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Testimony of Josh Goodman
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Finance, Revenue and Bonding Committee

In regards to House Bill No. 5636: An act concerning municipal taxing districts, the sales tax, the apprenticeship tax credit, certain fees and the tax credit report.

Chairman Berger, Chairman Fonfara, and Finance, Revenue and Bonding Committee members:

In Connecticut, as in many other states, tax incentives are both a primary economic development tool and a major budget commitment. For that reason, studying the results of incentives is a vital step for states to create jobs, raise wages, help businesses to grow, and to maintain a balanced budget. The Pew Charitable Trusts supports the tax incentive evaluation provisions in H.B. No. 5636 because this legislation would ensure that lawmakers have the information they need to determine which incentives are working, which are not, and how to make improvements.

In 2010, Connecticut enacted a law requiring the Department of Economic and Community Development (DECD) to evaluate the effectiveness of the state's business tax credits and abatements in a report published once every three years. H.B. No. 5636 would improve on this law in three key ways.

First, the bill shifts primary responsibility for conducting the evaluations from DECD to the staff of the Legislative Program Review and Investigations Committee. Of the approximately 20 states that regularly evaluate major incentives, Connecticut and Tennessee are the only two that give an economic development agency the lead role in conducting the evaluations. States have shied

away from assigning this role to economic development agencies because it puts the agencies in an awkward position: They are asked to critically analyze programs that they are simultaneously administering and publicly promoting. Instead, the most common approach is to task professional, non-partisan legislative staff with evaluating incentives.

DECD deserves credit for producing evaluations that rigorously measure the economic impact of incentives and, under the bill, DECD will continue to provide assistance with economic modeling. The staff of the Legislative Program Review and Investigations Committee has the right skillset to supplement this economic analysis with detailed assessments of whether tax incentives are administered efficiently.

Second, the bill replaces several specific requirements for information that each evaluation must include with a more general mandate that the studies examine the effects incentives are having on Connecticut's budget and economy. While some degree of specificity is desirable to ensure that evaluations answer the right questions, states have found that affording analysts some flexibility is desirable too. For example, Indiana approved an evaluation law in 2014, but then amended it in 2015 to make the requirements on evaluators less rigid.

In both of DECD's two evaluations to date, the authors have not fulfilled every requirement of the law. They have argued that certain required information would be very difficult to produce or would not help policymakers better understand the results of the programs. By removing these requirements, the evaluators will be able to tailor their analysis for each incentive and focus on providing the most important information.

Third, the bill ensures that both the Finance, Revenue, and Bonding Committee and the Appropriations Committee will hold hearings on the evaluations after they are published. The reason to evaluate tax incentives is to help legislators make better-informed decisions. With that in mind, most states that evaluate incentives regularly have designated a specific legislative committee or committees to hold hearings to discuss the results of evaluations and to receive input from stakeholders such as the businesses receiving incentives and the agencies administering them. Then, you can consider whether policy changes are needed.

Connecticut is not alone in seeking better information on the results of its incentives. Since the start of 2012, 17 states and the District of Columbia have enacted laws that require regular evaluation of tax incentives or improve existing evaluation processes. In almost every case, these bills received strong bipartisan votes.

Across the country, evaluations have informed changes in the design and administration of tax incentives to improve the programs' results. For example, after evaluations showed that California's Enterprise Zone program was mostly moving jobs from place to place within the state rather than increasing net employment, lawmakers replaced the incentive with three new incentives that were designed to address the program's flaws. Evaluations have also identified ways to redesign these programs so that they work better for the business community. In Ohio, an evaluation found that a tax credit for job retention was generally working well, but that subtle changes to the program's design could help businesses have an easier time accessing the incentive. In response, lawmakers adopted the recommended changes.

As these examples show, regular, rigorous evaluation is a proven way for states to make incentives more effective. With this bill, Connecticut can join this national movement and, in doing so, benefit your economy, budget, and taxpayers.

If you have any questions, please do not hesitate to contact me at jgoodman@pewtrusts.org.