

- CHAIRPERSON: Representative Meskers
- SENATORS: Leone, Maroney, Needleman,  
Sampson
- REPRESENTATIVES: Altobello, Barry,  
Cheeseman, Davis, Devlin,  
Doucette, Farnen, Gresko,  
Hennessy, Hill, Klarides-  
Ditria, Lemar, Lopes,  
Paolillo, Piscopo,  
Stafstrom, Yaccarino,  
Zullo

REP. MESKERS (150TH): The delightful privilege of co-chairing with our members from Commerce as well. Apparently, Appropriations is still in a meeting, so I think we're going to begin the meeting now. In the interest of safety, I would ask you to take note of the location of the access and access to the exits in this hearing room. The two doors that you've entered into the room are emergency exits and are marked with exit signs. In the event of an emergency, please walk quickly to the nearest exit. After exiting the room, go to your right and proceed to the main stairs, or follow the exit signs to one of the fire stairs. Please quickly exit the building and follow any instruction from the Capitol Police. Do not delay and do not return unless and until you are advised it is safe to do so. In the event of a lockdown announcement, please remain in the hearing room and stay away from the exit doors until an all-clear announcement is heard. Thank you for that. In order to start the meeting, I'd like to -- I believe John Geragasian is here. I believe

## PUBLIC HEARING

he will be the first to testify. And, is -- with Robert King -- or if you would introduce the staff, I guess, would be helpful.

JOHN GERAGOSIAN: First. Yeah. Good afternoon, everybody. First of all, I want to apologize. Rob King could not be here today and sends his regards, but I promise you bipartisan testimony. I just want to introduce a couple of our auditors who are here with us today -- Catherine Dunn and Bryne Botticelli from the audit crew that covers DECD, and Miriam Kluger who did the second review of DECD. Maryellen Duffy and -- is here also, and John Rasimas, our Deputy State Auditor. We went to just give you an update of the work we did -- we done and the work we continue to do in relation to the Department of Economic and Community Development. As we all know, Public Act 19-217 gave our office specific charts to analyze the Department of Economic and Community Development's annual reports. The Act required our office to determine whether DECD annual report data is accurate, determine whether the report included all required elements, evaluate management practices and operations regarding the ease or difficulty for taxpayers to comply with incentive program requirements, suggest recommendations for improving the administration -- administrative efficiency of the incentive programs, and recommendations for other improvements.

In addition, it called for us to do a performance audit of one of the major programs -- or assistance programs. In order to achieve that, we first issued the interim report on the 217, DECD annual report, on April 24, 19 -- 2018. In analyzing our new duties, we kind of looked at what we had to address immediately, what we could address in short term,

## PUBLIC HEARING

and what we would address in the long term, and we believe that that work would inform how we address our duties, and those beliefs turned out to be true. Our interim report focused on two specific questions -- was the data in the report accurate, and we found out at the time it was not. Did the report satisfy the requirements of the new statute? The answer at the time is no. DECD did not include all the elements required by the law. Some of these omissions were beyond their control. It relied on data from other agencies that was -- they were not collecting or had -- did not share with DECD.

Now, that report did not determine whether DECD effectively managed those programs, whether the programs work, whether certain programs are more effective than others, the cost/benefit of those programs, and whether there was a cost/benefit investing in other areas such as education and job training. The DECD revised its report in an attempt to correct those issues. Our auditors analyzed that revised report. We issued the second report on September 21, 2018. The DECD addressed many of our concerns. However, we again noted that the department did not report some of the required information, again, because the department and other agencies that administer programs do not collect that data. Additionally, our new review revealed that the DECD miscalculated and omitted certain information in its revised report.

We then issued part 2 of the auditor's evaluation of the revised Department of Economic and Development Community Development annual report. That was in May 2019. That audit looked at two specific questions -- are these programs easily available to businesses, are they burdensome for businesses to

## PUBLIC HEARING

comply with, and does the DECD run these programs effectively, what improvements would we recommend? That report contained 32 findings and recommendations. That was a report Miriam and her crew worked on.

Now, related to our evaluation in 2018 and 2019 annual reports, as you can see, we spend a lot of time at the DECD. We totaled it up. Between the two departmental audits and these evaluations, we've been there almost 8000 hours on this work. We wanted to give the new administration a chance to set its own course, and we took a step back from the evaluation of these reports for two reasons: We didn't know what changes they would make in the 2019 report from the 2018 report. Therefore, we expect to release our analysis of the 2018 and 2019 annual reports by the end of this session. They've already spent almost 700 hours analyzing the 2018 annual report, and obviously, the 2019 report was just released a week or two ago, so we're you know working with the DECD to get whatever information we need in that vein. In addition, next Wednesday, we're releasing our regular departmental audit of the Department of Economic and Community Development for the 2015 and 2016 fiscal years. We've already almost completed our field work for the 2017, '18, and '19 report, which should go through management review in the summer.

And, lastly, regarding the performance audit, again, we decided to take a step back because we didn't know what changed either you or the department would make to some of those major programs. It didn't make sense to spend thousands of hours looking at a program that was either drastically changed or eliminated. That's all I had in terms of my

## PUBLIC HEARING

testimony. We're happy to answer any specific questions you might have.

REP. MESKERS (150TH): All right. Thank you very much. I'll open it up for questions from Representatives and Senators.

SENATOR HARTLEY (15TH): Thank you, Mr. Chair. And, thank you for being with us today because this is kind of a new process by virtue of the legislation that was passed that we have the benefit of working with your analysis, and so from the last audit that was done was the performance once, John, because we had two -- two sections of this as you -- there is the metrics and the numbers and then there is the programmatic. So, the most recent one was done on the programs, you know, the accessibility, the ease of practice and so forth.

JOHN GERAGOSIAN: Right.

SENATOR HARTLEY (15TH): Yeah. And, so you know we are in this transition right now in-between administrations and leadership and to your point, you know, I think that gets factored in as -- as we go forward, but I have to say that I for one am grateful to have the benefit of your work and participation so that we're having a chance to vet the numbers because as we realized that that was to the benefit of all to know that in fact our numbers needed to be quantified and explained and quite frankly in many instances corrected.

So, then the next report -- just so I'm getting the sequence correct that we're going to get from you is going to be at the end of session, and is that going to be on the 2019 report or is it --

JOHN GERAGOSIAN: It's gonna -- oh, I'm sorry.

## PUBLIC HEARING

SENATOR HARTLEY (15TH): 2020?

JOHN GERAGOSIAN: It's going to be on the 2018 and 2019 annual reports.

SENATOR HARTLEY (15TH): Okay. So -- so you do them -- you combine them. And, will that be the programmatic assessment or is that going to be the -- the metric piece of it?

JOHN GERAGOSIAN: It's the assessment under the statute, under the new law related to the accuracy of the data, the --

SENATOR HARTLEY (15TH): Okay. So, that's on the metrics on -- on --

JOHN GERAGOSIAN: Yes.

SENATOR HARTLEY (15TH): On the numbers. Okay. How are we going to handle it when in fact -- well, I suppose we're going to measure what exists at the time your studying because we're -- we're going through some transition here on programs as you're certainly aware. [Chuckling].

JOHN GERAGOSIAN: And, that was the challenge we had internally, like how do -- how do we address this in light of a new administration that might change, and it appears from the testimony I watched yesterday is changing its course a little bit. We certainly put that performance audit on hold because it didn't make sense to look at, for instance, the, you know, something like the First Five program if it wasn't going to be treated the same way. Now, if we're concerned about the timing of our review to this statute and this hearing though, it becomes a problem going forward if you're expecting us to do a review every year of each report. That's not --

## PUBLIC HEARING

because obviously it would take them I'd say approximately three months to do a thorough review. Hopefully, as time goes on, everything will get easier and better because we'll have more familiarity with the report, and then you know working with the agency we'll be able to make it happen quicker, but there's a -- it takes a considerable amount of time, it takes a considerable amount of information exchange between the agency and our office in order to -- you know, we may have questions and think that the agency did something, that there's an error, but they -- there isn't one, but I mean the give and take takes a while.

