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Testimony on H*B 7055, AAC Connecticut First*
Finance, Revenue & Bonding Committee
Wednesday, April 15, 2015
1:00 PM in Room 2E of the LOB

Good afternoon Chairman Fonfara, Chairman Berger, Senator Frantz, Representative Davis and members of the Finance, Revenue & Bonding Committee. I am here today to testify on HB 7055 *AAC Connecticut First*.

Section 5 of HB 7055 would allow for the creation of Special Taxing Districts for the planning, layout, acquisition, construction, maintenance, operation and regulation of a community broadband system.

Our state is one of the leaders in the nation, and in fact, the world when it comes to internet speeds that are available to our businesses and residents. A recently released White House Office of Science & Technology Policy report indicated that 97% of Connecticut residents have access to broadband faster than 50 Mbps, which is the third highest score in the country. Our state is also known to be one of the highest tax states in the country.

In light of these facts, I have to state my opposition to opening up our residents and businesses to yet another tax by allowing for the creation of special taxing districts for community broadband.

While I agree with the intent of the proposal in Sections 3 & 4, which would provide funding for renewable energy systems on brownfields or landfills, I am concerned in the manner in which it is accomplished. This proposal would expand our current ZREC program by requiring the electric distribution companies to enter into 15-year contracts worth $2 million a year for six years. Based on my calculations, this would commit electric ratepayers in our state to pay an additional $180 million over 20 years. This would be on top of the already $1.02 billion they are paying for the existing ZREC/LREC program.

Our state residents pay the highest electric rates in the continental United States and I cannot support a proposal that would raise electric rates even higher. If we want to make a commitment to funding renewable energy on brownfields and landfills, I would suggest we do it within the existing ZREC funding. Perhaps we could give a preference to these projects, similar to the preference that already exists for projects that utilize "technologies manufactured, researched or developed in the state."

I would like to thank the committee for including in HB 7055 portions of the Senate Republican Urban Agenda by including the CT-EDGE and CT-FAST programs in Sections 10 – 16. I have included a copy of testimony I submitted before the Commerce committee regarding our Urban Agenda, which explains why we feel these programs are so important to improving our state's cities.

I thank the committee for holding this public hearing on HB 7055 and request the committee remove section 5 and make revisions to Section 3 & 4 of the bill should the decision be made to favorably report the bill out of committee.

Len Fasano
Senate Minority Leader

Senate Republican's Plan for Progress and Opportunity in Connecticut's Cities

The 2015 Senate Republican Caucus plan for progress and opportunity in Connecticut's Cities as it relates to the Commerce Committee is centered on strengthening and supporting urban communities by concentrating on policy initiatives and proposed legislation promoting *sustainable job growth*, *small business development*, *and leveraging public-private partnerships and collaborations*.

Through implementation of a loan guarantee program, **CT FAST Funds**, and establishment of a broader economic development tax credit program, **CT EDGE**, startups are provided with increased financing opportunities that can result in job creation. Tax credits are a useful tool for investors and developers to pursue projects that would otherwise present intolerable financial burden and risks.

It is widely accepted that Connecticut's business environment is crippling and discouraging to business growth. Such sentiment toward the state inherently renders the state's larger cities less competitive, less attractive and undermines local economic development efforts. Currently, there is a big neon sign outside of CT that glaringly reads, "CLOSED FOR BUSINESS." Although the state is facing a staggering budget deficit, these are the times to double down and work to establish a more competitive business environment.

Connecticut Rankings

- 2014 Business Tax Climate Index — 42nd
- 2014 Property Tax — 49th
- 2014 CNBC America's Best States for Business — 46th
  - Cost of Doing Business — 47th
  - Cost of Living — 48th
  - Economy — 49th
  - Infrastructure — 42nd
- 2014 Small Business Policy Index — 41st
- 2013 Forbes Business Ranking — 33rd

With Connecticut continuing to rank poorly year after year, it's advisable for policy makers to champion policies and initiatives that help CT become a viable option for economic development and private investment.

