Connecticut's Economic Competitiveness in Selected Areas

Staff Briefing

Legislative Program Review & Investigations

October 6, 2009

Study Focus

- Broad and Narrow Examination of Connecticut's Competitiveness
- Broad Focus:
  - Global competitiveness
- Narrow Focus:
  - With surrounding states

RBA Approach to Study

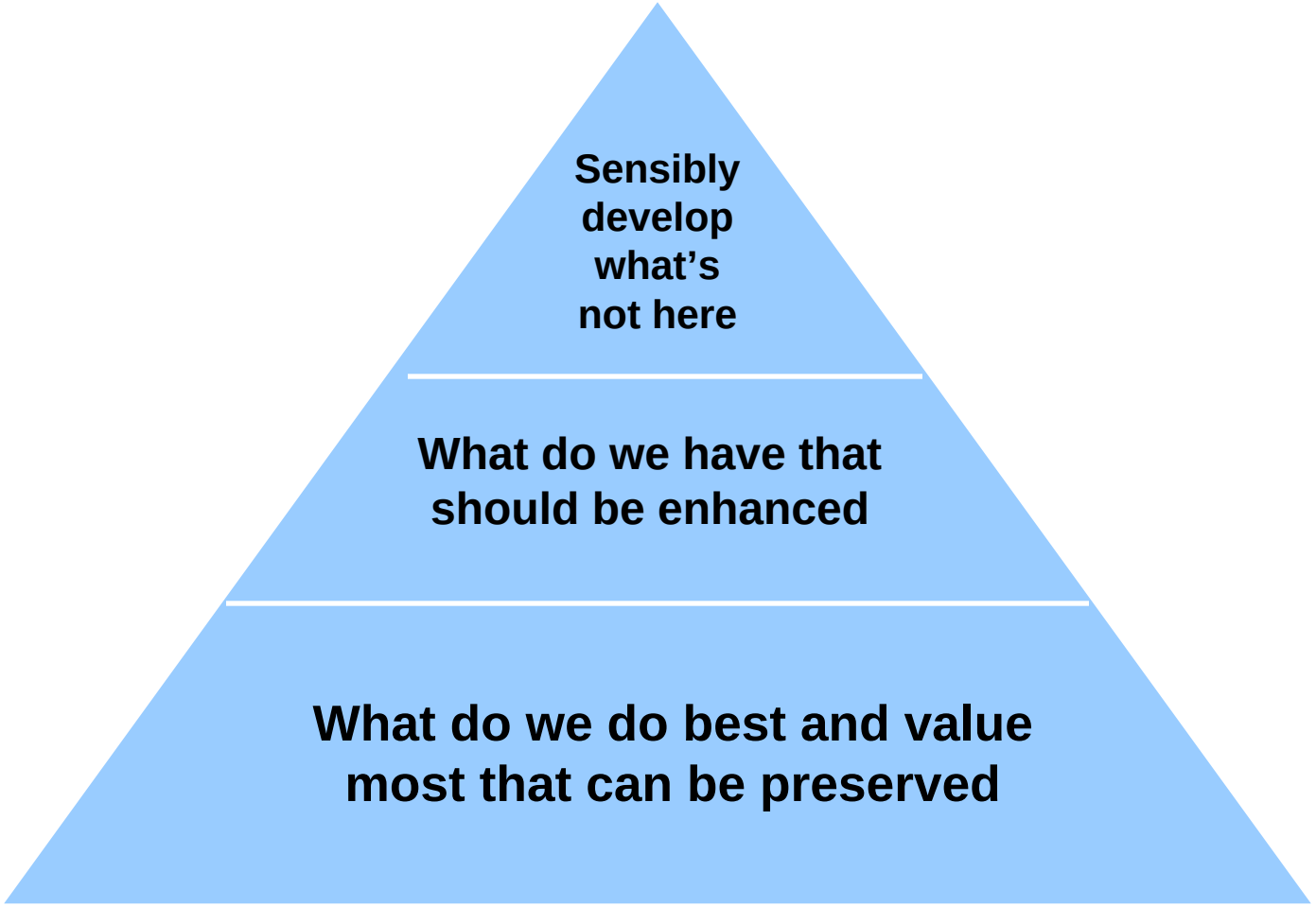
- "How Should We Do it"? – Be competitive in a global "New Economy " (Section I)
- "What Have We Done"? – Policies, Initiatives and Programs (Section II)
- "How Much Have We Done?" – Resources Allocated (Section III)
- "How Well Are We Doing?" – Assessment of capacity for "New Economy" (Section IV)
- Narrow Competitiveness with Surrounding States (Section V)