SENATOR HARTLEY (15TH): Yeah. You mentioned your 700 hours thus far into this -- this round. So, lastly, if I might, Mr. Chair. We have in the annual report the department reporting on non-DECD businesses assistant tax credits. Is that appropriate?

JOHN GERAGOSIAN: I'm -- you mean -- [Crosstalk].

SENATOR HARTLEY (15TH): So, they have to report on it, but they're not responsible for it, so it's a little bit of a dance.

JOHN GERAGOSIAN: Well, we had a -- I mean we've talked about this and the challenge. I mean if they -- if they -- it was a challenge to the agency if they weren't required to collect the data or if another agency was collecting the data whether this should become more of a joint report or you know -- I mean -- and that's a challenge that we pointed out in those reports. I mean going forward, that's your decision ultimately.

## PUBLIC HEARING

SENATOR HARTLEY (15TH): Do you have a recommendation on what's the cleanest way to do this?

JOHN GERAGOSIAN: Anybody want to talk? No?

SENATOR HARTLEY (15TH): Create a separate report?

JOHN GERAGOSIAN: Well, I think the challenge with having it be a multiagency report is that, you know, it could slow down the -- the process, and that's one of the considerations. Obviously, make sure that all the data that's needed for the report -- the reporting data you intended in the original statute should be included. There should be a way to garner all that.

SENATOR HARTLEY (15TH): No. I hear you. This -- this is a bit of a dilemma, you know, holding a department accountable for -- in a reporting sense for something that they don't administer, so I continue to struggle with that, but thank you very much. Thank you, Mr. Chair.

REP. MESKERS (150TH): Representative Cheeseman.

REP. CHEESEMAN (37TH): Thank you, Mr. Chairman. Good morning. Thank you for coming. And, I notice one of the conclusions you reached was the inability of DECD to provide information because the data had not been supplied by other agencies. One, is the data that's being requested required by statute for DECD to collect? And, two, it -- it is -- is -- two, is this data absolutely necessary for their performance? And, three, if it isn't, do we need to do something so they say, sorry guys. Don't bother giving us this stuff. We don't need it?

## PUBLIC HEARING

CATHERINE DUNN: I don't believe there's a statute that requires the other agencies to provide this information to DECD. DECD would probably know that information better. I think the information is more for you guys than for -- I don't know that DECD needs it for their decision making, but if you're making decisions about these programs, then that's why you know it's -- it's beneficial to have that kind of in -- in one report so you know you have all that information available in front of you. I'm not sure how much -- they might be able to answer better how much they would use the information to make decisions about their programs, but --

REP. CHEESEMAN (37TH): I suppose either way if it's the legislature needs it or DECD needs it, surely if one or the other does need it, what do we do to make sure it's available.

JOHN GERAGOSIAN: I mean obviously you can mandate them to include it within whatever reporting. I think we are pointing out, especially in our initial report, it wasn't fair to hold it against DECD if they didn't -- if -- well, the other agency might not even collect the data and may not have shared it to -- with DECD, and also, it may not be in a format you know that those are all the issues of data in this day and age that they could actually an apples-to-apples comparison be it not comparing to the fiscal year versus the calendar year for whatever other issues, so.

REP. CHEESEMAN (37TH): So -- so maybe something either the legislature or the administration or a combination could look at data collection, what's needed, what isn't, and how to put it in a manner that everybody can use it and access it, but that's

## PUBLIC HEARING

what they pay people big bucks for, so way above my paygrade. Thank you for your answers. Thank you, Mr. Chairman.

REP. MESKERS (150TH): You're welcome, and Representative -- Representative Simmons, I apparently violated the order of the questioning. I apologize. Go ahead.

REP. SIMMONS (144TH): Not at all. Thank you, Mr. Chair. Thank you very much for the presentation and for all the good work you're doing to hold our state agencies accountable and -- and to catch all this important information. You know, we especially appreciated the report from two years ago when you uncovered a lot of the miscalculations and numbers that were kind of overstated or understated, and so really glad to hear that a lot of those have been fixed and wondering if you can elaborate on that. I know there were some big discrepancies in terms of job numbers and amount of assistance that was reported, and I know a lot of that has been fixed, but I'm wondering if you could share your perspective on maybe new systems that have been put in place to help remedy those errors and if there's any other recommendations you'd -- you'd recommend?

BRYNE BOTTICELLI: So, for job specifically, one of the major issues was duplication of jobs that assistance was provided multiple times. That was just more consideration that wasn't factored in, and subsequently, they have that in their calculations in the '18 and '19, which is -- was really one of the major issues initially. And, one of the other major issues was just some missing projects in that initial review in 2017, and they have made significant strides just ensuring that the listing

## PUBLIC HEARING

the have is complete. There are -- there have been errors which occurred, but they have made significant strides in that just on quality control, making sure everything ties out to the state's financial records and that there's no projects missing.

REP. SIMMONS (144TH): Thank you for that -- that answer. That's very helpful. And, a followup is I know last time we had discussed, you know, maybe the need for upgrading systems and some of our government systems being -- being outdated. Is that still a recommendation you would make?

BRYNE BOTTICELLI: There -- they recently implemented a new system, CRM. DECD could speak more to that as far as how that's going -- the implementation. We have just started accessing it, so we can't really speak to how effective it is as far as, you know, avoiding such issues or just handling the needs of the department, but that's something you could certainly ask them.

JOHN GERAGOSIAN: That's part of what I was kind of hinting at that as things get better in terms of what's expected in the report and the changes that are made, I think that our role in evaluating a report will take a lot less time and effort too, so they -- the department seems to be making improvements, and we hope that they issue perfect reports going forward 'cause it makes our job a lot easier.

REP. SIMMONS (144TH): Great. Thank you for those answers, and thanks again for all -- all the work you do for the state. Thank you, Mr. Chair.

## PUBLIC HEARING

REP. MESKERS (150TH): Thank you. So, I'll -- I'll finish up with a question just -- or a suggestion. Given the response on page 2 about agencies not capturing the required data, as we move forward with either different or modified programs, I'm hoping that you as the auditors and the DECD coordinate in terms of what we want to do in terms of the reporting requirements and I guess if the legislature needs to change some of the statutes, etc. so that the data is appropriately captured would be very helpful, I think, going forward.

JOHN GERAGOSIAN: We'd be happy to work with you in any way we can. The first report kind of highlighted some of the data that wasn't being collected, so that might be informative as a first place to start, but obviously, as these programs and -- and the department's focus is changing, it might change some of the things you want to know going forward in future reports obviously too, and there's always a lag time because of a new program starts, it takes time to collect that data and then analyze it and report on it too, so. But, we are -- we spend a lot of time there, you know, too, so we are constantly in communication with the employees at DECD that do this work.

REP. MESKERS (150TH): I -- I would just observe as the programs change they'll be different metrics and just I guess the suggestion is that in the coordination you know what metrics we're trying to capture so that by the time it comes to reporting period you've -- you've been provided with -- if there are agencies administering or capturing those metrics you're looking for. I guess. Right?  
Representative Arora.

## PUBLIC HEARING

REP. ARORA (151ST): Thank you, Chair. Thank you so much for being here. I have two or three questions. My first one is did you say that it -- it took you 8000 hours? Was that right?

