governments can augment state programs by pooling together local resources and targeting programs to enterprise zones. Enterprise zones should not be considered a replacement for other state economic development programs. Instead they should be designed to complement that which already exists. An enterprise zone is often as effective as the state's comprehensive economic development policy.

CHAPTER 4

Case Study: Connecticut's Enterprise Zone Program

The state of Connecticut's enterprise zone program was chosen as a case study to illustrate the evolution of the legislation and to assess financial investment and job creation in enterprise zones. Since Connecticut was one of the first states to implement enterprise zones, it provides a good example.

4.1 The Connecticut Enterprise Zone Program

In spite of a healthy state economy and low unemployment rates, it was obvious that some of the neighborhoods, especially in older urban areas, were not benefitting from the states economic vitality. Ironically, Connecticut has one of the highest per capita incomes in the nation and it also has two of the poorest cities: Hartford and Bridgeport (two of the enterprise zones). Since private investment was not flowing into these neighborhoods and federal, state or local efforts had not been able to reverse the process of deterioration, the concept of enterprise zones was proposed as an experiment.

Connecticut was one of the first states to adopt enterprise zone legislation in June 1981, the program was implemented one year later. (Appendix A) This legislation evolved from Connecticut's Urban Jobs Program, established in 1978. The Urban Jobs program provided incentives for manufacturing and research and development firms. The enterprise zone legislation expanded these incentives and created new incentives for commercial/retail businesses and residential rehabilitation. The experience in Connecticut has played a key role in other states' decisions to initiate enterprise zones and will affect federal legislative decisions.

Connecticut's program has been complimented by a study performed by Dick Cowden of the Sabre Foundation as being the most competently and enthusiastically administered.

Connecticut's incentives are designed to attract businesses to locate in zones or to expand facilities within the zones. According to the state Department of Economic Development the goals of the enterprise zone are twofold:

1. "to channel investment to particularly distressed inner-city core neighborhoods reversing a decade-long flow o f business, industry and dollars from its old industrial centers."

2. "To assure that some of the investment, lured by state benefits, would directly create jobs for inner-city (zone) residents."

4.1.1 Designation Criteria

In order for an area to be considered for enterpise zone designation, one or more of the following conditions must exist in at least one of the census tracts:

- o 25 percent or more of the population have incomes below the federally established poverty level,
- o at least 25 percent of the population is dependent on income maintenance funds; or
- o an unemployed rate 200 percent above the state average.

A second contiguous census tract could be designated if at least one of the following criteria is met:

- o 15 percent or more persons below the poverty line,
- o 15 percent or more households receiving public assistance or welfare.
- o an unemployment rate 150 percent or more of the state's average unemployment rate.

The areas for consideration must consist of one or two contiguous census tracts and must be partially zoned for commercial and industrial activity. Connecticut employs a competitive process in designating zones. Currently the state limits the number of enterprise zones to be established to six: three in areas with populations less than 80,000 and three in areas with populations exceeding 80,000. The Act requires that designation continue for a minimum of ten years from the original date of approval. Under the state's enterprise zone program, incentives are available for manufactuting and research and development operations, commercial and retail businesses, and residential rehabilitation.

4.1.2 Manufacturing Incentives

Manufacturing facilities located within the zone are eligible for the following benefits:

- o An 80 percent local property tax abatement for five years;
- o For firms with 30 percent of their employees living in the zone or residing in the municipality and JTPA eligible, a grant of $1,000 for each new full-time permanent job and a 50 percent reduction in state corporate tax for ten years;
- o Sales tax exemption on the purchase of replacement parts;

- Low-cost working venture capital loans and small small business financing up to $200,000; and

- Reimbursement of company employees for approved job training.

These incentives are available for business activities including manufacturing or assembly of raw materials or parts of manufactured products; the significant servicing, overhauling, or rebuilding of machinery and equipment for industrial use; the non retail (bulk) distributing of manufactured products; and research and development operations related to manufacturing.

Eligible facilities include: new construction; older buildings, acquired through purchase or renewable lease of at least five years, that have been idle for at least one year prior to purchase; and all other facilities that are substantially renovated or expanded.

A facility is not eligible for benefits if the owners or lessees are proposing relocation from another area in the state also eligible for enterprise zone designation or from another "distressed municipality" unless the Commissioner of the Department of Economic Development finds that the relocation represents a net expansion of business operations and employment.

In order to qualify for the $1000 job grant for new employment, the company must be an "eligible manufacturing facility," and be implementing a program of major expansion or renovation. The expansion/renovation must involve a substantial amount of capital investment and result in at least five new employment positions. At least 30 percent of the new employees of the company must be residents of the enterprise zone or residents of the City and CETA or JTPA eligible. Smaller grants of $500 may be available for companies not satisfying the 30 percent zone requirement. The 50 percent corporate business tax reduction for 10 years is also available for companies if 30 percent of the new employees are from the enterprise zone or are CETA or JTPA city residents.

Enterprise zone manufacturing firms can receive a sales tax exemption for machinery replacement parts used directly in the manufacturing process by filling out a Tax Refund Application, providing a sales receipt, and submitting a copy of the Enterprise Zone Location Certificate. If the Department of Revenue Services finds the macninery applicable to the stated criteria, a reimbursement is awarded.

Small business or venture capital loans are available for both manufacturing and commercial/retail establishments providing that the business did not gross over $1.5 million in the most recently completed fiscal year. The prospective company must complete a business plan of the necessary capital required. The state will inject 50 percent of the required capital from the loan fund. The maximum amount of money which can be borrowed is $200,000. The funds are available for building or land purchase, working capital, physical improvements, or expansions.

4.1.3 Commercial Incentives

All commercial and retail businesses located within the enterprise zone are eligile for enterprise zone incentives. Eligible companies are commercial and retail facilities not considered "manufacturing business" and non-residential uses. The following benefits apply to commerial/retail establishments:

- seven-year graduated deferral of any increase in taxes attributable to improvements on real property;
- low-cost venture capital and small business loans;
- special job-training assistance.

4.1.4 Residential Incentives

Residences in the enterprise zone may receive a seven year graduated deferral of any increase in taxes attributable to improvements on real property. All residential properties are eligible for a tax deferral. However, in the case where a dwelling is rented to a person whose income is more than double the median family income of the municipality, the deferral will be terminated. The tax deferral will also cease in the instance where a condominium conversion occurs, and the unit is sold to a person whose income exceeds 200 percent of the median family income.

4.2 Enterprise Zone Characteristics

Presently, there are six enterprise zones in Connecticut. Three are designated in municipalities with populations exceeding 80,000: Bridgeport, Hartford, and New Haven. The other three zones are in municipalities with populations less than 80,000: New Britain, New London, and Norwalk.

The enterprise zones are characterized by high concentrations of minorities and above average levels of poverty and unemployment (Tables 4.1-4.3). The areas chosen as enterprise zones display signs of physical deterioration. Much of the housing stock is in disrepair, old industrial structures are vacant, and neighborhood retail areas are declining or deteriorated.

Minority concentration range from 25 to 90 percent. New Haven's zone supports a 92 percent minority population with blacks representing 89 percent of all minorities. In Hartford 68 percent of the zone inhabitants are black and 30 percent are Spanish. The majority of persons in Brideport's zone are Spanish, 28 percent; blacks comprise 17 percent of the zone's population. In Norwalk and New London, there is a high concentration of blacks, 59 and 26 percent respectively. New Britain's zone is characterized by a strong Spanish presence, 26 percent. (Table 4.1)

TABLE 4.1

Minority Characteristics

	Zone Population	Black	Spanish	Other	Female Head of Household
New Britain	4,187	189 4.5%	1,071 25.5%	646 15.4%	669 15.9%
New London	3,750	1,000 25.9%	361 9.6%	188 5%	605 16.1%
Norwalk	5,638	2,820 50%	1,529 27%	42 1%	867 44%
Hartford	5,785	3,962 68.5%	1,735 30%	1,275 22%	1,033 17.8%
Bridgeport	4,788	826 17.2%	2,282 27.6%	980 20.2%	741 15.4%
New Haven	14,740	13,135 89.1%	373 2.5%	217 1.4%	2,687 18.2%

