Key Points

CONNECTICUT'S ECONOMIC COMPETITIVENESS IN SELECTED AREAS

SECTION I: PROMOTING AND GROWING THE ECONOMY

Understanding Assets and Accelerate Innovation

- Connecticut has developed plans in the past that address Connecticut's economic strengths, including industry clusters and core innovative assets; however, many proposals were never adopted and other initiatives not sustained, primarily due to lack of funding.
- Connecticut recently issued its first economic strategic plan for the state with more than 60 recommendations. But the plan does not set priorities nor establish an implementation strategy.

DECD, after holding its public informational sessions, should develop an action plan with priorities that should be achieved first, in a one-year time frame, and sets goals for a longer (five-year) period, and for those priorities established, propose what agencies or organizations will be responsible for accomplishing the tasks. The action plan with one-year priorities shall be developed by February 15, 2010.

Cluster-Based Economic Development

- Connecticut has had a cluster-based initiative since 1998, but recently state support has weakened, and there is now no group of outside business leaders to help shape economic competitiveness policy and oversee clusters.
- Cluster-based strategies have been demonstrated to boost innovation, wages, employment, and business diversification.

Reinstate the Competitiveness Council with some modifications. Rather than being a creation solely of the executive branch, it should be a statutorily established entity with appointments by both executive and legislative branches. It should be composed of 18 members, with nine appointments made by the governor and nine by legislative leaders of both majority and minority parties. Appointments should be made of business leaders from various industry clusters and from various geographic areas of the state. Council meetings should be held at least quarterly. The commissioners of DECD, Labor, Transportation and Higher Education, and the Executive Director of the Office for Workforce Competitiveness should be ex officio members of the Council. Staffing for the council's work should primarily be from the Department of Economic and Community Development, but supported collaboratively with any staff of the individual cluster organizations.

The primary role of the Competitiveness Council should be to guide public policy decisions and investment strategies that best promote competitiveness of the state's economic drivers, including its industry clusters. The Council's role should also

ensure that policies around the cluster initiative are being implemented by relevant state agencies, including collaborative efforts with partner agencies, both public and private.

DECD should designate a Cluster Initiative Team within its Business Development Division that would be responsible for strategies that cut across industry cluster areas. It should be staffed by three to four of the economic development specialists currently employed in the Business Development Division (including the two already assigned to insurance and financial services, and bioscience.) These staff should be proactive in working with clusters, determine what strategies work, what obstacles the clusters face, and coordinate with other state agencies, as well as state-level and regional economic development partner agencies to implement positive strategies and overcome problems.

- **The Cluster Initiative Team staff can serve as a conduit from the cluster communities to the Commissioner of DECD, who as a member of the Governor's cabinet, should lead in shaping policies to promote competitiveness, including those policies that may require an interstate, regional approach to promoting clusters.**

- **The Cluster Initiative Team should also work with clusters to initiate grant applications for federal funding such as the Economic Development Administration grants. (see below) Other duties of the Cluster Initiative Team should be to: attend cluster-sponsored informational sessions; provide information and technical assistance; and sponsor or coordinate events that would attempt to link businesses with opportunities.**

➢ DECD needs to be a more active participant in regional cooperative efforts in cluster-based activities, and other efforts to promote business expansion.

DECD should act as the lead agency and proceed with the steps needed to execute the knowledge corridor agreement (Springfield/Harford) by July 1, 2010. Once the agreement is in place, DECD should publicize the state's commitment to the industry development, and work with BEACON and the Hartford-Springfield Economic Partnership on implementation.

DECD should become an active participant on the Hartford-Springfield Economic Partnership steering committee; and DECD should use the results of the 2009 HSEP survey to focus its business development activities, especially building on the strengths of the region – educational institutions, relatively affordable cost of living, and proximity to key markets – to promote business expansion in the area.

Flexible and Responsive Government

- Connecticut's organizational structure for economic development supports an old model and is not conducive to assisting businesses in the most effective way.
- All three economic development agencies deliver direct financial assistance and DECD has not provided the broader-based technical services to businesses.
- Operating expenses for the three separate agencies account for a high percentage of assistance amounts.

The Connecticut Development Authority and Connecticut Innovations, Inc. shall be consolidated, and all direct business financial assistance programs shall be transferred from the Department of Economic and Community Development to the combined authority. To ensure that the practice of financing innovation occurs, half of all annual state business development assistance should support innovation- and technology-based businesses, and start-ups.