JOHN GERAGOSIAN: That's all of our work at DECD. The two departmental audits and the three other reports.

REP. ARORA (151ST): So -- so what would be the -- is there a cost you can provide us as to how much it cost to do it?

JOHN GERAGOSIAN: Well, I mean we don't assess -- like a private auditing firm would bill a client based on that. It would cost a significant amount if we costed it out, but because we don't bill the agencies and we don't -- you know, we're funded through an appropriation, we don't account for it, but we could.

REP. ARORA (151ST): Great. Thank you. The -- the other is that in terms of you know the -- in terms of CT Innovations, my question is are you following the standards which are used by the investment management industry in general being that they are very well-defined standards, which have been used to evaluate performance for such activities whether it's venture capital, investment -- all investment management firms. Are you using those standards -- the CFA -- ICFA standards, or?

JOHN GERAGOSIAN: Well, as it relates to Connecticut Innovations specifically, that's a quasi-public that we -- most of our auditing is done under the quasi-public auditing statute, and it's not as extensive as a regular department, and so we're not doing

## PUBLIC HEARING

performance auditing of that agency and on the investments, and -- and -- and we haven't as of yet.

REP. ARORA (151ST): In terms of returns. So, if -- you know, everybody when it's an investment agency, investment process, everybody asks well how much are you returning? So, we get asked that question from our constituents as well. You know, it's investing in new businesses, are they returning two percent, minus nine percent over three years, five years, or last year. There are two-year standards out there where everybody else is measured against, and I think it'd be nice for us to follow the same standards so we can evaluate whether in addition to providing the service in terms of benefitting our economy are they really performing at the similar level as private sector would or are we paying a fee for that or are we paying a price for that?

JOHN GERAGOSIAN: And -- and I could say, you know, we talk to our colleagues around the country. That is a challenge across the country for audit in other evaluation agencies measuring the performance of economic development programs. It's a constant issue when we talk to our colleagues. We're not in a case of that would require an in-depth analysis that we may need some assistance within terms of, you know, on the economics end of it.

REP. ARORA (151ST): My final question. Is it possible to have a summary because I did go through the report and it was very, very thoroughly done, but you know, some of us fight to kind of just go through a summary or executive summary. You know, I was looking for it. I didn't find it. Would it be possible you know maybe in the future for us to do an executive summary for a quick read so we can --

## PUBLIC HEARING

and you know kind of get an import of it? I do see some of the answers in your -- in your testimony, but perhaps something like that.

JOHN GERAGOSIAN: Yeah. Most of our -- almost all of our reports have executive summaries now, but you know, they may highlight -- like in the case of the second report had 32 recommendations. There were four on the -- we try to keep it at one page to kind of -- but -- but obviously, if you had specific questions about anything, we'd be happy to, not only sit down -- sit down with you and meet with you about it, or answer any questions in writing regarding the specifics.

REP. ARORA (151ST): Thank you very much for your time. Thank you, Chair.

REP. MESKERS (150TH): If there are no further -- no further questions, I'd like to thank you for your testimony, and I would like to invite our Commissioner of the Department of Economic and Community Development, David Lehman, to testify. Commissioner Lehman, if you are ready. Thank you.

COMMISSIONER DAVID LEHMAN: We're ready to go. Acting Chair, would you prefer if I read our testimony or just make some comments? I know it's already in the file.

REP. MESKERS (150TH): I'm not sure if everyone has seen testimony, so since I'm looking at the testimony being a page, perhaps it makes sense you read it, and then you can go through comments.

COMMISSIONER DAVID LEHMAN: Absolutely. Members of the Appropriations, Finance, and Commerce Committees, thank you for the opportunity to testify here today. As you are aware, our mission at the

## PUBLIC HEARING

Department of Economic and Community Development is to create and implement strategies to increase the state's economic competitiveness. We do this by attracting and retaining businesses and jobs, revitalizing neighborhoods and communities, and preserving and promoting cultural and tourism assets. The agencies programs and their impacts are outlined in great deal in our recently published 2019 annual report that we will be discussing today. We should note that this report in large part reflects the previous administration's approach to economic development.

As many of you are aware, the department under the leadership of Governor Lamont is moving in a new direction when it comes to providing financial assistance in particular to business. We are looking to retool our business assistance programs in a way that supports job creations but also ensures taxpayer funds are protected through an earn-as-you-grow model. If approved, these reforms and their resultant impacts will be reflected in future annual reports.

In closing, we will continue the work to work with our state auditors to ensure that we are providing the public with an accurate account of our activities. We're happy to answer any questions that you have. And, I'd just like, if it's okay, to add three things to the report.

First and foremost, we're big believers -- Deputy Commissioner Thames, myself, and everyone at DECD in accountability and transparency, and we're both very mindful of some of the issues that have come up in the past, some of which was discussed previously as it relates to audits and the accuracy of the

## PUBLIC HEARING

information, and we are committed to transparency and accountability with everything that happens with DECD, and we -- we think you're already hearing more positive tone in terms of the recent audits, and hopefully, that trend will continue, but if not and if there are issues or where there are issues, we're committed to changing those.

Secondly, I referenced in the -- in the testimony the change in incentive structure. That is significant, and a lot of what is in the report and a lot of where taxpayer funds have been spent in the past, we are proposing a fairly radical change in not to spend funds in that way in the future.

Lastly, I'll just point out, and I don't think that Controller Lembo is testifying today, but many of you saw -- I think it was Frontier was the organization -- put out a report in January that basically assess not the efficacy of incentive programs but the -- the transparency and the amount of sunlight that -- that the public sees, and Connecticut ranked three of -- third of 50 states in that report, so I think in large part to the legislature, Controller Lembo, DECD, the amount of the transparency that Connecticut taxpayers get versus the other 50 states, we actually do quite well on that, again, and we've made improvements. We're not -- we're not number one yet, but we -- we do quite well in terms of transparency there, so with that, I'll stop and Deputy Commissioner Thames and I are happy to answer any questions.

REP. MESKERS (150TH): Thank you very much.  
Representative Simmons.

REP. SIMMONS (144TH): Thank you, Commissioner and Deputy Commissioner for your testimony today, and we

## PUBLIC HEARING

also really enjoyed hearing your testimony yesterday on the new programs and bills for this session. A couple questions about the report on a couple of different programs starting with on page 8 the Urban Industrial Site Reinvestment Tax Credit Program, just to clarify and question about the direct jobs reported in table 9 -- the 4242. Are those the new jobs that have been created or are they -- does that include jobs retained and new jobs?

COMMISSIONER DAVID LEHMAN: No. That -- that should be -- well, that should be the incremental jobs that are a function of the URA investments, and there should not be any double counting as the auditors brought up. That has been corrected, and that's the average incremental jobs over that 10-year period.

REP. SIMMONS (144TH): Okay. Great. Thank you. And, then on the -- in table 8 that lists all the businesses that have received these tax credits, would you say for the most part it's been existing businesses that have already been in the state or has it been new businesses that have been attracted by this tax credit that have moved to Connecticut?

COMMISSIONER DAVID LEHMAN: It's a mixture of both. We don't have -- we don't have a hard percentage here, but just looking at the recent ones, Charter Communications moved to the state, Indeed has been growing herein the state, WWE has been in the state, so it's really been a mix, but typically where we've used this in the past and this is a program we intend to use in the future, is to encourage significant capital investments, typically alongside job creation in our cities or potentially out of our cities, so we'll use this, but it's primarily

## PUBLIC HEARING

gonna be for expansion projects where there's a capital investment associated with it.

