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Written Testimony
Comptroller Kevin Lembo
March 22, 2016

Concerning
Raised Bill 5636: An Act Concerning Municipal Taxing Districts, the Sales Tax, the
Apprenticeship Tax Credit, Certain Fees and the Tax Credit Report

Senator Fonfara, Representative Berger, Senator Frantz, Representative Davis and members of the Finance Committee:

Thank you for raising sections 8 and 9 of Raised Bill 5636 An Act Concerning Municipal Taxing Districts, the Sales Tax, the Apprenticeship Tax Credit, Certain Fees and the Tax Credit Report, and providing me an opportunity to testify on the need for sections 8 and 9 of this bill.

I want to focus my comments today on sections 8 and 9 of this bill, which make several changes to an existing law on the books that mandates the Department of Economic and Community Development (DECD) submit a report to this committee every three years that assesses the economic and fiscal impact of the state's tax credit and abatement programs (the report).

The state provides hundreds of millions of dollars in tax credits to Connecticut businesses every year. These various tax credit programs are designed to incentivize economic development and job creation. The state owes it to businesses and all taxpayers to fully analyze the return on investment that these sizable and important programs actually deliver in order to assess whether such resources are fulfilling their intended purpose or, if not, whether state funds would be better deployed to other economic development or infrastructure investments.

This legislation seeks to enhance the efficiency and effectiveness of Connecticut's assessment of these investments.

The legislation requiring regular evaluation of the state's tax credit and abatement programs dates back to 2009. At the time, Connecticut was one of the first states to require regular evaluation of tax credit programs. Today, 20 states regularly evaluate major economic incentive programs. A review of other state evaluation criteria by PEW Charitable Trusts identifies certain areas in which the state of Connecticut could improve its report by utilizing best practices developed in other states. Sections 8 and 9 of R.B. 5636 seek to implement the identified changes and bring our state in line with current best practice for evaluating economic incentives. Specifically, sections 8 and 9 seek to streamline the report requirements, transfer

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some of the reporting responsibilities to the Office of Program Review and Investigations (PRI) and require specific legislative committees to hold hearings to discuss the results of the evaluations and receive input from stakeholders.

First, the amended language gives PRI the primary responsibility for authoring the report. Specific responsibilities assigned to PRI include evaluating the efficiency and effectiveness with which the programs are being administered, recommending whether each tax credit and abatement should be continued or expanded and providing recommendations on improving the effectiveness or efficiency of administration. DECD continues to be charged with providing the data and economic modeling required by PRI to complete the report.

The changes allow a well-respected independent office to evaluate the performance of tax credits and abatements and the administration of the programs that award them. To date, DECD has done an admirable job in providing an unbiased analysis of the programs it oversees, but it can be challenging for an agency to fairly evaluate programs it promotes and administers. Of the states that require regular evaluation of their tax credit programs, only two charge their economic development agency with performing the evaluation and recommending potential changes. An unbiased assessment of the performance and administration of tax credit and abatement programs has in other states resulted in opportunities for savings. For example, in New Jersey it was discovered that the administration of an Urban Enterprise Zone program involved 135 state employees at an estimated annual cost of \$6.4 million. Assessing both the impact of tax credit and evaluation programs and the efficiency of their administration will help our state make better decisions in the future to ensure that we are getting the best return on the investments we make in economic development initiatives.

Sections 8 and 9 of R.B. 5636 also seek to simplify the requirements of the triennial report. Connecticut's report currently requires more specific data points than most other states. The additional information increases the administrative costs to produce the report. A streamlined report should focus on the most pertinent information, like the economic impact of each program, the extent to which it is meeting statutory and programmatic goals and the efficiency with which the program is being administered. In the last two reports, DECD has not fulfilled all of the statutory report requirements, noting that gathering all of the required data would require significant administrative effort while providing limited utility to the legislature and other policy makers. Removing unnecessary data requirements in the report will reduce the burden on the entity charged with producing the report while placing added focus on the most relevant data for policy makers using the data to make informed decisions about the future of the tax credit and abatement programs evaluated in the report.

Finally, sections 8 and 9 of R.B. 5636 require the Appropriations and Finance committees to hold a public hearing following the release of each triennial report to publicly consider the report's analysis and recommendations. Requiring a public hearing will ensure the analysis and recommendations included in the report are fully considered by the legislature. Tax credits and abatements reduce tax revenue at both the state and local level. It is essential that the

committees that oversee the state's tax and spending policy fully review their impact and make informed decisions about the continuation, expansion or elimination of each program.

The changes proposed in sections 8 and 9 of R.B. 5636 conform Connecticut's triennial evaluation of tax credit and abatement programs to current best practice. The changes will help our state make data-driven decisions about tax credit and abatement programs, ensuring that we are focusing state resources toward their highest and best use.

Thank you again to the committee for considering the proposed changes to the state's process for regularly evaluating tax credit and abatement programs.