- Connecticut consistently scores poorly on national rankings that assess states' regulatory environment.
- While regulatory environment is a somewhat subjective measure, it is perceived as hampering business productivity and raising business costs.
- A coordinated approach for handling regulatory matters was created with the interagency steering council in 2007, but the council has not met during 2009.
- The economic strategic plan does not directly address the regulatory environment although informally DECD and DEP have taken steps to streamline processes.

Creating a new state regulatory environment should be an executive branch priority, and one the governor should publicly announce. The administration should require that the interagency steering council resume its activity, stress that coordinating state policy and streamlining regulations impacting economic development is imperative, and inform the commissioners and other agency heads who are members of the council that its coordinating activities are as important as each agency's individual operations. The administration should use the DEP/DECD agreement as an example of interagency coordination and establish some measures of performance accountability.

- Connecticut state government lags in the provision of electronic services to businesses and others.
- The state ranked 37th in using digital technology to streamline operations and improve services.
- One of Connecticut's regional planning agencies has recently developed an online permitting system for its member towns.

The interagency steering council should also address ways that state agencies could electronically improve or expand services to customers, prioritizing those that impact business and economic development. The state Department of Information Technology shall assist in implementing these areas identified.

- It is not clear where the regulatory bottlenecks occur, and improving the regulatory environment should not rest solely with the executive branch.

Connecticut business regulations and regulatory compliance be placed on the program review committee's study topic agenda for 2010.

- Energy costs in Connecticut are the highest in the continental U.S., and are repeatedly cited as having a negative impact on the state's competitiveness.
- Many businesses have taken advantage of energy efficiency programs, but that addresses demand side and not the costly supply issues.
- DECD is not represented on two major state energy bodies where policy and programmatic decisions are made.

To ensure that the state's energy policies are addressed as they impact the state's economic development, the commissioner of economic development, or a high-level agency designee, shall be a member of the Connecticut Energy Advisory Board and the Energy Conservation Management Board.

- DECD is not internally organized in a way that can provide flexible, responsive services to business.
- DECD often acts as a referral agency for business, rather than assisting the companies directly.
- DECD must gauge customer satisfaction with services provided.

First, DECD should establish a team approach to business development, with three teams each staffed with 3 or 4 people. The teams would be responsible for: 1) clusters including cross-cluster initiatives; 2) incentive programs to business, including tax credits; and 3) providing technical assistance to business including exporting, manufacturing assistance, regulatory guidance, and serve as liaisons to, and coordinate with, outside partner and business organizations, as well as other divisions within DECD.

Second, incorporate the recently transferred film office into the business development section and cross-train people in all economic development tax credits.

Third, require that any department contacts with other organizations be made directly by the DECD business development specialist, not through a referral.

Fourth, an on-line satisfaction form should be developed so that clients could evaluate the services received from the DECD business development teams. The

results of the evaluations should be published as part of DECD's annual report, and the results also used to modify and improve business development services.

- DECD has not aggressively pursued federal funding for economic development.
- DECD should offer more technical assistance to businesses and towns in obtaining federal stimulus monies.

The Department of Economic and Community Development and the Office of Policy and Management should aggressively pursue funding opportunities with the federal Economic Development Administration, and determine where state assistance could be used as matching funds for the EDA grants.

The business development teams at DECD should research the ARRA funding available to Connecticut, what businesses and industry areas might be eligible, what the criteria are for receiving funding, and work with partner agencies, like cluster organizations, towns, and others to inform businesses and assist, whenever possible, with the application process. DECD should also publicize on its website the technical assistance that it can provide to business in seeking and obtaining ARRA funding.

Comprehensive Innovation Policy

- Connecticut fares well in national rankings of states' assessment of innovation and technology, but areas of concern are math and science scores in the lower grades, a potential threat to a pipeline of well-educated workers.
- The state's economic strategic plan includes recommendations that address the need for enhancing innovation and targeting investments, but many of them require funding. In the current economic climate, the implementation of the proposals is unclear.
- The greatest challenge entrepreneurs face in Connecticut is access to early-stage or seed capital. Venture capitalists view such ventures as too risky and although "angel" investors provide funding at this stage of business development the demand for funding is greater than the supply. State policy must respond to fill the gap and spur investments in early-stage companies.
- Connecticut businesses have seen a drop in funding by venture capitalists and the decreases are greater than when compared with other competitor states and the national average.
- Connecticut has started several initiatives focused on building an innovation infrastructure such as the Innovation Pipeline, SBIR office, and investments to build angel groups, but often the initiatives have not been sustained.
- A multi-pronged sustained approach is needed to spur angel investing and address the gap in early-stage financing for start-up companies, and to continue the technical support and services that small high-tech businesses require.