REP. SIMMONS (144TH): Great. Thank you. And, then on page 10, the Film Tax Credit Program -- I noticed the -- the estimated net state revenue was negative in a couple of different tables, and I know you have a good recommendation there to continue to monitor the program, but I'm wondering if you could speak more to -- to why that revenue is negative, and if you think those tax credits are still effective? It's obviously such an important industry that we want to be supporting, but I just want to get your sense of if you think the tax credit is the most effective way to be supporting that industry?

COMMISSIONER DAVID LEHMAN: Yeah. So, first off, let me say we're very proud of the digital media industry that has been in the state and has grown in the state, and it's certainly something we want to continue to encourage and enable. You know, the film credit, as many of you probably looked, relative to the other analysis and annual report, it is negative, and -- and we said a couple of different times we need to do a lot more work on this, and I know some of the digital media companies have submitted testimony today as well. So, Deputy Commissioner Thames, myself, and DECD, we are spending a lot more time evaluating the film and digital medial tax credits to make sure that there is that right balance between the importance and -- and -- to companies to grow and invest here, but also to make sure that taxpayers are getting a good deal for the subsidy that they're providing. You know, like some of you heard me say this yesterday, but any incentive in my mind is supposed to transfer payments from one group of taxpayers to another, we

## PUBLIC HEARING

need to be really -- every time we have that, we need to feel very high conviction that is the right thing, so with film and digital media, we need to spend a lot more time, and we plan on doing so most likely after this sessions, but we'll -- we'll probably have a formal recommendation coming into next session whether we continue on or if there's certain tweaks that we would suggest as it relates to the program 'cause we agree the numbers are -- you know, they jump out at you, and I think in large part, Representative Simmons, that's because of the 30 percent credit for qualified cost. It's very, very significant as you see in dollar terms as well as percentage terms.

REP. SIMMONS (144TH): Okay. Great. Thank you. And, there's just two more questions, if I may, Mr. Chair, and then I'll open up to colleagues for questions. On page 35, talking about the Small Business Express Program, it said jobs to be created or retained, 27,000, and I know this program has had a lot of success in the past, and hearing the testimony yesterday about the new direction of the program, you know, the shift that we're going to be making to be partnering with the private sector, and with banks. Do you anticipate a major shift in terms of the number of jobs that will be created through the shift?

COMMISSIONER DAVID LEHMAN: Well, so the biggest difference is and previously there were -- were grants and forgivable loans that were associated with the small business lending in addition to the state being a direct small business lender. We are not proposing in the guarantee structure or the direct-lending structure through CDFIs to move forward with grants or forgivable loans, so we want

## PUBLIC HEARING

to make sure there is access to competitively price capital from the private sector or if need be from the public sector through CDFIs for minority women-owned businesses in our cities, so I'd expect to fuel the job growth and job retention through the availability of credit, but we're not gonna thing about it on a per-job cost in the future.

REP. SIMMONS (144TH): Great. Thank you. And, then final question on -- on page 39, the summary of the Opportunity Zone Program -- and I think this has been a -- you've done a fantastic job with this program, with the website, with the conference held with I think over 500 investors are there this year -- just wanted to see if you had any additional details on this program and any initial results yet in terms of total number of -- of investments or jobs that have been created through this or is it too early to tell?

COMMISSIONER DAVID LEHMAN: So, we -- we -- it's too early to tell, and the way that we're gonna need to figure out what is "an opportunity zone" deal is to go to the municipalities that have opportunity zones and try to get a sense of the permits that have been pulled and the construction projects and the total source and use of funds for those projects, you know, but for example, you know the New Britain Data Center is a significant opportunity zone project, in Norwalk the mall that Brookfield just built, the SoNo Collection, is a significant opportunity zone project, and Representative, as you well know, the majority of South Stamford, all that construction is an opportunity zone. So, there is significant projects that are happening in our opportunity zones. I am hopeful a year from now we can work with municipalities to come up with a number. The

## PUBLIC HEARING

question though is how -- how much -- how many of those projects happen because of the Federal OZ legislation or would have happened anyway, but we certainly can aggravate all of the development in our zones.

DEPUTY COMMISSIONER THAMES: And, just to piggyback on that, I think, you know, we have to -- and what we'll be working on is really looking at our incentives and kind of the new structure with the Job CT that provide the extra benefit to opportunity zones and development and job creation, and also, you know, our other incentives -- the URAs that you mentioned previously, how those layer in and kind of compliment kind of the Federal tax benefits, and so that's a part of what, you know, will kind of aggregate up into that job creation.

REP. SIMMONS (144TH): Great. Thank you for those answers, and thank you again for your testimony today. Thanks, Mr. Chair.

REP. MESKERS (150TH): Senator.

SENATOR HARTLEY (15TH): Thank you, Mr. Chair. Commissioner, Deputy Commissioner, just to followup on my colleague's questions on the opportunity zones. So, we had that conference. We had all of the municipalities there. We had investors in the room, and I understand, you know, you're -- you've got your website up and running; right? You do.

COMMISSIONER DAVID LEHMAN: Yes.

SENATOR HARTLEY (15TH): On this?

COMMISSIONER DAVID LEHMAN: And -- and --

SENATOR HARTLEY (15TH): Okay. But -- so do we have a pulse? Are we tracking anything? Okay. I know

## PUBLIC HEARING

about New Britain, and that was in the queue and SoNo, and yeah. There are designated places in Stamford, you know, obviously, they overlap with what these designated districts are, but do we have a pulse on what the activity is other than having that conference?

COMMISSIONER DAVID LEHMAN: So, we do, and the real question here is anecdotes versus data, but first, the data we have. There's been close to over, I think, close to 4000 now hits on our website and inquiries on some of the shovel-ready projects. Investors and developers basically looking around the maps and trying to -- of Connecticut on [ctopportunityzones.com](http://ctopportunityzones.com), and trying to figure out what projects could fit for them. You know, one -- one anecdote I'll mention is [clearing throat] is the Pirelli building next to the IKEA in New Haven is going to be converted into a very novel hotel concept, and that is a function of some of the dialogue around opportunity zones. I forget if that developer was at the conference or not, but that type of dialogue, and -- and we provided a small amount of financial assistance there through sales and use exemption. It was a function of some of the newfound excitement around our opportunity zones in our cities.

SENATOR HARTLEY (15TH): So, when you have those hits on the website, are you following up on them? Do we reach out? Do we, you know, try to pitch them? I mean or are we just having it for information sake?

DEPUTY COMMISSIONER THAMES: Yeah. I mean absolutely. We have a whole team dedicated to opportunity zones that is really working with

## PUBLIC HEARING

municipal leaders and facilitating those resources, whether it be CPAs, lawyers that kind of know the tax code, are staying current with updated regulations that can inform the local municipalities, bringing investors, connecting the dots if you will, and so we are building a whole kind of comprehensive approach to really helping our local municipalities because they're the ones that are driving these initiatives and developments, if you will, and so there's been a lot of effort in that manner, and also we are in the process via legislation that was passed last year relative to looking at our state-owned property of inventory on identifying kind of the top 10 state-owned properties that we can viably market in our opportunity zones to really kind of bring those properties back to productive use in those communities, and so we're actively going through that process now and hope to vet that list and publish and really start to develop -- market those properties, if you will.

SENATOR HARTLEY (15TH): So, let me just ask you. Are we behind in terms of where we thought we'd be today when we did this launch last year and we layered it with our state incentive programs?

COMMISSIONER DAVID LEHMAN: No. We're not. No. I do not believe we're behind, and we've gotten significant feedback via the other states that we are ahead as it relates to our effort and the potential for incentives.

