



STATE OF CONNECTICUT
OFFICE OF THE STATE COMPTROLLER
55 ELM STREET
HARTFORD, CONNECTICUT
06106-1775

Kevin Lembo
State Comptroller

Martha Carlson
Deputy Comptroller

Written Testimony
Comptroller Kevin Lembo
March 11, 2013

HB 6566 AAC Transparency in Economic Assistance Programs

Senator Fonfara, Representative Widlitz, Senator Frantz and Representative Williams:

Thank you for the opportunity to testify on *Raised Bill 6566 An Act Concerning Transparency in Economic Assistance Programs*.

In December of 2011, I called for the establishment of a strong, credible and verifiable mechanism to evaluate the success of our economic development efforts. I did so with the belief that measuring the desired outcomes of such initiatives will reinforce our state's policy decisions and increase public confidence in those efforts. Soon afterward Governor Malloy, to his credit, created the Business Tax Policy Task Force of which I was a member.

The task force chaired by Commissioners Sullivan and Smith met with businesses, tax professionals and other interested parties in an effort to determine the best avenue forward for effective business tax policy in our state. The recommendations, which I largely supported, set out a long-term strategy for improving the state's business tax system over the next six years to make it more efficient, competitive and fair. The final report presented in September 2012 included specific recommendations to create a searchable database at the Department of Economic and Community Development (DECD) and provide additional regular analysis of our tax system through tax incidence analysis at the Department of Revenue Services (DRS).

This bill builds on those recommendations and is designed to increase access to, and the utility of, information available to the public about the state's economic assistance programs, tax structure and state financial documents.

Specifically the bill requires:

- DECD to create and maintain a publicly accessible online database for all state tax credit and economic assistance programs;
- DRS to produce a biennial tax incidence analysis report;
- the Office of Fiscal Analysis to post line item appropriations in the budget in a downloadable database format within 30 days of passage to their website;
- the Office of Policy and Management to post line item appropriations in the proposed Governor's budget in a downloadable database format on their website at the time of the budget release; and

- my office to post the financial tables included in the Comptroller's annual report to the Governor in a downloadable database format on our website by the 31st of December each year.

Currently, it can be challenging for the public, advocates and policy makers to analyze the state's economic development efforts, tax policies or annual budget appropriations. The proposals identified above will assist in making information more accessible in each of these areas.

Economic Incentives, Tax Credits and Abatements

As a state we provide hundreds of millions of dollars in direct and indirect business assistance annually in the form of loans, grants, tax credits and abatements. Meanwhile, the state's economy continues to struggle, unemployment remains stubbornly high and we face significant budget challenges. In this environment we must make every effort to ensure that the dollars we spend, or forego, in an effort to generate greater economic output are well spent. This bill will create a searchable database where the public can simply and easily perform searches to answer questions such as:

- who is receiving the assistance
- what type of assistance are they receiving
- what is the value of the assistance provided
- what is the purpose of the assistance
- what are the anticipated results – jobs, investment, economic impact
- what are the actual results

Providing this information to the public will, over the long-term, improve the state's investment strategy. Programs that are working will have accessible data to reinforce their value and programs that do not can be identified and the funds repurposed toward more productive uses.

In the past, some corporations have resisted divulging information required to be disclosed in this bill. They believe that doing so will create an unstable environment, in which programs will face increased scrutiny and therefore are more likely to be adjusted or eliminated year after year. I would point to our recent experience with the Small Business Express Program to argue just the opposite. The Small Business Express legislation included reporting requirements. After two years the data collected on jobs and investment has been used to support the continuation of the program and it now appears there is a good chance it will be refunded.

Similarly, the Connecticut Business and Industry Association (CBIA) recently held a forum where they highlighted the positive results of many of the state's tax credit and abatement programs. When a program is working, reporting and analysis will increase the likelihood it will remain in place. Currently, the public and policy makers all too often do not have enough information to make informed decisions on the state's economic development initiatives. Increasing the data available will allow for better long-term strategic decision making.

Tax Incidence Analysis:

Tax incidence analysis reports estimate who actually bears the burden of the taxes levied in relation to income distribution or business size. In many cases, the entity legally liable to pay the tax is not who actually bears the burden of the tax. A tax incidence analysis helps to determine the actual distribution of the tax burden in the state.

For instance, a tax incidence analysis may show that a tax like the petroleum products gross receipts tax, which is paid by petroleum refiners and distributors on their Connecticut gross receipts, is actually transferred to consumers through increased prices on gas and other petroleum products. We may further discover that the resultant increased prices hit low income residents disproportionately hard. Or we may discover that very little of the tax is transferred and the tax is born primarily by large oil companies. Such information would greatly impact policy decisions about whether to increase, decrease, retain or eliminate the tax.

Equally as important, when performed on a regular basis, tax incidence analysis reports allow us to understand how tax burdens shift overtime. The analysis can assist policy makers and the public in understanding the impact of past tax policy decisions and inform the present policy debate.

Currently, Maine, Minnesota and Texas perform regular tax incidence analysis. I am hopeful Connecticut will become the 4th state to do so.

Financial Documents in Downloadable Database Formats

State budget documents are generally only made available to the public in PDF format. PDF files cannot be manipulated, which means if someone is seeking to perform analysis on the state budget they must first go through the arduous task of manually inputting the budget data into a worksheet or database file. We can lift this burden from the public by simply posting significant financial documents in downloadable database formats to the web. All of the state's budget documents are created in some form of database or worksheet, so providing the information on agency websites is a simple process. This bill would require that the tables in the most significant budget documents, the Governor's budget proposal to the legislature, the budget passed by the legislature and signed by the Governor and the Comptroller's annual financial report to the Governor be available to the public in a downloadable database format.

Together, these initiatives move Connecticut in the right direction by providing policy makers and the public greater access to information about our state's economic development efforts, tax structure and budget.

Improving government transparency is a goal that is supported across the ideological spectrum. In the process of developing this bill we have met with groups as diverse as the Yankee Institute and Connecticut Voices for Children. With the passage of this legislation, Connecticut will remain on the forefront of state transparency efforts. The result will be a more responsive and effective government.

Again, I thank you for the opportunity to testify on HB 6566 An Act Concerning Transparency in Economic Assistance Programs and ask for your support.

I am happy to answer questions.