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Testimony Concerning
Raised Bill 401, An Act Concerning a Study of a Next Generations Industries Tax Credit Program

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Commerce Committee
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Dear Senator LeBeau, Representative Berger, and distinguished Members of the Commerce Committee:

I am President and co-founder of Connecticut Voices for Children, a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut's children, youth, and families. Since 1997, CT Voices' work has included a focus on the state budget, looking not only at expenditures for the benefit of children and families, but also at how state revenues are collected, and what revenues the state decides not to collect through various tax expenditures including tax credits.

We testify today to support the process proposed in Raised Bill 401, An Act Concerning a Study of a Next Generations Industries Tax Credit Program. The bill would enable a more deliberate assessment by the Commissioner of the Department of Economic and Community Development (DECD) both of what emerging industries might benefit from a tax credit, and how a tax credit might best be designed. We would respectfully suggest, however, the following amendments to this study bill:

- **That the DECD Commissioner's study be closely tied to DECD's new Economic Strategic Plan, such that any incentives proposed in the study be consistent with the Plan.** CT Voices has supported DECD's development of an Economic Strategic Plan as a tool to guide the state's economic development investments so they are most strategically, and effectively, made. This study, and any other decisions the General Assembly makes about tax credits or tax expenditures, should be guided by this Plan, or the time taken to create the Plan will have been wasted.

- **That the DECD Commissioner's study be expanded in its scope to look at *all* tax credits currently being awarded in the state to assess if they are consistent with the goals of its Economic Strategic Plan, if they are providing adequate return on the state's investment and, even if they are "paying for themselves," whether the resources could be deployed in other ways that would promote even more effectively the state's economic development.** Last month, CT Voices released an Issue Brief on Connecticut's business tax credits (attached). It examined the many business tax credits, describing the various design features (for what activities credits were awarded, how the credit amount was calculated, for how long credits could be carried-forward, if credits were capped by taxpayer, or in total, etc.).

  The report documented the substantial projected revenue loss from all business tax credits ($338.3 million in FY 09 according to the Office of Fiscal Analysis), the wide variation in the credits' design features, and the vast differences in projected FY 09 revenue loss from the different credits (more than 1/3 of total projected FY 09 revenue loss is attributed to the three "film" tax credits -- more than *five times* Connecticut's investment through tax credits in research and development and research and experimentation). This suggested to us that the economic development being promoted through the state's tax code was not being monitored nearly as closely DECD monitors its economic development through grants and loans. In fact, the fact that so many of the tax credits are uncapped means that DECD actually has very little control over the state's whole economic development "portfolio" and how it is balanced across industries and companies. The ultimate size of the state's investment in any business or industry that qualifies for "uncapped" tax credits is outside DECD's control.

Ideally, DECD should produce an *Integrated Economic Development Budget* that reports on *all* public investment in economic development regardless of form (e.g., through grants, loans, tax expenditures, and major tax code changes) by all public agencies and quasi-public agencies. In this way, at least *one* state agency has a hold on how Connecticut's economic development resources are being deployed across business, industries, programs, and services.

- **That the DECD Commissioner's study of "next generation industries" tax credits, expanded to include a study of *all* tax credits, include a set of objectives and standards by which the success of all the state's tax credits can be measured.** Seven years ago, the CT Auditors of Public Accounts' *Performance Audit* of DECD's State Financial Assistance Monitoring concluded:

There should be objectives and standards or criteria relating to improving the State's economy, as well as a method of measuring achievement of these objectives, for all State funding that has been set aside to improve the economic climate in the State….Criteria, objectives, goals and procedures need to be established and available; the success or failure of each financial assistance project should be measured, as well as the total success or failure of the program, in compliance with Connecticut General Statutes, Section 32-1i.

CT Auditors of Public Accounts, *Performance Audit, State Financial Assistance Monitoring, Department of Economic and Community Development* (July 3, 2001), p. 25.

This same rigor should be applied to economic development encouraged through tax credits. In defining a set of objectives and standards, the Commissioner could be guided by a set of goals set by CBIA for keeping Connecticut's economy competitive, as follows:

If Connecticut's economy is to remain competitive or expand, its economic development activities must:

1. Increase the overall productivity and incomes of its workers and residents.
2. Maintain a high level of employment and job quality for all citizens.
3. Create middle-class job opportunities for the jobless and the working poor.
4. Generate revenues needed to make further investments in education, government, services, amenities, infrastructure and an enhanced quality of life.

CBIA, *Connecticut's Economic Development Incentives: Separating Fact and Fiction* (April 2001), p. 12.

Thank you for considering this testimony.