DEPUTY COMMISSIONER THAMES: And, I would say -- I would just add one of the feedback that we get from a lot of investors and developers is our ability to have kind of this marketplace on our website that

## PUBLIC HEARING

kind of highlights, you know, the OZ developments, and so investors can go online and see like okay Hartford -- what projects are there in Hartford and how we can kind of connect them to investment money and we at DECD, you know, are thinking about various ways to potentially provide gap financing so if there is a development that is happening and maybe there's a 10 to 20 percent gap that's needed in financing, how can we play a role in that to really kind of move the needle and make that project happen? So, that's a lot of work that's happening. I think that's a unique tool that we've had because we were a late bloomer to some extent. A lot of states kind of got ahead very early on, but the regulations at the Federal level came as a slow drip, and so we actually had the benefit of not necessarily being a first mover but seeing kind of what other states were doing to then be able to augment and kind of build off of lessons learned and best practices.

COMMISSIONER DAVID LEHMAN: Senator Hartley, just one last thing on opportunity zones because I think it's important, and there's a lot of chatter about it. What happens with opportunity zones and what -- what the Federal legislation does, in my opinion, at its basic level is it lowers the cost of capital for these projects by between 1 and 200 basis points. So, certain projects still aren't gonna work. It's not a (inaudible - 00:41:49) to make all projects work. It -- it advantages certain projects by reducing the cost of capital to get them over the hurdle for certain investors, and that's what I think we're seeing happen. You know, regardless of what incentives we do or don't do, I don't think

## PUBLIC HEARING

we're gonna be able to impact that much more other than shining a light on it and playing matchmaker.

SENATOR HARTLEY (15TH): And, so to that end, you know, is there anything further that on legislative front we need to be considering this session, and once again, I go back to, you know, core urban areas that heretofore have not had the benefit of First Five, have high unemployment rates, and -- and quite frankly, you know, have looked to this legislation as being, you know, a linchpin to their economic development?

COMMISSIONER DAVID LEHMAN: So -- so as we discussed yesterday, but for everyone's benefit, SB 5, the Job CT bill that we're focused on, the benefit to create new jobs in opportunity zones, we're suggesting that's twice the benefit of creating jobs --

SENATOR HARTLEY (15TH): Yes. I see that.

COMMISSIONER DAVID LEHMAN: Outside of opportunity zones. In -- in addition, it is our intent to focus the other incentives that we can layer on for capital investment around job creation in addition to the brownfields money that we hope to be allocating here shortly to opportunity zones and to projects that are key in some of those areas that haven't had the investment, so from my perspective and Deputy Thames -- Commissioner Thames can jump in -- I don't think there's specific legislation that we need right now. I think we have the tools. I think we just need to execute.

SENATOR HARTLEY (15TH): And, so to Deputy Thames' example where there would have -- where there was a gap, and that's what we the state would be

## PUBLIC HEARING

interested -- available to try to help out, so what bucket would you use in that instance?

COMMISSIONER DAVID LEHMAN: If there's a gap in the capital structure?

SENATOR HARTLEY (15TH): Yes. Yes. For a particular project in one of these o-zones.

COMMISSIONER DAVID LEHMAN: Well, in my mind, the -- the main tools are so if there's a brownfields' loan, that's possible. That's day one money. That's helpful. Sales and use tax exemption is also a reduced check for the developer day one. So, those would be the primary two tools. Obviously, the Job CT legislation would be overlaid on top of that, and then the ability to potentially put in URA tax credits. We're -- we're focused on a deal in New Haven right now that would be funded with URA tax credits and a sales and use exemption, for example.

SENATOR HARTLEY (15TH): So, in your mind, it is not necessary to have anything designated carved out with respect to opportunity zones?

COMMISSIONER DAVID LEHMAN: I think we -- we -- we -- my -- my personal perspective is the legislation that was passed last year by this group on opportunity zones was sufficient, and the tools that DECD has in its toolbox are sufficient. We just need to make sure that we're prioritizing their usage to the key projects.

SENATOR HARTLEY (15TH): Okay. Thank you, Commissioner. If I -- if I might --

REP. MESKERS (150TH): Go ahead.

## PUBLIC HEARING

SENATOR HARTLEY (15TH): Thank you. Just on -- on the non-administered DECD tax credit aside, one of the most recognized is the Angel tax credit, and -- and I'm wondering if you have a position on this credit or any of those other that exist that are particularly useful in these discussions that we, from a legislative perspective, want to pay some special attention to?

COMMISSIONER DAVID LEHMAN: So, my -- my -- my instinct -- and that's the word I'm using on purpose -- is that the Angel credit is quite helpful, but one of the things I think we should consider and that the legislature should consider is making sure that we're measuring it in terms of what is the benefit, and it may be challenging to do, but really trying to figure out the same cost/benefit analysis we're doing in film or insurance reinvestment tax credit or MAA or First Five, what is the return to taxpayers? Is it positive or negative? So, on the Angel Investor Credit, trying to figure out what type of job creation or investment is that enabling that otherwise wouldn't have happened and our taxpayers benefitting as a result of it. So, that would be I think -- I think it's going to be very positive, but I think we should be measuring that.

DEPUTY COMMISSIONER THAMES: And, just to piggyback on that, I echo the same sentiment. I think, you know, as you are -- you and Representative Simmons are very much familiar with the work that CI does in Connecticut Innovations relative to really building and fostering our innovation ecosystem and recognizing, you know, the need for risk capital all along to continue through that lifecycle for very early proof of concept to, you know, customer traction and growth and scale, if you will, and so

## PUBLIC HEARING

the Angel tax credit has played a very significant role in that very early proof of concept precede space, but I think it is probably time that we better understand now that the program has been implemented for some years now, what is the return and are there investments that would have happened otherwise, and is it kind of adding value? But, I would say on my own kind of observation and what I know kind of working in the Innovation space and knowing companies that have utilized this tax credit and investors that have been utilizing this tax credit, that it's very much needed, and it's an added benefit for, you know, investors that are in Connecticut to invest in companies in Connecticut versus going outside to other ecosystems, if you will.

SENATOR HARTLEY (15TH): Thank you, Deputy Commissioner. And, so not to put either of you on the spot, but I think it's very important for us to do that kind of assessment with regard to the capital base tax, and you know, the -- no matter on how that play out, what -- what do we leave behind by further pushing this out? Do we have that luxury? Should we rethink that?

COMMISSIONER DAVID LEHMAN: [Speaking off mic].

SENATOR HARTLEY (15TH): [Laughing] Well, just by virtue of saying that, right. That means you're not on the spot.

COMMISSIONER DAVID LEHMAN: [Speaking off mic]. It's a balance that I think we can manage with the current budget, but I -- I think it's -- it's something that we -- it's important that we take a look at and evaluate the cost versus that benefit.

## PUBLIC HEARING

SENATOR HARTLEY (15TH): Thanks. Thank you very much. Yeah. Yeah.

REP. MESKERS (150TH): Representative Lavielle.

REP. LAVIELLE (143RD): Thank you very much. Good afternoon.

COMMISSIONER DAVID LEHMAN: Good afternoon.

REP. LAVIELLE (143RD): Good to see you both. I am -- before I ask you any questions, I just want to say that I'm pleased -- very pleased to see the direction you're taking on a lot of these matters, and two of the issues that always were questions for me was that we weren't able to be getting an accurate measure even remotely of the ROI we were [chuckling] -- we were receiving on these kinds of economic development activities, and I think you're making great strides in that direction. And, the other matter was that when we were counting jobs, it was never clear -- or when we were requiring companies to create jobs, it was never clear what kind of jobs those were, and I think those are two issues you've really taken head on, and I really appreciate that. I think it's very good for the state. I have some general questions. One is -- one though is kind of close to what the auditors have said in the past, and -- and the direction you're going in now, and I just wondered how you were -- one of the things that they had said in their many recent audits or interim audits was that DECD was responsible for reporting on agencies that it really had no access to, and I just wondered where -- where you are now in that -- in that area? Whether you're just excused from reporting on them or whether you're getting into them more deeply or

## PUBLIC HEARING

how's that -- how's that going? How is that working?