Source: U.S. Census 1980

Poverty characteristics further illustrate the levels of distress in the designated enterprise zones. The poverty problem is most defined in Hartford. Here, 65.4 percent of one census tract and 50.3 percent of the other census tract are below the poverty line. The remaining census tracts which comprise the enterprise zones have poverty rates ranging from 15 to 42 percent. (Table 4.2)

TABLE 4.2

Persons Below the Poverty Level

	Number of Persons	Percent Population Census Tract 1	Percent Population Census Tract 2
New Britain	1,075	42.3%	18.6%
New London	865	30.2%	15.1%
Norwalk	1,327	21.6%	23.7%
Hartford	3,198	65.5%	50.3%
Bridgeport	1,606	25.3%	36.6%
New Haven	4,576	29.1%	35.7%

Source: U.S. Census 1980

Unemployment rates in the zones are especially high. Hartford again has the highest level of unemployment: 31.6% and 14.7% in the two census tracts. (Table 4.3)

TABLE 4.3

Unemployed Persons

	Number of Persons	Census Tract 1	Census Tract 2
New Britain	212	13.3%	8.6%
New London	229	18.1%	6.5%
Norwalk	240	12.4%	6.5%
Hartford	271	31.6%	14.7%
Bridgeport	188	11.0%	10.9%
New Haven	898	16.6%	21.1%

Source: U.S. Census 1980

4.3 Results of the Connecticut Enterprise Zone Program

The Connecticut program has been monitored and reviewed by the Department of Economic Development in a report entitled, "Enterprise Zones: The Connecticut Experience." The report details the total investment from firms and jobs created after inception of the program. The report also suggests legislative changes that may better address enterprise zone needs.

The department used the following indicators: investment, job creation, benefit participation, and unemployment. These indicators were examined over a two-and-a-half year period to determine the program's viability.

In Connecticut Enterprise Zones, by December 1985, a total of 453 projects were completed, valued at $135 million, and creating more than 8,500 jobs. Each locality has experienced different rates of business investment and job creation. (Table 4.4 and 4.5)

4.3.1 Commercial/Retail/Mixed use Investment

The commercial/retail and mixed use category represents the majority of enterprise zone projects. Here, a total of $84.3 million has been invested in 242 projects. This sector also created and retained the greatest number of jobs, 5,112. Sixty-five percent of these jobs were new employment (3,335). (Table 4.6) Some of the investment has occurred in research and high tech firms. These are industries that are national growth leaders.

TABLE 4.4

CONNECTICUT ENTERPRISE ZONE ACTIVITY UPDATE - OCTOBER,1982 TO MAY, 1985 - 2 1/2 YEAR AGGREGATE TOTALS

CITY	TOTAL PROJECTS	TYPE OF PROJECT: Industr.	Comm/Ret.	Resid. (du)	Mixed	TOTAL INVESTMENT	INVESTMENT BY TYPE: Industr.	Comm/Ret.	Resid. (du)	Mixed	PROJECTS & SPACE, BY TYPE: New	Rehab (du)	JOBS: Retained	New	Total
Bridgeport	63	18	34	10 (6 du)	1	$ 16,855,365	$17,723,400	$ 3,862,965	$ 119,400	$ 150,000	10 / 63,826	73 / 514,371 (16 du)	215	841	1,056
Norwalk	128	13	85	22 (43 du)	8	$ 29,582,106	$11,038,200	$11,879,498	$ 2,913,525	$ 3,750,883	21 / 220,700	105 / 177,184 (146 du)	1,680	469	2,149
New London	29	2	11	9 (22 du)	7	$ 25,279,000	$ 215,000	$ 4,210,000	$ 297,000	$20,557,000	8 / 618,807	21 / 7,000 (13 du)	279	861	1,140
New Britain	33	4	20	5 (226 du)	4	$ 36,396,950	$ 380,000	$26,177,000	$ 8,399,950	$ 1,440,000	5 / 48,210	28 / 410,250 (9 du)	603	1,492	2,095
New Haven	67	21	44	-	2	$ 16,428,000	$ 3,323,500	$ 7,004,500	------	$ 6,100,000	2 / 60,000	65 / ---- (2 du)	1,287	569	1,856
Hartford	113	9	6	98 (112 du)	-	$12,578,509	$ 1,112,000	$ 1,231,000	$10,230,509	$ 5,000	66 / 60,000	67 / 11,400 (455 du)	155	92	247
STATE TOTALS:	653	67	220	144 (407 du)	22	$135,120,310	$28,792,100	$52,364,963	$21,960,384	$ 32,002,883	112 / 895,553	339 / 1,120,205 (641 du)	4,219	4,324	8,543

AS OF 6/22/85
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2 1/2 - Year Aggregate Totals

Source: State of Connecticut Department of Economic Development

TABLE 4.5

New and Retained Jobs by Project Type and City

	INDUST.		COMM/RET		MIXED		ALL JOBS		
	Retained	New	Retained	New	Retained	New	Retained	New	Total
Bridgeport	70	710	145	131	-	-	215	841	1056
Norwalk	1206	98	392	323	82	48	1680	469	2149
New London	88	3	46	353	225	505	279	861	1140
New Britain	110	10	443	1432	-	50	603	1492	2095
New Haven	971	142	312	224	4	203	1287	569	1856
Hartford	77	26	78	66	-	-	155	92	247
STATE JOB TOTALS	2442	989	1466	252	311	806	4219	4324	8543
	3431		3995		1117				

CG/ce
9/85

Source: State of Connecticut Department of Economic Development

2 1/2 YEAR AGGREGATE

New & Retained Jobs by Project Type x City

4.3.2 Manufacturing Investment

Although the manufacturing incentives are the strongest in the program, the least amount of activity has occurred in the industrial category. Sixty-seven industrial projects, with a total value of $28 million, were performed in enterprise zones. Altogether, 3,431 jobs were generated in industrial projects: 989 were new jobs and 2442 were retained jobs. (Table 4.6)

Eighty percent of the retained jobs (1932) were in five major companies. Apparently the enterprise zone has helped retain industries that might have otherwise moved out.

The state report cites the nation wide trend in decreasing manufacturing activity, lack of modern industrial space, and manufacturing eligibility requirements as reasons for the discrepancy between commercial/retail/ mixed projects and industrial projects. The requirements for a one-year period of idleness and a five-year lease renewable for an additional five years may be too stringent, especially for small companies.

4.3.4 Residential Investment

Residential investment exceeds $21 million from a total of 144 projects. (Table 4.6) In zones, people are making a commitment to remain in their neighborhoods and futhermore they are interested in improving the "livability" of their neighborhoods. One concern with the residential tax incentive is that although tax abatements are given for major repairs or expansion, no money from the state is forthcoming for the financing of residential improvements. Since the initial investment in property upgrading may be hampering projects, a similar program akin to the revolving loan fund should be established for residential uses--or residential units could be eligible for the existing loans.

TABLE 4.6

CONNECTICUT ENTERPRISE ZONE PROGRAM
AGGREGATE TOTALS (2 1/2 YEARS) to MAY 1985

Capsule review of the results:

Total of 453 projects worth $135+ million creating 8,500+ jobs

Category	Projects	Value of Investment*	Total Jobs	New Jobs	New Jobs as % of Category Total	New Jobs as % of all Zone Jobs
Industrial	67	$ 28,792,100	3,431	989	29%	11%
Commercial/Retail	220	$ 52,364,943	3,995	2,529	63%	29%
Mixed Use	22	+$ 32,002,883	+1,117	+ 806	68%	9%
		($84,367,826)	(5,112)	(3,335)	(65%)	(39%)
Residential	144	$ 21,960,384				
Total	453	$135,120,310	8,543	4,324		

CG/ce
Updated 9/18/85

Source: State of Connecticut Department of Economic Development

4.3.5 Types of Projects

Most projects, 74%, involved renovation or expansion of existing structures, and 114 projects were new construction (26%). This suggests that enterprise zones have encouraged the expansion of business in the zone, and have discouraged relocation or closing of existing firms.