How to do Economic Development

- Old Models
  - Incentive-based, single firm strategy
  - Recruitment of out-of-state firms for growth

- New model – Innovation Economics
  - Create companies from within the state
  - Promote innovation and entrepreneurial spirit

How to do Economic Development



What Have We Done to Address Competitiveness

- Began in early 1990s -- severe economic downturn
- Early efforts were not sustained
- Cluster Strategy– implemented in late 1990s
- Recent state support appears to be waning

Cluster Status

- Status of 7 of clusters (page 18 and 19) organizational and state support

- Industry presence from 2005 to 2008 using 3 indicators:
  - employers;
  - employees; and
  - wages.

2005 Competitiveness Plan

- "Next Generation Competitiveness Strategy" called for cross-cluster initiatives:
  - Help small- and medium-sized manufacturers become more productive
  - Better marketing campaign to publicize CT and industries
  - More aggressive exporting strategy

Manufacturing Assistance

- Sizable component of economy
- More vulnerable to global competition
- National effort to retain
- CT – CONNSTEP
- Where assistance needed

Export Assistance

- Almost 5,000 state businesses export
- Export activity increased
  - from $8 billion in 2003 to $15 billion in 2008
- 7 percent of state gdp –
  - lags behind national average of 9 percent

Export Assistance

- Several initiatives to promote state exporting enacted in 1994
  - most not implemented
- Named as competitive strategy in 2005 plan
  - resources decreasing – one staff

Export Assistance

- Surveys on exporting conducted in 2007 and 2009
- Many unaware of exporting assistance
  - **U.S. Department of Commerce Export Assistance Center**
  - **Eastern Trades Council of Council of State Governments**
- Greater collaboration

Technical Assistance

- Much provided through other organizations
- Examples (pages 23 and 24)