COMMISSIONER DAVID LEHMAN: So, it's a great question. As I understand it, we -- we are not excused, and -- and there are -- we were just talking about a few of the instances like the Angel Investor Credit better administered elsewhere, but they are reported in our report. I think the working relationship between DECD, we have a fantastic audit and compliance team that are here today. With a lot of these agencies like DRS or Connecticut Innovations, there's a good working relationship. It's not our first rodeo anymore, but at the same time, I do think a good principle is we should be accountable for what we're administering, and DRS should be accountable for what they're administering, and DR -- excuse me -- DRS, CI, etc., so I -- I do think there is some simplicity in -- in having ownership and accountability for what we do and others accountability for what they do. You know, what we need to balance with that though, as Deputy Commissioner Thames pointed out to me earlier, all of this stuff impacts economic development, so there is a rationale to have it all in one place, but at the same time, we -- some of the first times I see a lot of this data is when I'm reading our annual report. It hasn't been a judgement I've made in the past.

REP. LAVIELLE (143RD): Now, it must be rather difficult. I mean it's hard when you don't have access to the data you're supposed to report on.

COMMISSIONER DAVID LEHMAN: That's the tradeoff, but I don't have a very strong recommendation. I just think it's good business principle to have

## PUBLIC HEARING

accountability in the agency that's actually administering the program in their effective report.

REP. LAVIELLE (143RD): Well, that -- and that kind of leads me to my next question because this again has -- has always been a question for me. It probably is for you too. I don't know -- maybe that's presumptuous -- but as I have looked at DECD over the years and once I think about six or eight years ago was on the Commerce Committee, I've never had a good concrete feeling about what exactly it's mission was because there's so many things thrown in there, and I was looking for maybe an articulation of that in the report, and I may have missed it because, you know, this was all very quick. I didn't see one, but there's a lot of essential activities. It's just unusual to see them all thrown together, and you know, we have the cultural grants and we have the historic preservation and we have had -- we get businesses to come here and stay here, and it's -- it's all kind of disparate, and -- and then you throw into that that we now have another entity that's also doing, I think, at least in my opinion, very good work, which is Advance Connecticut, and I wondered if you could just elaborate a little bit on how you see -- what you see the role of DECD as a whole to be, at this point, in the context of all that?

COMMISSIONER DAVID LEHMAN: So, there's a lot to unpack there, but I'll try to do it as concisely as possible.

REP. LAVIELLE (143RD): I'm sorry. [Laughing].

COMMISSIONER DAVID LEHMAN: I mean -- so the annual report is not our marketing document --

## PUBLIC HEARING

REP. LAVIELLE (143RD): No.

COMMISSIONER DAVID LEHMAN: So, the intent was not to put that in there, but at -- at it's heart -- simply put -- DECD is promoting growth in the state whether that's through tourism, through business, through historic preservation, through culture. I mean lots of different facets very focused on the community, but really, we're growth focused across the state. The partnership with AdvanceCT, formerly known as CERC, is -- is a new one, and so far it is working quite well, but like any new partnerships, there are some growing pains that we -- we work through, but the way -- the way that the legislature should think about that is AdvanceCT and DECD are -- are partners as it relates to promoting growth. Depending on the specific activity, AdvanceCT is taking the lead, and on other activities -- so for example, any incentives or any handout of taxpayer money, that's certainly going to be handled at DECD. Any ombudsman navigating state agencies to get whether it's permits or development or businesses here, DECD is working on that, but at the same time, AdvanceCT is similar to what other states do. For example, at Jobs Ohio or Enterprise Florida, you know, they -- they're going to be taking more of the lead as it relates to promoting a state to business and focusing on the retention and recruitment of business. So, it's -- it's a work in progress, but we're -- we're still very positive on it, and -- and we've been making great strides.

REP. LAVIELLE (143RD): Thanks. It's -- it's sometimes there's so much going on, and I think this is one area where there's really good activity, and I -- sometimes I have a hard time telling what the -

## PUBLIC HEARING

- what the separation of the roles is, but I guess that'll -- that will evolve.

COMMISSIONER DAVID LEHMAN: Yeah. And, we've -- we -- we've -- I think we're at a point where we have it defined. I think we probably need to take back -- better communicate that to the legislature and beyond to make sure it is clear, but some of this as we go about executing our business, you know, we're trying to figure out what is -- what's the best place, who should own this, and who should be in the passenger seat so to speak, but on many of the initiatives we're working on, it's gonna take involvement from both agencies.

REP. LAVIELLE (143RD): Yeah. I think --

COMMISSIONER DAVID LEHMAN: Both AdvanceCT and DECD.

REP. LAVIELLE (143RD): Just with my Appropriations hat on, it'll be as we -- as we go forward, you know, from a budgeting standpoint, the more clarity we can have on that the better it is and the easier it is to understand --

COMMISSIONER DAVID LEHMAN: I agree.

REP. LAVIELLE (143RD): How to allocate things to -- to DECD. I've just got one more question, and it's -- this is not meant to be a gotcha question. I'm sincerely interested, and --

COMMISSIONER DAVID LEHMAN: We'll take your word for that.

REP. LAVIELLE (143RD): 'Cause I've already said I like what you're doing, so [laughing], but you -- you probably saw that the report that came out of the University of North Carolina that says that you know all the states that were doing --

## PUBLIC HEARING

COMMISSIONER DAVID LEHMAN: Yes.

REP. LAVIELLE (143RD): Tax incentives it wasn't working. Does that -- do you think that's -- Connecticut was on the list -- do you think that's due to the way it was being handles before?

COMMISSIONER DAVID LEHMAN: In large part -- and for the Commerce Committee I might be boring them because I talked about this yesterday -- incentives are not the key to growing economy. They're not. The keys to growing our economy are really fourfold, in my opinion -- best in class transportation and infrastructure, best in class education and workforce, long-term tax certainty and fiscal stability, and then economic vibrant cities that are driving our growth. That's what we should be focused on. Tax benefits, incentives, handouts, whatever you want to call it that -- that's not the key to growing economies. There's been a lot of economic work that's been done on that. Some of you may be family last year Missouri and Kansas actually both passed a law because there was a border war between -- around Kansas City. Missouri would "buy" Kansas' companies and vice versa, and what the academics found is after ten years the economy was basically the same, but taxpayers were worse off, so I -- I agree in principle with -- with the report that came out on North -- from North Carolina State, and that's why it's really crucial that we take a hard look at our incentives and make sure that they strike the right balance, as again, that's not the key to economic prosperity around here.

REP. LAVIELLE (143RD): Well, I like your answer [laughing], so thank you. That's -- that's really all I have. I would just say I'm -- it's a very

## PUBLIC HEARING

different hearing than the ones we had in the last couple of years on -- on the audits. So, thank you very much for your work.

COMMISSIONER DAVID LEHMAN: Thank you.

REP. MESKERS (150TH): Thank you, and Representative Yaccarino, you have a question as well.