A greater utilization of vacant or underutilized space has occurred in enterprise zones. At designation, October 1982, 192 parcels (200.44 acres), and 54 buildings (2,270,400 square feet) were vacant. Two and a half years later April 1985, 13 parcels (86.7 acres), and 37 buildings (2,043,000 square feet) were vacant. The utilization of vacant space is particularly pronounced in Norwalk. At designation Norwalk contained 149 vacant parcels, (70.35 acres). Two and half years later, only 11 vacant parcels (179.500 square feet) remain. In the zones, it is evident that resources of land and resources are diminishing in the enterprise zones. (Table 4.7)

TABLE 4.7

Available Commercial & Industrial Land & Building Space in Enterprise Zones

Zone	At Designation Oct., '82				Current - April 1, '85			
	Vacant Parcels/Acres		Vacant Buildings/		Vacant Parcels/Acres		Vacant Buildings/	
Bridgeport	19	9.13	11	1,104 K	1	10	2	780.4K
Hartford	4	5.18	3	133 K	6	14.5	17*	186.6K
New Britain	1	1.43	2	70 K	-	-	1	33 K
New Haven & (Science Park*)	-	.71	26	733.8K	1	1.5	10**	*649.5K
New London	19	43.5	1	50 K	2	25	1	200 K
Norwalk	149	70.35	11	179.5K	3+	35.7	6	194 K
State Totals	192	200.44	54	2,270.4K	13	86.7	37	2,043 K

* Includes only partially vacant buildings
** All located in Science Park

Note: Numbers in this table do not reflect underutilized properties, i.e. land or buildings.

Source: State of Connecticut Department of Economic Development

Despite concerns of enterpise zones attracting large corporations seeking tax credits, most industrial firms locating in Connecticut's enterprise zones are small, averaging 8.8 employees per firm. There is has also been a significant amount of start-up activity (four or fewer employees) in the industrial category, 25.4 percent. In May, 1985, zone managers were asked to identify projects by these categories: start-up, relocation, or expansion. For the six-month period, 38 projects were "start-ups" (54%); 20 projects were "relocations" (28%); and 13 projects were "expansions" (18%).

Overall, according to the local zone managers, relocations have not been as prominent as start-ups and expansions.

4.3.6 Jobs and Zone Residents

The Office of Economic Development's Job Incentive program attempts to encourage the hiring of local disadvantaged workers by requiring that 30 percent of new employees be zone-residents or JTPA-eligible municipal residents. Only 15 jobs have been sponsored under this program in Bridgeport. Another 53 jobs are pending in four of the zones. It was expected that this incentive would be more popular than statistics reveal.

Unemployment figures were tabulated comparing unemployment in 1980 to 1985 to assess the impact of the program on zone unemployment rates. Of the two tracts in New Haven, unemployment declined 5.9 and 9.6 percentage points. The unemployment in New London's Zone dropped 1.7 percent in one tract and rose .1 percent in the other tract. A slight unemployment decline was also witnessed in Hartford (1.3 and .7 points). Norwalk, Bridgeport, and New Britain each exhibited slight increases in unemployment.

When comparing 1983 and 1985 unemployment rates, the results are more obtimistic. During this two-year period, unemployment dropped in all zones except for New London. These rates are considered more reliable since the Connecticut Enterprise Zone program became fully operational in 1983. (Table 4.8)

TABLE 4.8

ENTERPRISE ZONE UNEMPLOYMENT RATES

City	Census Tracts	1980 Census (1979 data) %	1980 Census (1979 data) Persons	CT DOL 3/83 %	CT DOL 3/83 Persons	CT DOL 3/84 %	CT DOL 3/84 Persons	CT DOL 3/85 %	CT DOL 3/85 Persons	Pts./Rise or Decline '80 - 3/85	Pts./% Rise or Decline (2 Yrs.) 3/83 - 3/85
New Haven											
	1415	16.6	552	14.8	517	11.5	406	10.7	390	-5.9 / -33.6%	-4.1 / -27.7%
	1416	15.	346	13.3	324	10.3	255	9.6	245	-5.4 / -36 %	-3.7 / -27.8%
Norwalk											
	445	12.4	155	19.1	274	15.5	226	14.2	212	+1.8 / +14.5%	-4.9 / -25.6%
	441	6.5	85	10.4	150	8.3	124	7.5	116	+1. / +15.3%	-2.9 / -27.8%
Hartford											
	5009	31.6	114	40.	181	31.5	141	30.3	135	-1.3 / - 4.1%	-9.7 / -24.2%
	5010	14.7	157	18.7	249	14.7	194	14.	186	- .7 / - 4.7%	-4.7 / -25.1%
New London											
	6905	18.1	181	14.6	148	14.1	149	16.4	184	-1.7 / - 9.3%	+1.8 / +12.3%
	6907	6.5	48	5.8	39	5.5	39	6.6	49	+ .1 / - 1.5%	+ .8 / +13.7%
Bridgeport											
	717	11.	53	18.	94	11.2	58	11.7	63	+ .7 / + .07%	-6.3 / -35 %
	739	10.9	135	17.1	227	11.3	149	11.7	160	+ .8 / + 7.3%	-5.4 / -31.5%
New Britain											
	4151	13.3	89	20.8	138	18.2	119	15.5	100	+2.2 / +16.5%	-5.3 / -25.4%
	4159	8.6	123	14.2	190	12.2	165	10.2	139	+1.6 / +18.6%	-4. / -28.1%
			2038		2531		2025		1779		

CG/ce 10/85

Source: U.S. Census Data/1980
L. McCarthy - CT DOL.

4.3.7 Utilization of Benefits

The number of firms taking advantage of the program benefits helps determine whether the incentives actually encouraged development. Since all investment that takes place in the zone is included in the statistics, it is important to discern if firms are actually using the benefits or if other factors are enticing them to the Zones.

As of October, 1985, 14 certificates for the 80 percent property tax abatement were issued in all the zones except for Hartford's. Three certificates are currently pending. Since there is an 18- 21 month lag built into state corporation reporting laws and tax rolls are calculated once a year, these numbers underestimate actual involvement. Because of the lag in reporting, the State reports that the figures represent participation for the first year and a half. In this case, 32 percent of the industrial projects took advantage of the tax incentives.

There were 67 projects in the industrial category, but only 7 applications were filed for job incentive grants. To date, five have been issued: three in Bridgeport, one in New Britain, and one in Norwalk. It would be expected that more firms would participate in this program. Again, the small firm's ineligibility for the incentive may partially explain the limited involvement, but the complexity of the program may also be discouraging participation.

Some firms claim the incentive program is too complex and not worth the time and aggravation. Many businesses prefer to train their own employees according to their desires. A system where workers are trained on the job and the company is reimbursed might better meet the needs of enterprise zone businesses.

Only five companies have taken advantage of the incentive which offers a sales tax exemption on replacement parts: three in Bridgeport, one in New Britain, and one in Norwalk. In Bridgeport, $30,870.31 was refunded, $3,087.55 was refunded to a New Britain company, and $113.95 was refunded in Norwalk.

One company in Norwalk received $30,780 for the corporate Services listing. The lag time is also a problem here.

The importance of start-up funds and working capital is substantiated by the participation in the loan program. As of October, 1985, 34 applications have been received, representing $2,456,680. Seven loans have been closed and five are approved and waiting closing. A total of $710,380 has been expended or committed. A remainder of $789,620 is available for other loans from a $1,500,000 revoving loan fund. Borrowed money will eventually be returned to the loan fund.

Venture capital is really a misnomer for this loan fund. The loans are not available for high risk start-up businesses. However, in order to stimulate job generation true venture capital is needed. A separate "high risk" fund for local entrepreneurs could be established. An alternative may be to find high risk financers, and match them with local zone businessmen.

Only three communities have reported information on the local seven-year graduated tax benefit. From this data, 25 buildings will receive a projected $8,585,960 in real property tax abatements over the seven year period (assuming that the tax rate does not change).

Numbers aside, enterprise zones have generated intangible benefits that cannot be measured in dollars. They have generated neighborhood pride and have contributed to a local "sense of community." Enterprise zones, unlike urban renewal has kept the neighborhood intact and by facilitating community participation, zone managers have allowed residents to become active in determining the future of their neighborhood.

4.4 Costs

The cost of the program as of December 1985 is estimated at $208,000 in incentives (Urban Jobs, Tax Abatements, Corporation Tax Credits, Job Incentive Grants, Sales tax Rebates and Job Training). A lag in recording makes this a low estimate. The amount of taxes foregone as a result of the Urban Jobs Tax Abatement is $770,000 over the life of the 14 certificates. A total of $443,000 in Enterprise Zone Loans have been closed. The total state investment is estimated at $135 million.