Innovation Policy

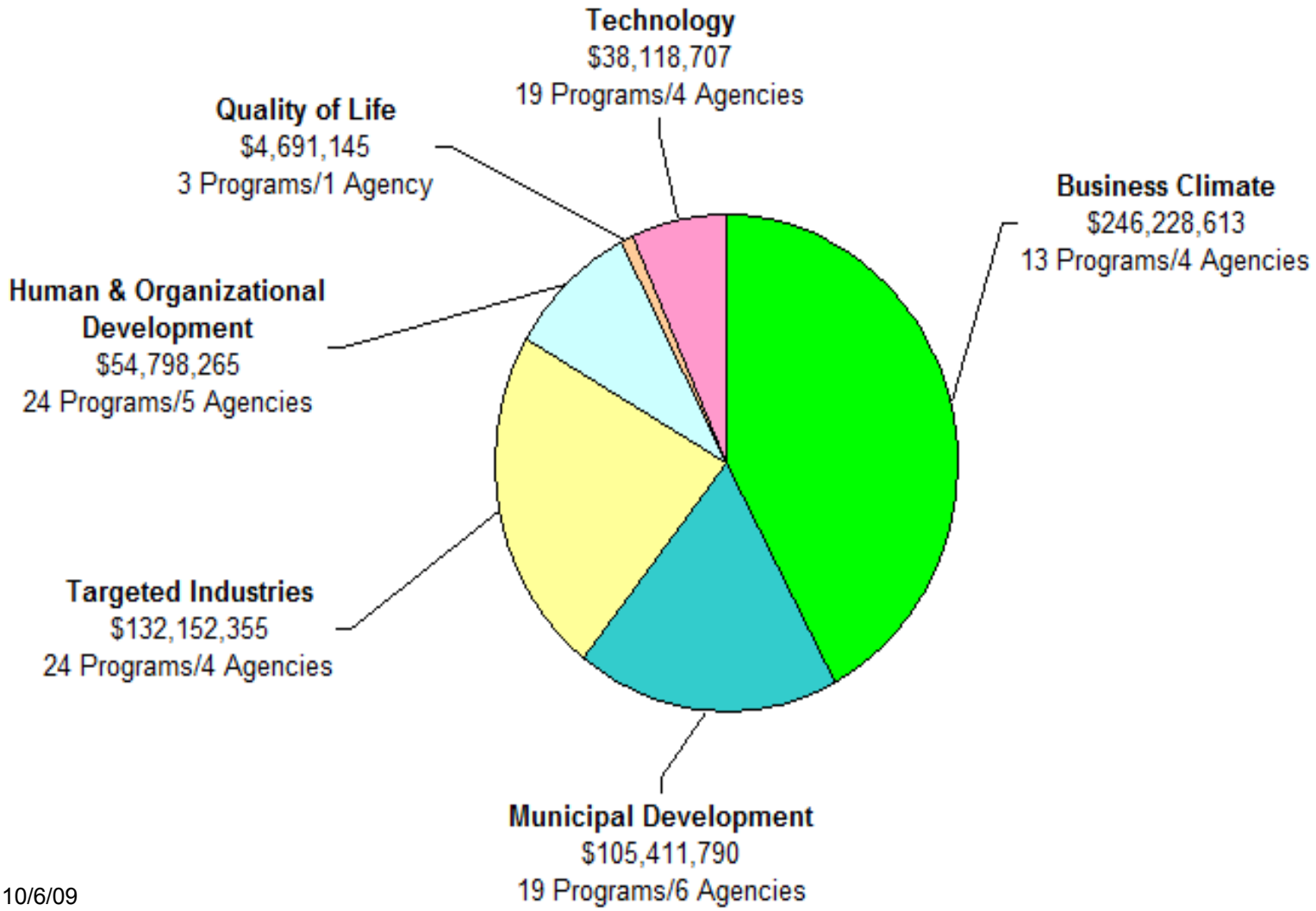
- Efforts beginning in mid-1990s -- 10 major initiatives:
  - Technology transfer from education to commercialization;
  - Education grants programs;
  - Stem cell research -- $100 million over 10 years;
  - Investments in early-stage companies; and
  - Multi-institution coordination.

Innovation Policy

- Most recent – P.A. 06-83– "Jobs for 21st Century"
  - Eminent faculty program at UConn √
  - Center for Entrepreneurship at UConn √
  - Incubator facilities √
  - Exempt manufacturing equipment from property tax √
  - Film tax credits √

Economic Development Programs: Average Annual Funding

*** $581.4 Million on 102 Programs in 24 Agencies ***



PRI 10/6/09

Organization and Resources

- 3 primary economic development agencies –
  - Department of Economic and Community Development
  - Connecticut Development Authority
  - Connecticut Innovations Incorporated
- Direct Assistance supports old model
  - Primarily loans to individual companies
- Tax credits and exemptions

DECD

- State depends greatly on other partner organizations
- State $ GF resources from FY 04 - FY08 about $7.6 million a year
  - About 7 percent of department's General Fund budget
  - Programs not consistently funded – only 1 program funded all five years

DECD

- Bond Funds
  - primarily through Manufacturers Assistance Act (MAA)
  - since 1992 $167 million or about $10 million a year
  - another $65 million of MAA funding for community development