In addition to job growth and economic development, the Caucus wants to tackle head-on unfavorable conditions contributing to long-term unemployment for former inmates reentering society by aligning Connecticut's sentencing guidelines and considerations with a recent court decision. Also, common sense modifications are being proposed that tweak judicial administration, strengthen victims' rights and enhance transparency.

Relatedly, Republicans are reviewing nationwide best practices and programs that have successful, quantifiable track records promoting job training, increasing employment opportunities and providing life skills training for ex-offenders. It's well understood that former inmates reentering society face many challenges and difficulties as they attempt to reenter the workforce, which make conditions ripe for personal setbacks that may result in more prison time.

While the initiatives put forth do not constitute a panacea for all that ills Connecticut's cities, they represent a start and something the Senate Republican Caucus intends to build on moving forward.

CT FAST Funds

The purpose of CT FAST Funds is to provide viable startups with capital through state sponsored loan guarantees (up to 70%), with primary objectives being job creation and economic development. To fund said program, $3 to $5 million of *Small Business Express* funds can be repurposed to support FAST Funds. The Department of Economic Community Development (DECD) in conjunction with partnering Community Banks will administer the loan program.

Historically, it's extremely difficult for startups to obtain financing via traditional banking channels. And unless the business entity in question is the next Twitter, Google, etc., Angel Investors, Venture Capitalists (only one in 1,000 proposals receive funding) and bankers do not have the appetite to finance startup companies. Commercial loan officers and underwriters typically want to see strong financial statements, positive cash flow, experienced management teams and a positive growth trajectory.

Startups, due to their infancy, cannot meet typical banking requirements established by lenders. Often said businesses are undercapitalized as a result or simply fail to establish viable, sustainable operations. More than 170,000 small businesses disappeared in the U.S. between 2008 and 2010, according to a recent analysis of U.S. Census Bureau data. Many of these businesses simply couldn't get the financing to start up in the first place. When credit dried up and lenders became risk adverse, small business was hit hard. More than 90% of small businesses are made up of 20 employees or less.

CT F.A.S.T Funds (*Financial Assistance for Startups)* aims to encourage community banks, that would otherwise not extend credit to startups, to lend to business concerns deemed risky by the banking community at-large.

How Does the Program Work?

Qualifying startups may receive a one-time micro-loan ranging from $10,000.00 to $50,000.00 from a participating community bank, particularly a community bank, with lending authority having discretion regarding interest rates based on overall credit risk and strength of the application. **Note:** Interest rate "floor" and "ceiling" can be negotiated with participating lenders.

Program Highlights:

- Provides up to **70%** loan guarantee (**of actual loss**) from the State of Connecticut
- Provides up to ten (10) year terms
- Pairs additional financing at lenders' discretion
- Structures flexible terms specific to borrower's needs and circumstances
- Targets Connecticut's larger cities, urban areas around high educational clusters
- Requires annual reporting to DECD (i.e. portfolio performance and number of jobs created)

Loan Proceed Uses

- Startup cost
- Working capital
- Business procurement
- Machinery & equipment
- Inventory
- Land, property, etc.
- Purchase, construct, upgrade or expand facilities
- Refinance existing debt
- Brownfield remediation and redevelopment
- Leasehold improvements

CT EDGE Tax Credit Program

The purpose of CT EDGE Tax Credit Program is to provide investors and developers a tax credit for developing or converting existing vacant buildings in urban centers to affordable, mix use development or viable commercial space. As with the loan program, DECD would administer tax credit program/s.

CT EDGE (Economic Development for a Growing Economy) Tax Credits aim to incent investors and developers to pursue projects that may be deemed cost prohibitive. More importantly, a robust tax credit program may help transform once vacant buildings into viable space suitable for affordable housing, mix use development and/or commercial space.