4.5 Enterprise Zone Projects

Enterprise zones have been the impetus for a number of exciting local development projects. The examples of enterprise zone development illustrate the importance of the public/private partnership in the urban revitalization process.

New Haven's Enterprise Zone owes its success to Science Park, the first major State small business incubator. Science Park was a joint venture between the City of New Haven, Yale University, and Olin Corporation. Science Park has two small business incubators providing services to over 85 entrepreneurs.

The park has also attracted an IBM computer education facility to train unemployed enterprise zone residents in word processing; 95 percent of the trainees have been minorities. The placement rate for the first 100 graduates of the program has been greater than 95 percent. More importantly, the women now have salaries that are more than twice the amount they received on welfare.

The revitalization of Newbrite Plaza in New Britain is partially credited to enterprise zone incentives. The plaza had suffered from the exodus of the two anchor stores resulting in the closings of the smaller stores.

A Finast "Super Center" was enticed to the plaza, and received a seven-year tax abatement. The store employs 300 persons, with at least half residing in the New Britain area. After the Finast investment, small stores starting filling the vacant spaces in the plaza.

The plaza investment has had repercussions on downtown development. A downtown special assessment district has been set up whereby local downtown businessmen have voluntarily increased their taxes to be put into a fund for downtown physical and security improvements.

Kathy Rorick, the plaza's leasing agent, states: "the enterprise zone has definitely been beneficial to our lease negotiations but the designation is only one factor among many attracting new tenants and stimulating improvements to existing business."

Karen Pierson, a consultant with the New Britain Non-profit Development Corporation, feels that "many important indirect effects of the enterprise zone can not be documented. From a community point of view, there's a feeling of renewed hope in the economic vitality of the downtown area. The physical rehabilitation of the plaza has had a psychological effect on both residents and visitors because it's so visible."

In New Britain an old factory was converted into an office park called "Enterprise Grove." The project was financed by four banks, and owner equity of $1.5 million. The city committed $600,000 in landscape improvements funded by a local bond issue, CDBG funds, and a Connecticut Urban Development Action Grant.

Hartford's enterprise zone has suffered from report conducted by the Citizens' Research Education Network. The report found that incentives were not relevant to decisions to expand, and that businesses were unaware of the program. The report concluded that if enterprise zones were to work, the city and the private sector "must drastically increase their commitment of resources and energy to the area." Since the study, a full-time enterprise zone manager has been appointed. Since then two manufacturing firms have entered Hartford's zone. The zone supports many minority owned businesses. One interesting shop is the Sombra Bookstore which specializes in black reading material.

Bridgeport's zone has attracted local minority businessmen. Of the first 46 start-up companies, 18 were minority owned. One zone project that has received attention is the establishment of Le Font Electronics in the old Singer sewing manufacturing building. Venoal Fountain, the owner of the company states, "the enterprise zone is one of the things that got us to move into this site." Fountain used the grants for creating jobs and training assistance from the state. After success with his first venture, Fountain opened a second plant, also in the enterprise zone. Many of the workers at Le Font Electronics are from the enterprise zone and walk to work. In Norwalk the majority of investment has been generated in the Washington Street National Historic District. Here, a shopping, office and entertainment complex was established.

4.6 Recommendations for Legislative Change

Because enterprise zone legislation has been in operation for over three years, the Department of Economic Development has had the opportunity to review the program and to assess the strengths and weaknesses of the legislation. As a result of the study on enterprise zones, legislative changes were recommended to further augment the objectives of the program. The recommendations are as follows:

- To amend the legislation to allow nine zones. There would not be a limitation of the population, and the new zones would be established in municipalities that do not have an enterprise zone. The criteria for designation would be the same as that applied to the original zones.

- To allow for the expansion of two zones by no more than two additional census tracts. The tracts will have to comply with the established eligibility criteria. The process will be competitive and based upon development potential, local effort and job creation potential.

- To coordinate enterprise zones with other agency programs. The list includes, but is not limited to:

  - housing and neighborhood assistance;

  - utilization of Department of Income Maintenance Grant Diversion Program to provide zone residents with pre-employment, work readiness training, continuity of medical and work-related benefits and supervised, subsidized employment in the private sector; and

  - coordination of Job Training Partnership Act (JTPA) resources with Enterprise Zone Activities.

- To alter the incentives of the program to allow for greater participation of small firms by:

  - amending the legislation on the Tax Abatement and the Corporation Tax Credit Program by adjusting the one-year idleness requirement for existing facilities that are acquired through purchase or lease. The proposed requirements are as follows:

a. for companies with total employment of one to five employees, no idleness requirement;

b. for companies with total employment of six to nineteen employees, six month prior idleness; and

c. for companies with 20 or more employees, one year prior idleness.

- Changing the requirement that leased manufacturing facilities be acquired through a lease that is a minimum of five-years of duration and renewable for an additional five years to allow for a manufacturing company with ten or fewer employees to have a three-year lease renewable for three more years.

o To offer Urban Jobs benefits to selected service firms that show a strong performance in exportable services or products, and hire 25 or more employees, with state payback to the municipality being 40 percent of the total tax levy.

o To increase the Job Incentive Grants for manufacturers from $1,000 to $1,500 and reduce employment level to three.

The proposed recommendations are good ones. I further recommend the following measures:

o Incorporate a mechanism for community participation in enterprise zone decision making. This should be written into the state legislation. Although participation may be encouraged on the local level, there is no provision that requires it, local managers may or may not actively seek community input.

o Redesign the job voucher program to allow for on-the-job training reimbursements. Many business owners prefer to perform their own training. This would allow them to train employees while getting support from the state.

o Provide funds for housing programs including:

- rental assistance subsidies to help low-income residents afford rental housing.

- mortage assistance programs to help local residents purchase housing.

- a loan fund for housing rehabilitation should be initiated.

- o Reduce the amount of red tape generated from the loan program. The loan process should be less complicated and administered more hastily.

- o Target technical assistance programs to enterprise zones. Programs on the subject of starting a new business, management and marketing techniques could help unleash the entrepreneurial spirit. This function could also be established in a joint effort with local universities.

- o Perform a statewide study on the impact of of enterprise zones on business decisions and types of jobs created. Assessing what incentives incentives are attractive and why will help the state better meet business needs.

The success of Connecticut's Enterprise Zone Program can be attributed to the fact that it was never viewed as a replacement for other urban programs. Instead, enterprise zones were one component of a network of programs designed to encourage economic development.

In Connecticut it appears that investment is flowing to depressed urban areas. Although all investment is not attributable to enterprise zones, they seem to be one of the contributing factors to location decisions. It does not appear that many firms are relocating to enterprise zones, the majority of firms are expanded businesses or start-ups.

Enterprise zones were an experiment, and although the long-term results of the program are not available, they do seem to be a catalyst for development. But the state program alone is not enough to make enterprise zones work. Enterprise zones need input from local government, businesses, and communities if they are to spur development. They also need competent local management and leadership.

CHAPTER 5

Conclusions

Enterprise zones as the "centerpiece" of the nation's urban policy, represents the Administration's disregard for urban problems. Since enterprise zones would only address the problems of limited geographic areas, they would not constitute a comprehensive urban policy. An overall economic growth policy would be more effective in addressing urban problems than simply providing operating subsidies to businesses. In order for urban revitalization efforts to be successful, there needs to be coordination from the federal level down to the local level. Local and state governments alone do not have the resources needed to accomplish revitalization.

Many states have experimented with enterprise zones by incorporating them into their economic development strategies. State enterprise zone programs that provide for community participation, small business venture capital, and employment opportunities for local, disadvantaged persons are most responsive to community development needs. Although enterprise zones are an attractive development tool, states should limit the number of zones to the most impoverished areas--where other policy solutions have failed.

The importance of the small businesses in the job generation process has been well documented. Since new start-ups require funding, state venture capital monies are essential to help entrepreneurs turn their ideas into products. Furthermore, state and local regulations that thwart small business formation need to be removed.

Job training on the state level is critical. Many of the urban unemployed have manual skills that have become obsolete. Training programs can help these people better cope with industrial changes from a maunufacturing economy to a service economy.

Besides job training, incentives should be geared towards hiring disadvantaged individuals. Excluding businesses from incentives unless they employ CETA or JTPA eligible , unemployed, or welfare dependent persons will help ensure that urban residents benefit from enterprise zone investment.