Measure of Performance

DECD Business Assistance Portfolio: Job Audit Results as of FY 08						
	# of Companies	Jobs: Contract Obligation			Actual jobs	% of Contract
		Retained	Created	Total		
Met Job Goal	32	6,622	3,026	9,648	13,441	139%
Did Not Meet	32	11,265	1,850	13,115	11,463	87%
Total	64	17,887	5,258	22,763	24,904	109%
Source: DECD FY 08 Annual Report						

CT Development Authority

- Since 1992, CDA has assisted 1,600 companies
- $742 million in loans, guarantees, and tax relief
- Another 62 companies assisted through issuing of tax exempt bonds

CT Development Authority

- CDA has approximately 8 different financing products
- Target different types of businesses
- FY 06 – FY 08 activity
- Performance – also required to report on jobs -- PRI staff continuing analysis

Connecticut Innovations, Inc.

- Focused on investing in technology-based start-up companies
- State Funding
  - Since formed, allocated $81 million in bond funding
  - Funding of $17.5 million redirected to General Fund between 2003 and 2005
  - Unallocated - $23.5 million of $50 million since 2000
- Investments
  - Since 2000, invested $95.5 million in companies
  - About 1/2 to technology companies and 1/3 to bioscience (page 46)

Small Business Innovation Research

- Competitive federal grant program funding small, high-tech innovation businesses (employing < 500)
- State-run office located at Connecticut Innovations assists companies with grant process (office not funded in FY 2010 budget)
- $250 million in federal grants to CT companies since 2000
- CT ranks 15th nationwide for grants per state GDP

Small Business Administration

- Federal financing program that guarantees loans made by private banks
- Financing typically for businesses involved in the service or retail industry (~44 percent of loans between 2006-2008)
- Activity level
  - 1,400 loan guarantees in 2006
  - 800 loan guarantees in 2008