REP. YACCARINO (87TH): Thank you, Mr. -- Thank you, Mr. Chair. I really just have some comments. I've gotten to know Commissioner Lehman, and I haven't met Deputy Commissioner, but I -- your team has taken our economic development in a totally different direction, which I've been advocating for many years, and I really want to applaud you for that. It's a good team effort as far as the incentives and changing the direction of the small businesses, this isn't expressed, but having -- this has had more skin in the game, and it gives more incentive, so I just wanted to -- I really appreciate what you've done. I've gotten to know you over the last year, and I see how active you are in communities, cities, and towns throughout the whole state, and I think that's vitally important -- either the New Haven County or wherever you go, but I think as our body, I think we're very fortunate right now to have this team in place, and I just wanted to make that clear. Obviously, you know, keep working hard, but I -- I never believed in all those tax incentives. I argued against those for years, and I appreciate that you're trying to take us in a different direction. That's really all I wanted to say, but it's you and your team. It's not just one person.

## PUBLIC HEARING

COMMISSIONER DAVID LEHMAN: Thank you. Thank you, and we accept the burden to hopefully make you right there that we're doing a good job.

REP. YACCARINO (87TH): Thank you, Mr. Chair.

REP. MESKERS (150TH): Thank you. Representative Cummings.

REP. CUMMINGS (74TH): Thank you, Mr. Chairman. Commissioner, Deputy Commissioner, thank you again for joining us. I just have a couple questions for you. On page 17, the Second Insurance Reinvestment Tax Fund indicates that some minor changes could be made to the program. Could you tell us a little bit more about what changes you would propose?

COMMISSIONER DAVID LEHMAN: So, it's a great question, and again, I'll try to be concise, but this is a longer answer. So, I've studied the genesis of these insurance reinvestment acts, both one and two, a bit over the offseason, so to speak, and what I found is really twofold -- I made twofold observations, and we can talk about how to tweak it. You know, one, I think if you look at the -- the cost per job creation metrics over the last decade for this program it's expensive, and it's expensive relative to other programs like First Five, for example. So, I think on that metric -- and that's not the only metric -- but it looks inefficient and expensive. The second observation -- and I did have the opportunity to sit with them -- several of the investment managers that oversee this program, you know, I do think it's a -- it's a very novel structure from a financial perspective, and the engineering of the structure to make it work for insurance companies to make sure Connecticut companies get the funds, but I do have some other

## PUBLIC HEARING

concerns that the fees and the incentive structure within those investment managers might not be appropriate for the state and the state's taxpayers. So, generally, I find it expensive on the margin relative to other programs, and -- and I think they're potentially are costs that we could reduce if we were to have a third after this program. Stepping back from that though, I think if the goal is to -- there's two things at play here. One, there's the tax credit to insurance companies, which is the investment in Connecticut businesses. If the goal is really to spare job creation and have some amount of state funds alongside private funds or a loan doing that, I think there are more efficient ways we can do that. If the goal is to maintain this tax credit structure to spare the job creation, obviously, the two are interlinked, and I think we try to figure out ways to make it more efficient on a cost-per-job basis and try to lower the fee load.

REP. CUMMINGS (74TH): Thank you. In regards to the claw back, how are we -- are we improving our rate of claw backs when the participants are not fulfilling their contractual obligations?

COMMISSIONER DAVID LEHMAN: So, yes is the short answer. You know, we fight like cats, so when there's a company -- and this is what I call wrong way risk -- so, typically, when we're looking at claw back because jobs weren't created, business is bad. Some of these businesses have been in bankruptcy or we're pursuing them through the core process, we're foreclosing on, you know, offices, sometimes there's houses that are part of the collateral, so when there is that deficiency and we're looking at claw back money, we -- we always are looking to make sure that we're protecting the

## PUBLIC HEARING

interest of taxpayers. The one area where at times we will, you know, we want to be thoughtful about this. If it's what I call a football, so for example, if someone, Representative, says they're going to create 100 jobs but they create 98 and there's some cliff penalty for that, I don't think that was probably the intent going in, so you know, we'll make sure that we -- we -- we impose a penalty on two jobs there as opposed to some -- a cliff that again I don't think was realistic or the intent initially, but we absolutely take it seriously to protect taxpayer dollars.

DEPUTY COMMISSIONER THAMES: Yeah. I would just add to that. I think, again, it's a balancing act, right. We want to protect taxpayer dollars, but also, we want to be sensitive to businesses and business growth and keeping them and growing here in our state, and so to the extent that you know there's financial hardships, market conditions change, so they weren't able to hit, you know, a various number, we really try hard to work with the business to find, you know, a path forward, if you will, and not kind of leading with a heavy hand, but recognizing that you know we have to protect taxpayer money, but we also want these businesses to continue growing and thrive in our state.

REP. CUMMINGS (74TH): It sounds like you're evaluating on a case-by-case basis. How often are you actually looking to ensure that they are meeting their thresholds and their goals so that maybe they don't get to the point where they can no longer meet the overall goal, but you can identify it earlier in the process?

## PUBLIC HEARING

COMMISSIONER DAVID LEHMAN: So, it depends on the contract. Some audits are annually or on a periodic basis. Some audits -- job audits these are -- are every three years or maybe one time in five years. There is an example we were talking about this morning. So, it's prescriptive in the document, and some of these documents where we spoke, but when -- when there is a requirement for a job audit or when that was negotiated, we'll complete the job audit, and if there's a deficiency in that audit, we ask for payment.

REP. CUMMINGS (74TH): Do you think we need to reevaluate what our audit processes are going forward for new contracts?

COMMISSIONER DAVID LEHMAN: I don't think so personally, and in the new Job CT framework, we're gonna have it much more streamlined. It will not be just spoke. There will be a standardized contract and data that's provided to us, and then payment remitted to them if that legislation is successful, so because we're -- we're moving away from the MAA/First Five structure to a more standardized framework, I don't think we'll need to do that.

REP. CUMMINGS (74TH): And, since we are moving away from that -- that previous structure, how do you envision that all of these processes are going to fit in the future?

COMMISSIONER: So, we're actually working through some of that operational analysis right now, but it's going to be DRS working in close conjunction with DECD. And, then the real question is how can we automate a lot of this? We had a debate yesterday in Commerce, as you're well aware on, is 25 net new jobs the right number versus 20 or 15,

## PUBLIC HEARING

and can we get to a point where there is no friction or expense and the risk of fraud is quite low where we can reduce that number to make sure it's a level playing field for all business. We have another meeting next week with the team on this, and this is something we're very focused on to try to make sure that it is as automated as possible with very little human error and really minimize the fraud risk.

REP. CUMMINGS (74TH): Fantastic. Thank you so much both for your time.

REP. MESKERS (150TH): Thank you very much. Representative Johnson.

REP. JOHNSON (49TH): Thank you, Mr. Chair. And, thank you for your presentations. I have a question about the State Historic Preservation Office and the tax credits, and I'm interested in knowing in terms of that do you have a policy audit that occurs, and if you do, I would like to know if there's a disparity between how they tax credit function in say distressed municipalities versus municipalities that have more robust economy?

COMMISSIONER DAVID LEHMAN: Sorry -- sorry, Representative. I only heard the first part of the question. Is there a policy audit?

REP. JOHNSON (49TH): That's correct. Did you have a policy audit or do you just do a financial audit?

COMMISSIONER DAVID LEHMAN: I don't believe this -- this program was audited in conjunction with the entirety of DECD. I don't believe there have been a specific audit on SHPO, but I can speak that -- so generally with the State Historic Preservation tax credits, we have traditionally handled that on, you know, effectively a first-come first-serve basis as

## PUBLIC HEARING

-- and certainly, the team has a log and a backlog of projects and is trying to be, you know, equitable with it, and folks that come in around that same timeframe as we allocated I think last year was close to \$11 million dollars, \$10 million dollars of which went to I think nine sites and then the rest of it to History Home Preservation Project, so the SHPO team is basically metering it out, but not a specific audit for that program.