In addition to well designed legislation, an effective enterprise zone program has input from all interests--states and local government, businesses, and community residents. Again, community participation is key to making enterprise zones work.

The success of enterprise zones is in part related to the skills of local leaders. Enterprise zones that are competently managed and administered are most likely to be successful. Local governments can augment state programs by:

- o targeting public funds for service and infrastructure improvements;
- o streamlining local regulations, to allow for flexible zoning, and updating building codes;
- o improving the quality of life by reducing crime, improving schools, and providing cultural attractions;

- providing support systems for community residents, including: daycare, job training, education, and technical assistance;
- forming cooperative partnerships with the business sector and local community organizations;
- facilitating community participation;
- instituting complimentary local programs such as crime watches, homesteading, and shopsteading;
- targeting local housing programs to enterprise zones;
- coordinating efforts with the Chamber of Commerce and local development corporations;
- actively marketing enterprise zones.

This study concludes that while many states have reported successes with enterprise zones, they should be used with caution. They are not an urban policy, enterprise zones are a tool; they work more effectively within the context of an overall economic development program. Enterprise zones do not diminish the need for other state, local, and federal programs.

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CHAPTER 585

ENTERPRISE ZONES

Sec. 32-70. Enterprise zones. Designation. (a)

House Bill No. 5898

PUBLIC ACT NO. 84-144

AN ACT CONCERNING THE INCLUSION OF CERTAIN ELIGIBLE AREAS WITHIN EXISTING ENTERPRISE ZONES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Subsection (a) of section 32-70 of the general statutes, as amended by section 1 of public act 83-381, is repealed and the following is substituted in lieu thereof:

(a) Any municipality may, with the approval of the commissioner of economic development, designate an area of such municipality as an enterprise zone. Any such area shall consist of one or two contiguous United States census tracts, contiguous portions of such census tracts or a portion of an individual census tract, as determined in accordance with the most recent United States census and, if such area is covered by zoning, a portion of it shall be zoned to allow commercial or industrial activity. The census tracts within which such designated area is located shall also meet at least one of the following criteria: (1) Twenty-five per cent or more of the persons within the individual census tracts shall have income below the poverty level, as determined by the most recent United States census; (2) twenty-five per cent or more of the families within the individual census tracts shall receive public assistance or welfare income, as determined by the most recent United States census; or (3) the unemployment rate of the individual census tracts shall be at least two hundred per cent of the state's average, as determined by the most recent United States census. If a census tract qualifies under the eligibility criteria for designation as an enterprise zone and if the commissioner determines that a census tract which is contiguous to such tract has significant job creation potential, the commissioner may include such contiguous census tract, or a portion thereof, in the enterprise zone in lieu of a second qualified census tract if <u>such contiguous census tract meets at least one of</u>

the following reduced criteria: (1) Fifteen per cent or more of the persons within the census tract shall have income below the poverty level, as determined by the most recent United States census; (2) fifteen per cent or more of the families within the census tract shall receive public assistance or welfare income, as determined by the most recent United States census; or (3) the unemployment rate of the census tract shall be at least one hundred fifty per cent of the state's average, as determined by the most recent United States census. If a census tract boundary line is the center line of a street, the commissioner may include within the enterprise zone that portion of the property fronting on such street which is outside of but adjacent to the census tract. The depth of such property so included in the enterprise zone shall be determined by the commissioner at the time of the designation of the zone. If a census tract boundary line is located along a railroad right-of-way, railroad property or natural stream of water, the commissioner may include within the enterprise zone any private properties under common ownership which are traversed by the railroad right-of-way, railroad property or natural stream of water. Any private properties so affected shall be included in the enterprise zone at the time of the designation of the zone except, in the case of an enterprise zone designated prior to [the effective date of this act] OCTOBER 1, 1983, the commissioner may include within the zone any such property if the municipality in which the zone is located requests the commissioner to include such property not later than sixty days after [the effective date of this act] OCTOBER 1, 1983. If more than fifty per cent of the project area of a development project under chapter 132 is located in an area eligible for designation as an enterprise zone and the project plan for such development project is approved by the commissioner of economic development in accordance with section 8-191, the commissioner may include the entire project area of such development project area in an enterprise zone. If more than fifty per cent of an approved redevelopment area under chapter 130 is located in an area eligible for designation as an enterprise zone, the commissioner may include the entire redevelopment area in an enterprise zone. THE COMMISSIONER MAY, AT ANY TIME AFTER THE DESIGNATION OF AN AREA AS AN ENTERPRISE ZONE, INCLUDE IN SUCH ZONE ANY AREA CONTIGUOUS TO SUCH ZONE WHICH, AT THE TIME OF THE DESIGNATION OF SUCH ZONE, WAS ELIGIBLE TO BE INCLUDED IN SUCH ZONE BUT WAS NOT SO INCLUDED. If the commissioner determines that the necessary data is not available from the most recent United States census, he may use such data as he deems appropriate.

Sec. 2. This act shall take effect from its passage.

Sec. 2 Subsection (a) of section 12-217e of the general statutes is repealed and the following is substituted in lieu thereof

(a) There shall be allowed as a credit against the tax imposed by this chapter an amount equal to twenty-five per cent of that portion of such tax which is allocable to any manufacturing facility, provided, for any such facility which IS located in an enterprise zone designated pursuant to section 32-70 [after July 1, 1982,] AND WHICH BECAME ELIGIBLE AS A MANUFACTURING FACILITY AFTER THE DESIGNATION OF SUCH ZONE and for which NOT LESS THAN thirty per cent of the FULL-TIME EMPLOYMENT POSITIONS DIRECTLY ATTRIBUTABLE TO THE MANUFACTURING FACILITY WERE, DURING THE LAST QUARTER OF THE INCOME YEAR OF THE TAXPAYER, HELD BY employees of [such facility during the last quarter of the fiscal year of the corporation are] THE TAXPAYER WHO AT THE TIME OF EMPLOYMENT WERE *(1)* residents of such zone, or [are] *(2)* residents of such municipality and eligible for training under the Federal Comprehensive Employment Training Act OR ANY OTHER TRAINING PROGRAM THAT MAY REPLACE THE COMPREHENSIVE EMPLOYMENT TRAINING ACT, a credit of fifty per cent shall be allowed. A POSITION IS DIRECTLY ATTRIBUTABLE TO THE MANUFACTURING FACILITY IF (A) THE WORK IS PERFORMED OR THE BASE OF OPERATIONS IS AT THE FACILITY, (B) THE POSITION DID NOT EXIST PRIOR TO THE CONSTRUCTION, RENOVATION, EXPANSION OR ACQUISITION OF THE FACILITY; AND (C) BUT FOR THE CONSTRUCTION, RENOVATION, EXPANSION OR ACQUISITION OF THE FACILITY, THE POSITION WOULD NOT HAVE EXISTED

Sec. 3. Subsection (a) of section 32-91 of the general statutes is repealed and the following is substituted in lieu thereof:

(a) An eligible business facility shall be granted an amount determined by multiplying five hundred dollars or, in the case of any facility located in an enterprise zone DESIGNATED PURSUANT TO SECTION 32-70, for which NOT LESS THAN thirty per cent of the [employees of such facility during the last quarter of the fiscal year of the corporation] FULL-TIME EMPLOYMENT POSITIONS CREATED BY THE FACILITY are HELD BY *(1)* residents of such zone, or [are] *(2)* residents of such municipality [and] WHO, AT THE TIME OF EMPLOYMENT, WERE eligible for training under the Federal Comprehensive EMPLOYMENT Training Act OR ANY OTHER TRAINING PROGRAM THAT REPLACES THE COMPREHENSIVE EMPLOYMENT TRAINING ACT, one thousand dollars, by the increase in the number of full-time employment positions, the costs of which are paid by the eligible business, directly resulting from the construction, renovation or expansion of the business facility, as determined by the department taking into account the employment requirements of business expansion, historical levels of employment and employment positions prior to the expansion, and such other factors as the department may deem appropriate.