Business Tax Credits

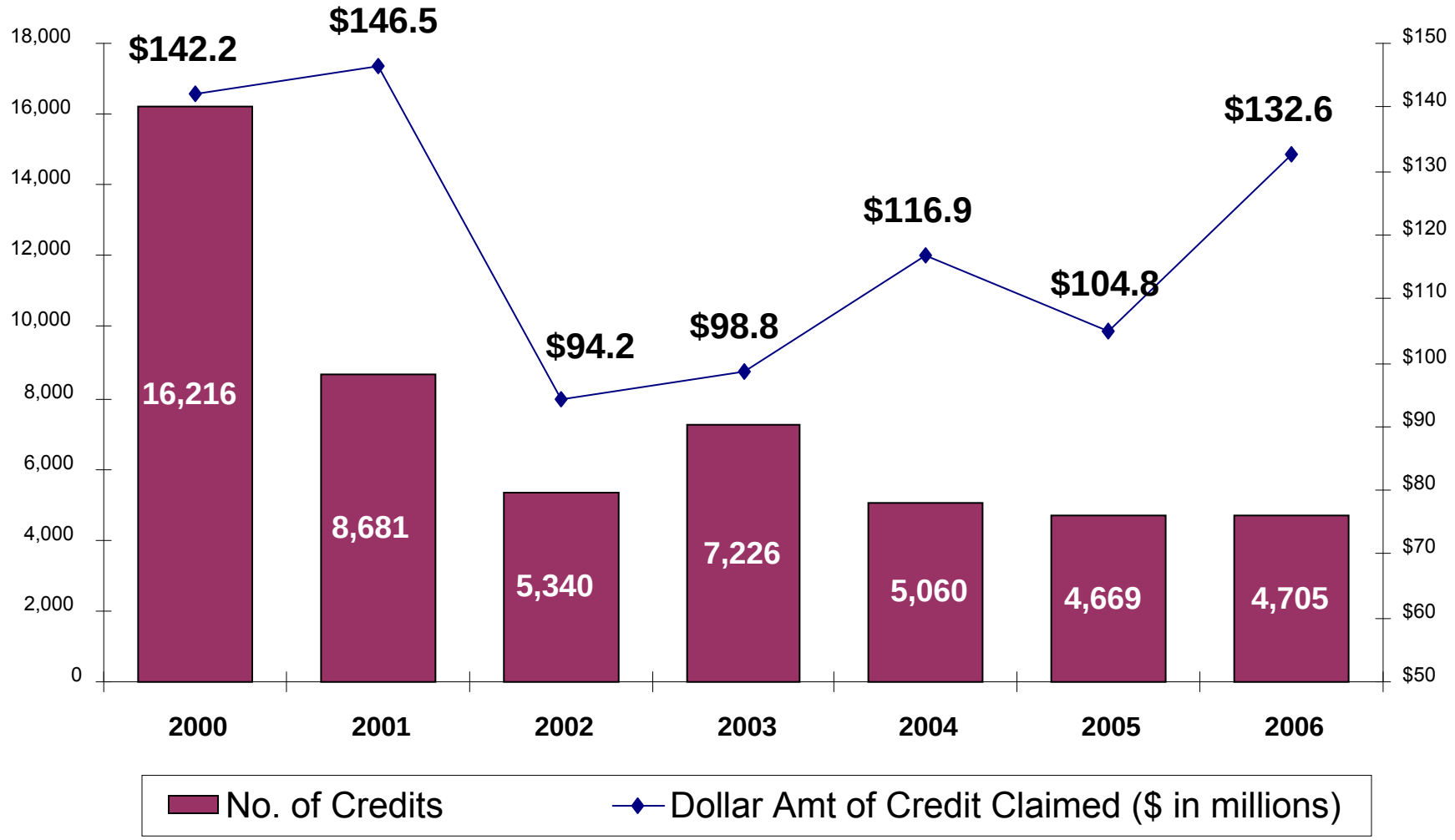
- Purpose
  - Lower business tax liability
  - Encourage investments to spur economic activity

- Administering/Approving agencies
  - Department of Revenue Services (DRS)
  - Department of Economic & Community Development (DECD)
  - Commission on Culture and Tourism (CCT)
  - Office of Policy and Management (OPM)

DRS Business Tax Credits

- 17 different credits – most taken against corporate business tax
- Tax Year 2006
  - $132.6 million in credits
  - Approx. 4,700 credits
- Fixed capital investment – most credits
  - Over 2,300 credits annually
  - 58 percent of the value of all credits in 2006 ($77.5 million)

Figure III-4: Business Tax Credits 2000-2006



Source: DRS annual reports

DECD Business Tax Credits

- Enterprise Zone (including Urban Jobs)
  - Since FY 00
    - 623 companies approved
    - $62.5 million in property tax abatements
    - $6.7 million in corporate tax credits
- Urban & Industrial Site Reinvestment
  - Since FY 04
    - 6 companies approved
    - $190 million

DECD Business Tax Credits

- Job Creation
  - Began in 2007, 1 company approved
  - $0.5 million
- Insurance Reinvestment Program
  - Created in 1994
  - 22 companies received investments through the program
  - $52 million in tax credits (business tax, insurance premium tax, and personal income tax)

How much are we doing?

- CCT Business Tax Credits
  - Digital animation production
  - Film production
  - Film production infrastructure

Authorized Film Tax Credits FY 06- FY 09					
	2006	2007	2008	2009	**Total**
Number of Credits	9	37	25	2	**73**
Tax Credit Amounts	$13.9 million	$80.4 million	$30 million	$0.7 million	**$124.4 million**
Source: Connecticut Commission on Culture and Tourism					

Tax Exemptions

- Property tax exemptions
  - Distressed municipalities
    - 39 towns eligible; approx. $7-$8 million per year
  - Manufacturing machinery and equipment
    - 4,200 businesses; towns reimbursed for $42 million in FY08
- Sales and use tax exemptions (foregone revenue)
  - 28 exemptions for items and equipment purchased by businesses
    - Approx. $188 million in FY09
  - 24 business service exemptions
    - Approx. $152 million in FY09

How well are we doing?