Implement an "angel" tax credit program whereby:

- **Credit Amount: Twenty-five percent of an investor's cash investment, provided no individual credit shall be greater than $125,000, in qualified, early-stage enterprises in high-tech industries with an aggregate cap of $6 million per year for the first three years and then decreasing to $3 million annually.**

- **Applicable Tax: Personal income tax**

- **Eligibility Criteria: Investments shall be in a business that:**

  - **has been approved as a qualified Connecticut business by Connecticut Innovations, Incorporated (as modified in prior recommendation);**

  - **has had annual gross revenues of less than $5 million in the most recent income year;**

  - **has fewer than twenty-five employees, more than half of whom reside in the state;**

  - **has been operating in the state for less than 10 consecutive years;**

  - **is primarily owned by the management of the business and their families; and**

  - **has received less than $1 million in tax credits provided by this section in any year.**

- **Carry Forward: The amount of credit allowed to any one investor shall not exceed the amount of tax due from such investor. Any tax credit not used may be carried forward five years.**

- **Effectiveness review: a review of its effectiveness conducted by July 1, 2015, and a sunset date of July 1, 2020.**

Include a Connecticut angel investor on the board of Connecticut Innovations, Inc. (as modified in prior recommendation) and the Small Business Innovation Research advisory board;

Continue funding the Innovation Pipeline Accelerator for two more years;

Create a "sidecar" fund operating within Connecticut Innovations Inc., with 10 percent of the fund set aside for university student entrepreneurs;

Provide state matching funds to SBIR/STTR Phase I grants at 50 percent, up to $50,000 per grant; and

DECD and the combined CII/CDA organization shall create a slogan/brand for Connecticut that emphasizes the state as a place for innovation. The slogan shall be visible at the top of each agency's website and on all marketing materials.

Create a coherent, market-driven trade and international development system

- Exporting is a way to increase the state's competitiveness and create job growth.
- Connecticut's exporting activity has increased dramatically in the past few years, almost doubling from $8 billion in 2003 to $15 billion in 2008. Even since the recession, the state's exporting has not dropped as much as many other states or nationally.
- Connecticut could be doing much more to assist businesses with exporting. DECD does not coordinate well with its federal partner exporting agency, or with other agencies.
- DECD does not allocate sufficient staff resources to exporting assistance activities, and the state's federal exporting assistance center is poorly staffed as well, making the need to coordinate services all the more acute.
- Other states have allocated more resources to exporting or have found innovative ways to leverage funding, coordinate services, and provide technological assistance to help businesses enter and expand in the global market.

The governor and the Connecticut Congressional Delegation should work to restore the U.S. Department of Commerce Export Assistance Center in Connecticut to its full staffing component. The governor's office could be used to draw attention to the staffing situation, and each Connecticut U.S. senator and representative should be enlisted to advocate for the restoration of the positions to the federal administration.

The business development division within DECD should be reorganized using a team approach (as recommended above), with no new or refilled positions needed. One of the teams should be staffed with four people, assigned to technical assistance including exporting.

A memorandum of agreement should be developed between DECD and the U.S. Department of Commerce Export Assistance Center to partner on activities including:

- **jointly providing exporting informational sessions to businesses, as well as joint sponsorship and joint representation of international trade events held in Connecticut;**

- **aggressively promoting the services that U.S. Export Assistance Center can provide as well as DECD reimbursement to businesses for participation fees;**

- **finding innovative ways of supporting exporting activities;**

- **work with other government agencies (e.g., Small Business Administration) and private partners (e.g., banks, business trade groups) to coordinate and target the needed services, such as financing, or transportation;**

- **provide the expertise in the regulatory and licensing requirements that Connecticut companies indicate they need to access potential markets -- either through staff research in-house, or seeking experts in the field from the private sector or the federal government – and offer the assistance at publicized workshops around the state;**

- **explore opportunities with similar export assistance agencies in neighboring states to maximize exporting prospects for businesses in the region; and**

- **establish an aggressive marketing campaign to promote Connecticut's export activity that:**

  - **highlights the unified federal/state team assistance approach;**
  - **features Connecticut's recent success in exporting;**
  - **demonstrates that exporting activity is a state priority -- for example, appearances and remarks by governor, by Congressional representatives at high profile business events; and**
  - **conveys exporting as a way to grow revenue, and create new jobs.**

DECD should upgrade its website to give more prominence to exporting activity, make that area of its website more colorful, inviting and user-friendly, provide more current useful information, and offer some success stories.