Sec. 32-70. **CHAPTER 585**

(b) The commissioner of economic development shall approve the designation of six areas as enterprise zones, not more than three of which shall be in municipalities with a population greater than eighty thousand and not more than three of which shall be in municipalities with a population of less than eighty thousand, and shall adopt regulations in accordance with chapter 54 concerning

such additional qualifications for an area to become an enterprise zone as he deems necessary. The commissioner may remove the designation of any area he has approved as an enterprise zone if such area no longer meets the criteria for designation as such an area set forth in this section or in regulations adopted pursuant to this section, provided no such designation shall be removed less than ten years from the original date of approval of such zone. The commissioner may designate any additional area as an enterprise zone if that area is designated as an enterprise zone pursuant to any federal legislation.

(P.A. 81-445, S. 1, 11; P.A. 82-435, S. 1, 8.)

History: P.A. 81-445 effective July 1, 1982; P.A. 82-435 amended Subsec. (a) to clarify certain criteria for designation and to provide for the extension of the zone beyond the qualifying census tracts in certain specific areas and amended Subsec. (b) to provide for the designation of any zone designated as a federal zone as a state zone.

Sec. 32-71. Fixing of assessments in enterprise zones. (a) Any municipality which has designated any area as an enterprise zone pursuant to section 32-70 shall provide, by ordinance, for the fixing of assessments on all real property in such zone which is improved during the period when such area is designated as an enterprise zone. Such fixed assessment shall be for a period of seven years from the time of such improvement and shall defer any increase in assessment attributable to such improvements according to the following schedule:

Year	Percentage of Increase Deferred
First	100
Second	100
Third	50
Fourth	40
Fifth	30
Sixth	20
Seventh	10

(b) Any fixed assessment on any residential property shall cease if: (1) For any residential rental property, any dwelling unit in such property is rented to any person whose income exceeds two hundred per cent of the median family income of the municipality; or (2) for any conversion condominium declared after the designation of the enterprise zone, any unit is sold to any person whose income exceeds two hundred per cent of the median family income of the municipality.

(c) In the event of a general revaluation by any such municipality in the year in which such improvement is completed, resulting in any increase in the assessment on such property, only that portion of the increase resulting from such improvement shall be deferred. In the event of a general revaluation in any year after the year in which such improvement is completed, such deferred assessment shall be increased or decreased in proportion to the increase or decrease in the total assessment on such property as a result of such revaluation.

(d) No improvements of any real property which qualifies as a manufacturing facility under subsection (d) of section 32-9p shall be eligible for any fixed assessment pursuant to this section.

(e) Any such municipality may provide any additional tax abatements or deferrals as it deems necessary for any real property located in any such enterprise zone.

(P.A. 81-445, S. 3, 11; P.A. 82-435, S. 2, 8.)

History: P.A. 81-445 effective July 1, 1982; P.A. 82-435 provided scale of fixed assessments, inserted Subsecs. (c) and (d) concerning computation of and eligibility for such fixed assessments and inserted Subsec. (e) allowing for additional tax abatements or deferrals by municipalities.

Sec. 32-72. Small business and venture capital loans in enterprise zones. The commissioner of economic development shall establish and administer a program of small business loans or venture capital loans to persons seeking to establish, expand, renovate or rehabilitate small businesses within an enterprise zone established pursuant to section 32-70. The commissioner shall adopt regulations in accordance with chapter 54 concerning the qualifications for and terms of such loans.

(P.A. 81-445, S. 7, 11; P.A. 82-435, S. 5, 8.)

History: P.A. 81-445 effective July 1, 1982; P.A. 82-435 added small business loans to the program.

Sec. 32-73. Enterprise Zone Capital Formation Revolving Loan Fund. There is created an "Enterprise Zone Capital Formation Revolving Loan Fund," to be held in trust by the state treasurer. The proceeds of any bonds issued pursuant to section 32-74 and the payments on any loans made by the commissioner of economic development pursuant to section 32-72 shall be deposited in such fund. The commissioner may draw on said fund for the purpose of making loans pursuant to section 32-72, and may charge any expenses necessary for the maintenance of the program established by section 32-72 to said fund.

(P.A. 81-445, S. 8, 11.)

History: P.A. 81-445 effective July 1, 1982.

Sec. 32-74. Bond issues. (a) For the purposes described in section 32-72, the state bond commission shall have the power, from time to time, to authorize the issuance of bonds of the state in one or more series and in principal amounts not exceeding in the aggregate one million dollars.

(b) All provisions of section 3-20, or the exercise of any right or power granted thereby, which are not inconsistent with the provisions of this chapter, subsection (a) of section 12-217e, subsection (qq) of section 12-412, section 31-3f and subsection (a) of section 32-91 are hereby adopted and shall apply to all bonds authorized by the state bond commission pursuant to this chapter and said sections and subsections, and temporary notes in anticipation of the money to be derived from the sale of any such bonds so authorized may be issued in accordance with said section 3-20 and from time to time renewed. Such bonds shall mature at such time or times not exceeding twenty years from their respective dates as may be provided in or pursuant to the resolution or resolutions of the state bond commission authorizing such bonds. None of said bonds shall be authorized except upon a finding by the state bond commission that there has been filed with it a request for such authorization, which is signed by or on behalf of the commissioner of economic development and states such terms and conditions as said commission, in its discretion, may require. Said bonds issued pursuant to this chapter and said sections and subsections shall be general obligations of the state and the full faith and credit of the state of Connecticut are [illegible] as the same become due, and accordingly and as part of the contract of the state with the holders of said bonds, appropriation of all amounts necessary for punctual payment of such principal and interest is hereby made, and the treasurer shall pay such principal and interest as the same become due.

(P.A. 81-445, S. 9, 11.)

History: P.A. 81-445 effective July 1, 1982.

Sec. 32-75. Certain business facilities not eligible. No business facility shall be eligible to receive the benefits provided for a facility located in an enterprise zone if: (a) Such facility has relocated from an area that meets the eligibility criteria stated in section 32-70 for designation as an enterprise zone; or (b) such facility was originally located in a distressed municipality, as defined in section 32-9p, and relocated into a designated enterprise zone; provided that in cases where the commissioner of economic development finds that the relocation of the business facility will represent a net expansion of business operations and employment, the business facility shall be eligible. For the purposes of this section, relocation is defined as the transferring of personnel or employment positions from one or more existing locations to another location.

(P.A. 82-435, S. 6, 8.)

See this chapter, Subsec. (a) of section 12-217e, Subsec. (qq) of section 12-412 and Subsec. (a) of section 32-9l.

PUBLIC ACT NO. 83-33

AN ACT INCREASING THE BOND AUTHORIZATIONS FOR CERTAIN CAPITAL IMPROVEMENTS.

Section 1. Section 32-74 of the general statutes is repealed and the following is substituted in lieu thereof:

(a) For the purposes described in section 32-72, the state bond commission shall have the power, from time to time, to authorize the issuance of bonds of the state in one or more series and in principal amounts not exceeding in the aggregate one million FIVE HUNDRED THOUSAND dollars.

Substitute House Bill No. 6466

PUBLIC ACT NO. 83-558

AN ACT CONCERNING PROPERTY TAX DEFERRALS IN ENTERPRISE ZONES.

Section 1. Subsection (e) of section 32-71 of the general statutes is repealed and the following is substituted in lieu thereof:

(e) Any such municipality may provide any additional tax abatements or deferrals as it deems necessary for any [real] property located in any such enterprise zone.

Sec. 2. This act shall take effect July 1, 1983.