- Measuring success in New Economy
  - Requires more holistic approach – not just a focus on jobs
  - Helps the state determine where investments needed

- Connecticut Innovation Index
  - Compares CT to 9 leading technology states (MA, CA, NY, NJ, NC, IL, MN, VA, PA)

Connecticut Innovation Index 2009

- Indicators
  - Research and Development Capacity
  - Innovation Capacity
  - Employment
  - Overall Economy
  - Education Capacity
  - Connectivity Capacity

Research and Development

- Strengths
  - High as a percent of state gross domestic product, well above national average, but trend is flat
  - Most of R&D grants go to industry
- Connecticut does not compare well in EDA grants
  - Ranked last in 2007

Innovation

- **SBIR** – up for one year but down over five
- Still a strength –
- Percentage of awards has improved

- **Patents** – still high comparatively per capita
- But state trend is down

- **Venture capital** – Trend is down – a 60% drop in 2008
- Most significant drop in CT
- Last among comparative states as % of gdp

High Technology Employment

- Sustain a Knowledge-based Economy
  - **Employment** -- 4.5% of workforce in science and engineering
  - **Employers** -- Larger % of high technology business than national average, but CT has dropped

Overall Economy

- Per capita real gross domestic product is high
- **Population** increased slightly
- CT had **net out migration**
- CT **incomes** still high
- **Job growth** – depends when measured

Education

- Strengths – higher education
- Concern – lower grades science and math

Tax Policy: Connecticut and Surrounding States

- Reviewed sales tax and excise taxes of Connecticut and surrounding states
- Specifically analyzed Sunday alcohol sales and impact on tax revenue collection in Massachusetts

Tax Policy: Connecticut and Surrounding States

- CT sales tax lowest of surrounding states

Table V-1: Bordering State Sales Tax Rates as of August 2009			
State	**State Tax Rate**	**Local Tax Rate**	**Total Sales Tax**
Connecticut	6%	-	6%
Massachusetts	6.25%	-	6.25%
New York	4%	4.125-4.375%	8.125 – 8.375%
Rhode Island	7%	-	7%
Source: Tax Foundation			