Tax credit programs have been useful throughout various communities in the United States. Indiana, Ohio, Washington, Texas, Nevada, New York, Massachusetts, Georgia and other states have used an assortment of tax credits with considerable, noticeable results. Many state sponsored tax credit programs, whether used for affordable housing

or commercial development, can be leveraged with federal tax credit programs to maximize resources and offset costs.

New Market Tax Credits (NMTCs) are offered through the U.S. Treasury Department. Said tax credits are competitive and are administered through Certified Development Entities (CDEs). Several projects in downtown Bridgeport were partially funded using NMTCs. In summary, the Bridgeport projects (The Arcade and Golden Hill Apartments) are mix use developments, cost $27 million, received $4.9 million in NMTCs and produced 249 permanent jobs, according New Markets Tax Credit Coalition.

How Does the Program Work?

DECD would approve projects for tax credits only when certain predetermined conditions and requirements are satisfied. The tax credit application and approval process is going to be structured for quick turnaround. Tax credit amounts vary depending on project type (see below).

PROJECT TYPE	TAX CREDIT	YEARS	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7
Affordable Housing[1]	30%	Seven (7)	5%	5%	5%	5%	4%	3%	3%
Commercial/Industrial Space[2]	25%	Five (5)	5%	5%	5%	5%	5%	0%	0%
Mix Use Development[3]	39%	Seven (7)	5%	5%	5%	5%	5%	0%	0%

[1]Square Footage Minimum	**10,000**
[2]Square Footage Minimum	**50,000**
[3]Square Footage Minimum	**35,000**

Development projects can be located anywhere in the Targeted Investment Communities (TICs) except Enterprise Zones, where other incentives are available. TICs include:

1. Bridgeport
2. Bristol
3. East Hartford
4. Groton
5. Hamden
6. Hartford
7. Meriden
8. Middletown
9. New Britain
10. New Haven
11. New London
12. Norwalk
13. Norwich
14. Southington
15. Stamford
16. Waterbury
17. Windham

In addition to creating CT EDGE Tax Credit Program, Senate Republicans are seeking (SB 210) to extend the Job Expansion Tax Credit (JET) Program to **January 1, 2016**. With JET, CT businesses may receive tax credits of $500.00 per month for each new

full-time job created. If the new employment is considered permanently disabled, receiving rehabilitative services from the Bureau of Rehabilitative Services or was honorably discharged from military service, the tax credit is increased to $900.00 per month. The program expired **January 1, 2014**, which is unfortunate considering the number of veterans facing the daunting task of securing full-time employment.

All proposed tax credit programs are being proposed to spur job growth, economic development and public-private investment in Connecticut's urban communities.

Streamlining & Aggregating of Economic and Development Resources (State Web)

The State of Connecticut's official economic development website should be easy and intuitive for business owners, entrepreneurs, developers and site selectors to navigate. Currently, vital information appears scattered with no focal point to curate pertinent economic development information. Information that should be warehoused on a central website includes:

- Key demographics (i.e. largest municipalities, workforce statistics, state-wide industry statistics, economic growth statistics, education related statistics, etc.) Links to all 169 towns and municipalities.

- Essential information regarding state assets and highlights (Why come to Connecticut?).

- Website should contain information or links to existing economic development and business tools.

Ideal formatted websites include:

- Georgia's economic development website is robust, informative and feature rich (http://www.georgia.org/). Georgia is home to 17 *Fortune 500* companies.

- Alabama's website also features a rich and user friendly format containing many helpful links. There is also a chat feature that allows real-time interaction with a government representative knowledgeable in the subject the user is reviewing. Also, a considerable number of Alabama's licensure and certifications are facilitated online.

- New York is making aggressive, bold moves (http://www.esd.ny.gov/). *Start-Up NY* is Governor Cuomo's initiative to spur innovation and offer start-ups safe harbor.

- Minnesota's website (http://mn.gov/deed/) is very impressive, perhaps one of the more comprehensive sites on the list.