JUNE SESSION, 1983
House Bill No. 8001

PUBLIC ACT NO. 83-1

AN ACT CONCERNING STATE REVENUE FOR THE FISCAL YEAR COMMENCING JULY 1, 1983

Sec. 6. Section 12-494 of the general statutes is repealed and the following is substituted in lieu thereof:

There is imposed a tax on each deed, instrument or writing whereby any lands, tenements or other realty is granted, assigned, transferred or otherwise conveyed to, or vested in, the purchaser, or any other person by his direction, [when the consideration for the interest or property conveyed exceeds one hundred dollars and does not exceed five hundred dollars, in the amount of fifty-five cents; and at the rate of fifty-five cents for each additional five hundred dollars or fractional part thereof] *(1)* AT THE RATE OF ONE-HALF OF ONE PER CENT OF THE FULL PURCHASE PRICE FOR THE INTEREST IN REAL PROPERTY CONVEYED BY SUCH DEED, INSTRUMENT OR WRITING, EXCLUSIVE OF ANY SUCH INTEREST IN PROPERTY LOCATED IN AN AREA OF ANY MUNICIPALITY DESIGNATED AS AN ENTERPRISE ZONE IN ACCORDANCE WITH SECTION 32-70, THE REVENUE FROM WHICH SHALL BE REMITTED BY THE TOWN CLERK OF THE MUNICIPALITY IN WHICH SUCH TAX IS PAID, NOT LATER THAN TEN DAYS FOLLOWING RECEIPT THEREOF, TO THE COMMISSIONER OF REVENUE SERVICES FOR DEPOSIT TO THE CREDIT OF THE STATE GENERAL FUND AND *(2)* AT THE RATE OF ONE DOLLAR AND TEN CENTS FOR EACH ONE THOUSAND DOLLARS OF THE FULL PURCHASE PRICE, OR FRACTIONAL PART THEREOF, FOR ANY INTEREST IN REAL PROPERTY CONVEYED BY SUCH DEED, INSTRUMENT OR WRITING, WHICH AMOUNT SHALL BECOME PART OF THE GENERAL REVENUE OF THE MUNICIPALITY IN ACCORDANCE WITH SECTION 12-499, AS AMENDED BY SECTION 7 OF THIS ACT.

Substitute Senate Bill No. 947

PUBLIC ACT NO. 83-246

AN ACT CONCERNING THE DEFINITION OF ELIGIBLE FACILITIES UNDER THE URBAN JOBS PROGRAM.

Subsection (d) of section 32-9p of the general statutes is repealed and the following is substituted in lieu thereof:

(d) "Manufacturing facility" means any plant, building, other real property improvement, or part thereof, (1) which (A) is constructed or substantially renovated or expanded on or after July 1, 1978, in a distressed municipality, or (B) is acquired on or after July 1, 1978, in a distressed municipality by a business organization which is unrelated to and unaffiliated with the seller, after having been idle for at least one year prior to its acquisition and regardless of its previous use; (2) which is to be used for the manufacturing, processing or assembling of raw materials, parts or manufactured products, FOR RESEARCH AND DEVELOPMENT FACILITIES DIRECTLY RELATED TO MANUFACTURING, for the significant servicing, overhauling or rebuilding of machinery and equipment for industrial use, or, except as provided in this subsection, for the warehousing and distribution in bulk of manufactured products on other than a retail basis, and (3) for which the department has issued an eligibility certificate. In the case of facilities which are acquired, the department may waive the requirement of one year of idleness if it determines that, absent qualification as a manufacturing facility under subsections (59) and (60) of section 12-81 and sections 12-217e, 32-9p to 32-9s, inclusive, 32-23n and 32-23p, there is a high likelihood that the facility will remain idle for one year. Of those facilities which are for the [illegible] only those which are newly constructed or which represent an expansion of an existing facility qualify as manufacturing facilities. In the event that only a portion of a plant is acquired, constructed, renovated or expanded, only the portion acquired, constructed, renovated or expanded constitutes the manufacturing facility. A manufacturing facility which is leased may for the purposes of subsections (59) and (60) of section 12-81 and sections 12-217e, 32-9p to 32-9s, inclusive, 32-23n and 32-23p, be treated in the same manner as a facility which is acquired if the terms of the lease demonstrate a substantial, long-term commitment by the occupant to use the manufacturing facility for manufacturing purposes and serve to further the purposes of subsections (59) and (60) of section 12-81 and sections 12-217e, 32-9p to 32-9s, inclusive, 32-23n and 32-23p. Except as provided in subparagraph (B) above, a manufacturing facility does not include any plant, building, other real property improvement, or part thereof used or usable for such purposes which existed before July 1, 1978, or any facility which is to be used for business and will employ personnel or have employment positions which are transferred from one or more existing locations elsewhere in the distressed municipality and which does not represent a net expansion of business operations and employment in such municipality.

TITLE 32

CHAPTER 578*

DEPARTMENT OF ECONOMIC DEVELOPMENT

Sec. 32-9l.* Determination of grant amounts. Regulations. (a) An eligible business facility shall be granted an amount determined by multiplying five hundred dollars or, in the case of any facility located in an enterprise zone, for which thirty per cent of the employees of such facility during the last quarter of the fiscal year of the corporation are residents of such zone, or are residents of such municipality and eligible for training under the Federal Comprehensive Training Act, one thousand dollars, by the increase in the number of full-time employment positions, the costs of which are paid by the eligible business, directly resulting from the construction, renovation or expansion of the business facility, as determined by the department taking into account the employment requirements of business expansion, historical levels of employment and employment positions prior to the expansion, and such other factors as the department may deem appropriate.

(b) Each business expansion of an applicant shall be treated separately by the department, and the department may establish a maximum number of employment positions for which benefits will be awarded under this section and sections 32-9j, 32-9m and 32-9p in order to make most effective use of the resources available for the job incentive grant program. The commissioner shall adopt regulations, in accordance with chapter 54, for the job incentive grant program and for grant eligibility thereunder.

(P.A. 77-560, S. 4, 7; P.A. 79-508, S. 2, 5; P.A. 81-445, S. 6, 11; P.A. 82-435, S. 4, 8.)

History: P.A. 79-508 essentially replaced previous provisions, establishing new method for calculation of grant amount and substituting new provisions in Subsec. (b) for provision which had limited total number of jobs "for which all grants may be made under this section in any calendar year" to one thousand; P.A. 81-445 added double grant amount for facilities in enterprise zones in Subsec. (a), effective July 1, 1982; P.A. 82-435 inserted a thirty per cent resident employee or municipal CETA eligible employee requirement for businesses in enterprise zones to be eligible for the increased grant.

*See chapter 585 (Sec. 32-70 et seq.) re enterprise zones.

CHAPTER 208*

CORPORATION BUSINESS TAX

PART I

IMPOSITION AND PAYMENT OF TAX

Sec. 12-217e. Tax credit for certain manufacturing facilities as provided under sections 32-9p and 32-9r. Additional credits for facilities located in enterprise zones. (a) There shall be allowed as a credit against the tax imposed by this chapter an amount equal to twenty-five per cent of that portion of such tax which is allocable to any manufacturing facility, provided, for any such facility which located in an enterprise zone designated pursuant to section 32-70 after July 1, 1982, and for which thirty per cent of the employees of such facility during the last quarter of the fiscal year of the corporation are residents of such zone, or are residents of such municipality and eligible for training under the Federal Comprehensive Employment Training Act, a credit of fifty per cent shall be allowed.

(b) The portion of such tax which is allocable to such a manufacturing facility shall be determined by multiplying such tax by a fraction computed as the simple arithmetical mean of the following fractions: First, a fraction the numerator of which is the average monthly net book value in the income year of the manufacturing facility and machinery and equipment acquired for and installed in the manufacturing facility, without deduction on account of any encumbrance thereon, or if rented to the taxpayer, the value of the manufacturing facility and machinery and equipment acquired for and installed in the manufacturing facility, computed by multiplying the gross rents payable by the taxpayer for the manufacturing fanility and such manhinery and equipment during the income year or period by eight, and the denominator of which is the sum of the average monthly net book value of all real property and machinery and equipment held and owned by the taxpayer in the state, without deduction on account of any encumbrance thereon and the value of all real property and machinery and equipment rented to the taxpayer in the state, computed by multiplying the gross rents payable during the income year by eight; and second, a fraction the numerator of which is all wages, salaries and other compensation paid during the income year to employees of the taxpayer whose positions are directly attributable to the manufacturing facility and the denominator of which is the wages, salaries and other compensation paid during the income year to all employees of the taxpayer in the state. An employee's position is directly so attributable if (1) the employee's service is performed or his base of operations is at the manufacturing facility, (2) the position did not exist prior to the construction, renovation, expansion or acquisition of the manufacturing facility, and (3) but for the construction, renovation, expansion or acquisition of the manufacturing facility the position would not have existed. For the purposes of this subsection, "gross rents" means gross rents as defined in section 12-218.

(c) The credit allowed by this section may be claimed only by the initial occupant or occupants of the manufacturing facility. The owner of the manufacturing facility may not claim the credit unless the owner is also an [illegible] the issuance of an eligibility certificate, but may be claimed in such income year and in each of the following nine income years. If within such period, however, any facility for which an eligibility certificate has been issued ceases to qualify as a manufacturing facility or any occupant of a manufacturing facility ceases to be an occupant, the entitlement to the credit allowed by this section shall terminate in the income year in which the qualification or occupancy ceases, and there shall not be a pro rata application of the credit to such income year.