Tax Policy: Connecticut and Surrounding States

- Excise tax rates compared to surrounding states

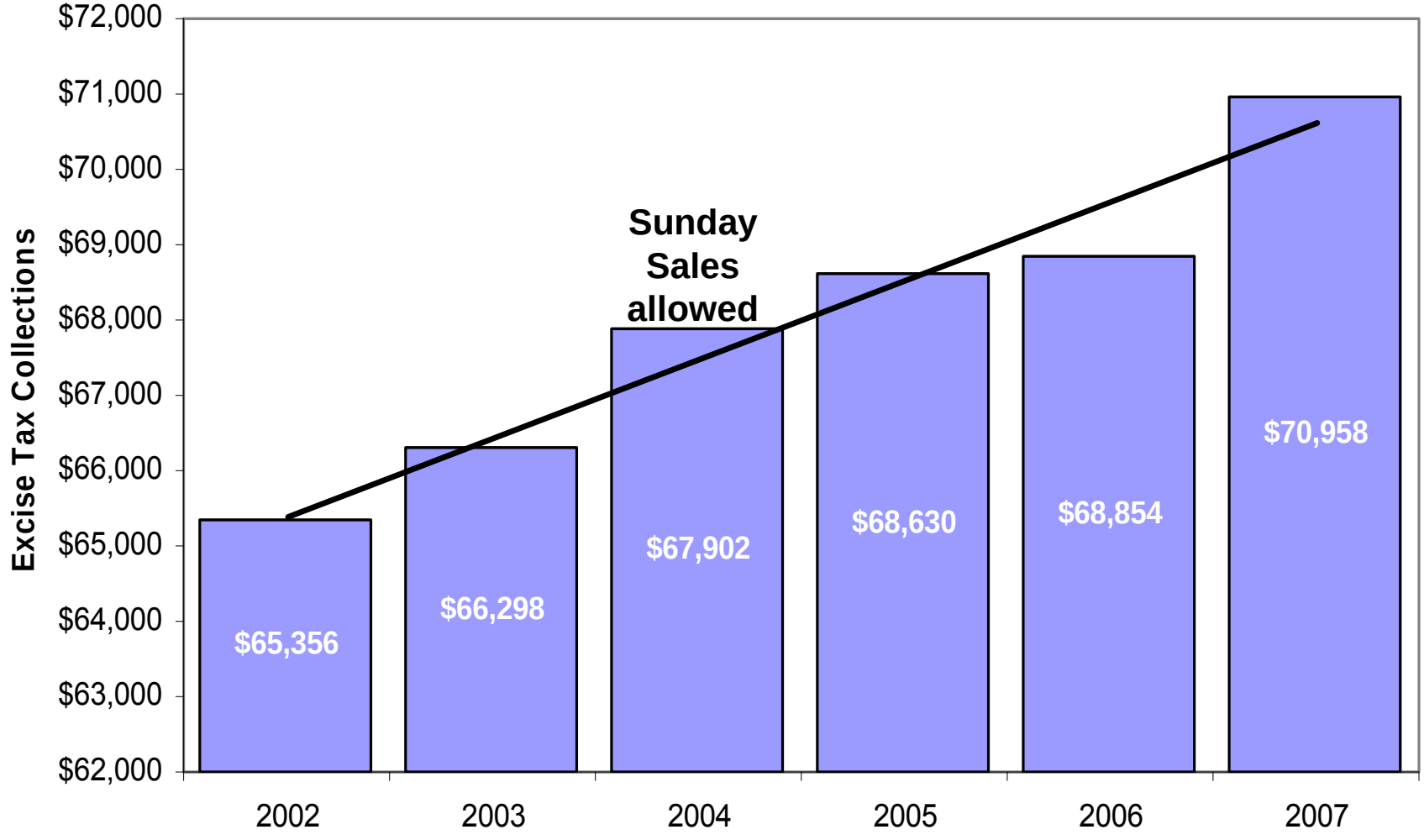
Alcohol Excise Tax Rates			
	Spirits	Wine	Beer
CT	$4.50	$0.60	$0.20
MA	$4.05	$0.55	$0.11
RI	$3.75	$0.60	$0.11
NY	$6.44	$0.30	$0.14

Cigarette State Excise Tax	
CT	$3.00
MA	$2.51
RI	$3.46
NY	$2.75

Tax Policy: Connecticut and Surrounding States

- Tax policy on alcoholic beverages
  - When – hour and day of sale
    - Analyzed experience in Massachusetts to determine if allowing Sunday sales increases state revenue
  - Where – store locations
    - Analyzed overall state consumption

Figure V-1: Massachusetts Alcohol Excise Tax Collections



Source: MA Department of Revenue Services 2007 Annual Report

Tax Policy: Connecticut and Surrounding States

- Tax policy on alcoholic beverages - *Where*
  - Of the border states, MA and RI have highest alcohol consumption rates for past ten years
    - MA – allows beer and wine to be sold in multiple locations including grocery stores
    - RI – alcohol can only be sold in liquor stores
- Greater access does not necessarily mean greater consumption

Next Steps: Final

- Compare state strategies to “best practices” developed by National Governors’ Association and others
- Comprehensive review of economic strategic plan – how to improve competitiveness
- “Is anyone better off”?

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