Funding for export assistance, including sponsorship of programs, helping companies access U.S. DOC services, marketing materials and website improvements, should come from the unallocated Manufacturers Assistance Act bond funding, upon approval of the Bond Commission.

SECTION II: TAX CREDITS

➢ The majority of tax credits currently established in statute provide incentives based on the older economic development model -- incentives for large companies or for select industries.

They are structured so that they do not apply to a large segment of the state's economy (S corporations) and do not benefit a broad base of businesses in the state.

- Five tax credit programs have had low usage indicating they are not broad-based tax credits and not fulfilling the purpose of providing an economic incentive to engage in that activity.
- The job creation tax credit, as it is currently structured, is not a broad-based credit and has not been widely used. Even though new firms and small businesses have been responsible for almost all of the net new jobs over the past three decades, the current credit eligibility makes the job creation tax credit suited only for large companies.
- Film tax credits are structured such that they provide a greater incentive for temporary productions (30 percent credit) as opposed to more permanent production infrastructure (only a 10 to 20 percent credit).
- Tax credits are often not evaluated for cost-effectiveness and are often established without end dates.
- The Insurance Reinvestment Tax Credit has produced little job growth at a high cost for the state. In total, $52 million in corporate, insurance premium, and individual income tax credits have been awarded, with 128 jobs created over nine years, at an average cost of $406,250 per job. The tax credit is not broad-based, is not fair and equitable, and the benefit to the state's economy is questionable.

The following tax credits shall be repealed effective January 1, 2011:

- **Financial Institutions;**
- **Computer donation;**
- **Displaced worker;**
- **Research and Development to Higher Education; and**
- **Small Business Guarantee Fee Tax Credit.**

For the period beginning January 1, 2010, and ending January 1, 2013, companies may take a tax credit for each new full-time job created beyond the 2009 base year of employment. To be eligible for the credit the new job must be filled by a Connecticut resident. The credit will be equal to 15 percent of the wages paid. The business creating the job may claim the credit against its tax liability for the corporate income tax, insurance premiums tax, utility company's tax, or personal income tax. New jobs must pay at least 80 percent of state median income and offer health care benefits. The credit will be issued in three installments over three years. The annual maximum credit per job is $4,000 and the total credit amount is capped at $25 million annually. Businesses must apply to DECD and approval will be on a first-come, first-served basis. Businesses claiming a credit with respect to job creation may not claim a credit against any tax under other provisions of the general statutes for job creation.

The film tax credit should be modified such that capital investments qualify for a 30 percent credit and production expenses qualify for a 10 to 20 percent credit.

Tax credit programs in which either 1,000 or more credits a year are allowed or the credit value exceeds $5 million annually be reviewed by January 1, 2012, to determine the economic impact and be subject to extension or modification by the General Assembly for another five years based on results of the study.

Newly established tax credits shall include a review date to determine their effectiveness and the credit will be repealed, modified, or continued based on results of the review.

The Insurance Reinvestment Tax Credit shall be terminated effective January 1, 2011.

SECTION III: SUNDAY ALCOHOL SALES AND CROSS BORDER SHOPPING

Sunday Alcohol Sales

- Connecticut is one of only 14 states in the nation, and the only New England state, to ban the sale of alcohol on Sunday.
- Massachusetts did not experience a large increase in excise tax collections after allowing Sunday sales. This could have been the result of policies that were in place prior to repeal of the statewide Sunday sales ban such as: allowing the sale of alcohol on Sunday between Thanksgiving and New Year's Day, permitting stores within 10 miles of the New Hampshire and Vermont borders to be open on Sundays year round, and selling both beer and wine in grocery stores.
- New York, Colorado, and Kansas excise tax collections increased after the Sunday sale of alcohol was lifted, followed by a leveling off of tax collections. The increase in tax collections were driven primarily by the increased consumption of wine and spirits, not beer. However, all three states had increases in tax collections at times prior to lifting the Sunday sales ban suggesting other factors influence the sale of alcohol.
- If Connecticut lifted its Sunday sales ban, in the year following the repeal the state could see an increase of $7-$8 million in revenue.

Cross-Border Shopping

- Between 2004 and 2008, per-capita sales at Connecticut beer, wine, and liquor stores were lowest in the towns bordering Massachusetts. In fact, compared to sales in Connecticut towns not along a border, sales were 35 percent to 43 percent lower.
- When factoring in differences in median household income for towns bordering Massachusetts, Rhode Island, and New York, it appears factors other than simply income differences impact sales in stores along the Massachusetts border.

Connecticut liquor and grocery stores should be permitted, but not required, to sell alcohol on Sunday under their current licensing provisions.