(d) Any subsequent occupant or occupants of a manufacturing facility for which an eligibility certificate has been issued may claim the credit allowed by this section in accordance with subsection (c) of this section but only after obtaining a new eligibility certificate with respect to the manufacturing facility being occupied in the manner provided in section 32-9r.

(e) Any taxpayer claiming the credit allowed by this section shall submit to the commissioner of revenue services a copy of the applicable eligibility certificate with his tax return in each income year for which a deduction is claimed.

(P.A. 78-303, S. 85, 136; 78-357, S. 7, 16; P.A. 81-445, S. 4, 11; P.A. 82-435, S. 3, 8.)

History: P.A. 78-303 allowed substitution of commissioner of revenue services for tax commissioner in accordance with provisions of P.A. 77-614; P.A. 81-445 included provisions allowing double credit for certain facilities in enterprise zones in Subsec. (a), effective July 1, 1982; P.A. 82-435 amended Subsec. (g) to provide that the thirty per cent determination for employees of facilities in enterprise zones will be made for the last quarter rather than the last day of the year and to provide that CETA eligible residents of the municipality, along with residents of the zone, will count toward the thirty per cent.

Ch. 219 SALES AND USE TAX

Sec. 12-412. Exemptions. Taxes imposed by this chapter shall not apply to the gross receipts from the sale of and the storage, use or other consumption in this state with respect to the following items:

(qq) **Replacement parts in enterprise zones.** Sales of any replacement parts for machinery to any business entity located in any enterprise zone designated pursuant to section 32-70 for use within such zone.

TITLE 31

LABOR

Sec. 31-3f. Employment training benefits voucher. The labor commissioner shall create an employment training benefits voucher. Such voucher shall state that the holder of the voucher is eligible for those training and benefit programs administered by the commissioner which are noted on the voucher and that any employer may take advantage of any such program if he employs the holder of the voucher.

(P.A. 81-445, S. 2, [illegible])

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Enterprise Zone Designation

Sec. 32-70-1. Application procedure

If a municipality contains a census tract that meets the criteria set forth in Section 1 (a) of Public Act 81-445, as amended, the Commissioner of Economic Development shall notify the municipality of its eligibility to submit an application to have the area designated as an enterprise zone. The application shall be made on forms prescribed by the Department of Economic Development and available at its office on written request. The application may require the following information in order to allow the Commissioner to evaluate the enterprise zone designation proposals:

(a) a copy of the approved ordinance with the seal of the municipality affixed, referred to in section 3 (a) of Public Act 81-445, as amended;
(b) maps and information delineating the specific boundaries of the proposed enterprise zone;
(c) an inventory of the existing land use in the proposed enterprise zone area;
(d) information detailing the local activities and programs that will encourage development within the enterprise zone area, and
(e) other factors that will contribute to the success of the development of the enterprise zone area.

The commissioner will base his decision on the information contained in the application, the local capacity to effectively administer a development program in the enterprise zone area, the innovation of the proposed program for the enterprise zone area, and the likelihood of success of the enterprise zone program.

(Effective July 27, 1982)

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Enterprise Zone Capital Formation Revolving Loan Fund

Sec. 32-72-1. Definitions

(a) Commissioner means the Commissioner of the Department of Economic Development;

(b) Department means Department of Economic Development;

(c) Small business means business with twenty-five or less employed within the zone, whose gross revenues in the most recently completed fiscal year do not exceed $1.5 million, who complete a business plan providing evidence that the necessary capital required is available after the State's injection of not more than 25% of the total capital requirements of the business from this loan fund.

(Effective July 27, 1982)

Sec. 32-72-2. Eligibility

(a) Eligible applicants shall include:

(1) New small industrial and commercial business ventures within the zone, provided such applicants shall provide a minimum of 10 percent of the capital required to commence the venture and evidence that the business will provide a minimum of two full time, permanent positions or gross receipts of at least $50,000 within one year; or

(2) Existing small industrial and commercial businesses within the zone, provided that financing shall only be provided for purposes of physical expansion and that the applicant shall provide a minimum of 10 percent of the capital required for the expansion.

(b) A borrower is eligible for only one loan from the fund at a particular point in time.

(c) The Commissioner may reject an otherwise eligible applicant if the loan made from this fund would place another business in the enterprise zone at a competitive disadvantage.

(d) No loan shall be made to a business who:

(1) is relocating from an area that meets the eligibility criteria in Section 1(a) of the act, to a designated enterprise zone; or

(2) is relocating from an area not meeting the eligibility criteria is Section 1(a) of the act but located in a distressed municipality, as defined in Section 32-9p, to a designated enterprise zone; provided that in cases where the Commissioner makes a finding that the relocation of the business will represent a net expansion of business operations and employees, the business will be eligible for a loan. For the purposes of this section, relocation is defined as the transferring of personnel or employment positions from one or more existing locations to another location.

(Effective July 27, 1982)

Sec. 32-72-3. Loan application and agreement

(a) Applications for loans shall be submitted to the Department on loan forms prescribed by the Department and available at their office upon writ- [illegible] by such form are furnished.

(b) Upon approval of an application by the Department, the applicant and Department shall enter into a loan agreement which shall set forth the terms and conditions upon which the loan shall be made, as determined by the Commissioner.

(c) Each loan agreement shall be effective only upon execution by the Commissioner and the applicant.

(d) Such agreement shall provide without limitation that the applicant agrees:

(1) That the funds provided will be used exclusively for working capital, capital equipment purchases, real estate purchase or real estate improvement or rehabilitation. Refinancing will not be permitted.

(2) To provide the Department with such financial and other reports as the Commissioner in his discretion may require from time to time;

(3) To notify the Department promptly of any material adverse change in the financial condition or business prospects of the applicant:

(4) To represent and warrant that it has the power and authority to enter into the loan agreement and to incur the obligations therein provided for, and that all documents and agreements executed and delivered in connection with the loan will be valid and binding upon the borrower in accordance with their respective terms; and

(5) To provide such security for the loan as the Commissioner may deem necessary and appropriate.

(Effective July 27, 1982)

Sec. 32-72-4. Loan amounts and terms

(a) The term for repayment of any loan shall not exceed seven years.

(b) The maximum loan amount shall be $100,000 for a manufacturing business and $50,000 for a commercial business. The maximum amount of a specific loan shall be based on a general guideline of $15,000 of financing from this loan fund for each new, permanent full time position created by the business.

(c) The applicant is responsible for all attorney's fees and any other closing costs.

(d) The applicant will be required to submit, with application, a fee of $25.00 for loans up to $25,000; a fee of $50.00 for loans from $25,001 to $50,000 and a fee of $100.00 for loans over $50,001.

(e) Disbursement of the loan shall be made at the discretion of the Commissioner in accordance with the provisions of the loan agreement.

(f) The Commissioner shall determine the method of payment of interest and principal due with respect to each loan.

(Effective July 27, 1982)

Sec. 32-72-5. Loan documentation

(a) Each loan shall be evidenced by a promissory note in the amount of the loan set forth in the loan agreement and shall contain a provision permitting the borrower to prepay the loan in whole or in part upon any interest payment date.

(b) The promissory note shall provide for the payment of interest at a rate of not more than 1% above the rate of interest borne by the bonds of the State of Connecticut last issued prior to the date of approval of the loan application.

(c) The promissory note may provide for the collection of a late charge not to exceed two percent of any installment which is not paid within ten days of the date thereof. Late charges shall be separately charged to and collected from the borrower.

(d) The failure of the borrower to abide by the terms of the loan agreement of the promissory note shall be considered a default under such promissory note.

(e) The promissory note shall contain a provision that the failure of the borrower to make a payment of any installments of principal or interest due under the promissory note within fifteen days from the due shall constitute a default.

(f) The promissory note shall provide that upon default, any and all sums owing by the borrower under the promissory note shall, at the option of the Commissioner, become immediately due and payable.

(g) The promissory note shall provide for the payment of reasonable attorney's fees and legal costs in the event the borrower shall default in payment of the note.

(h) The promissory note shall contain such other clauses and convenants as the Commissioner, in his discretion, may require.

(Effective July 27, 1982)

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