REP. JOHNSON (49TH): So, when you -- when you do allocate the tax credits, do you do it based on the same percentage for every single town or is it based on the building, is it on the rate of return that you would get when you're looking at who the investor is and where it is?

COMMISSIONER DAVID LEHMAN: To-date, Representative, it's been based on the -- the specific project and the need of that project relative to other projects that are applying around the same time for what's called a reservation for these credits.

REP. JOHNSON (49TH): So, how do you make a determination as to what the return on the investment will be?

COMMISSIONER DAVID LEHMAN: Well, so with -- with SHPO -- and that is something that is very -- it's very difficult to measure, just the nature of some of these projects. There's certainly construction work that's done, but some of these there's going to be job creation and some of these there's not. We could talk -- talk about it, and perhaps, should talk about better measuring the State Historic Preservation credits 'cause that's -- that's something that's very challenging to measure, and we

## PUBLIC HEARING

have not measured it, as you see in our annual report outside of just the allocations per project.

REP. JOHNSON (49TH): So, you don't have an analysis that would be able to compare and contrast a more robust municipality against a distressed municipality in terms of how the tax credits are allocated and how you make a decision about the return on the investment?

COMMISSIONER DAVID LEHMAN: That's correct. There's no ROI judgement that's based on an allocation of those credits.

REP. JOHNSON (49TH): Thank you.

DEPUTY COMMISSIONER THAMES: But, there -- there is a financial audit that is produced that our legislative aide just provided us, but not a policy audit that you were referencing relative to how we allocate the tax credit.

REP. JOHNSON (49TH): Great. Thank you so much. Thank you, Mr. Chair.

REP. MESKERS (150TH): Representative Cheeseman.

REP. CHEESEMAN (37TH): Thank you, Mr. Chairman. Thank you both for coming this morning. Question, Office of the Arts and in particular the Office on Tourism, coming from Southeastern Connecticut where tourism is a very important resource, there's been a lot of research done on the return on investment of those tourism marketing dollars. How strong -- one, are you confident that the tourism funding is in the right place, that the structures are in place to carry out that marketing, and how much of an advocate are you going to be for those tourism marketing dollars because we've seen our neighboring

## PUBLIC HEARING

states go way ahead of us, and are the marketing dollars declining? And, I have a certain ax to grind here. My -- my day job I run a children's museum in Niantic, so obviously, a lot of our summer visitors are brought here by the tourism, but looking at, you know, the Seaport, the Aquarium, all of the resources in Southeastern and the rest of Connecticut, we have constantly and for the past few years after a big initial investment undercharged that tourism marketing budget, and I'd just like to know what -- what your read is on and what you'd like to see happen?

COMMISSIONER DAVID LEHMAN: So, first, let me say I agree with you in terms of the return on investment for tourism spent, and I think there is sufficient data out there and lots of benchmarking versus other states. You know, there is a real return on tourism dollars, and then I also agree with your comment if you look at other states on a -- whether it's per capita GDP basis or just per capital relative to population, our spend is light, so ideally, if there -- there could be more tourism dollars in the general fund from DECDs perspective, I think that will be welcome, but we understand the constraints in terms of the budgeting process. You know, I think from our perspective, we want to be strong advocates of tourism. We think about ways we can grow the economy and -- and you know, I think there is the perception that some have of Connecticut as a drive-through state or whatever you want to call it. I think we need to brand ourselves much more as a destination, and some of that branding generally I think that we have benefit internally in terms of residents -- the 3.6 million who we are, but making sure that we have a real tourism brand. That's

## PUBLIC HEARING

something that we like to embark on. It just comes down to the right resources 'cause, again, I do believe very much in the return of our investment pieces.

REP. CHEESEMAN (37TH): So, basically, you need us to find you the money --

COMMISSIONER DAVID LEHMAN: Those are your words, not mine.

REP. CHEESEMAN (37TH): And, then you've got the ways to spend it. Yeah. Yeah.

COMMISSIONER DAVID LEHMAN: No. Again, there's constraints. I think we -- we do well with what we've got, but that is an area where if there was more, I think relative to our peer group, it would be money well spent.

REP. CHEESEMAN (37TH): And, looking at the cultural side -- I know Massachusetts has a dedicated --

COMMISSIONER DAVID LEHMAN: Yes.

REP. CHEESEMAN (37TH): Fund for culture. What would you like to see happen in terms of promoting our cultural resources? Because, again, for a small state we're very rich in cultural resources.

COMMISSIONER DAVID LEHMAN: I think of them as one of the same generally. I think that the branding around tourism is that's hand-in-hand with the culture because a lot of the -- the tourist attractions, there's gonna be an overlap with the cultural attractions, whether it be the Arts or -- or other sites that we have in the state, so I think this all comes down to branding and -- and marketing of ourselves and how we -- how we sell ourselves,

## PUBLIC HEARING

again, as a destination -- as a cultural destination.

REP. CHEESEMAN (37TH): Okay. Thank you. Thank you, Mr. Chairman.

COMMISSIONER DAVID LEHMAN: Thank you.

REP. MESKERS (150TH): Thank you. Representative Doucette.

REP. DOUCETTE (13TH): Thank you. Welcome. Good to see you both. A couple of questions. One sort of generic global question. Forgive me if it's too generic and perhaps you've had some of these conversations already on the Commerce Committee even yesterday and before, but as we look at this report here, are there any programs or tax credits that you anticipate either by design or just by demand being eliminated, phased out, or scaled down by say more than 50 percent of what we see here in this year's report?

COMMISSIONER DAVID LEHMAN: I'll take a stab at that. So, let's talk about credits and programs first, but the business -- on the business assistance front, absolutely. MAA or what was MAA and what was Small Business Express those are completely changing, so that is going to change significantly if the legislation passes, which we're hopeful it will. Absent those two programs, which is a significant shift. Now, there's nothing right now that we're saying it -- it's not gonna be used or it's going to be reduced significantly or go away, but the two programs that I think we really do need to dig in and truly evaluate if we're going to continue in the current format. One is the film and digital media tax credits as I answered the question

## PUBLIC HEARING

earlier, and the second is the -- in my mind, the Insurance Reinvestment Tax Credit to make sure that, again, the right balance is struck between the needs of the companies and -- and why they're utilizing those credits, and the taxpayers that are funding those programs.

REP. DOUCETTE (13TH): And, the second question is on the Manufacturing Innovation Fund. This is one I think that's proven to be very effective, and we've seen a lot of demand, and obviously, in recent years outpacing the remaining resources. What do you see as the future of that fund?

COMMISSIONER DAVID LEHMAN: So, we're -- we are big believers in the Manufacturing Innovation Fund, and -- and the Voucher Program, the Incumbent Worker Training, and the Apprenticeship Program that really are the main three programs that were in there. In an ideal world, the funding for workforce training would be through the general fund and not bonded. You know, unfortunately, that -- we have not been able to do that, but I realize austerity does not work in this instance -- in my opinion -- so I think we are supposed to find dollars for the 2.0 version of Manufacturing Innovation Fund, potentially through bonding it. I do think there are enhancements we can make to the program where we can potentially require a higher match from the private sector for the public sector dollars to come alongside, in addition really focusing the program on small to mid-size manufacturers as opposed to our largest manufacturers which arguably can fund some of those investments themselves, so with Colin Cooper, the State Manufacturing Czar whose been in the seat for about six months now -- five or six

## PUBLIC HEARING

months -- we're working very hard at that, and that's something we hope to accomplish this session.

REP. DOUCETTE (13TH): Thank you.

REP. MESKERS (150TH): Representative Dathan.

REP. DATHAN (142ND): Thank you very much, Mr. Chairman, and nice to see you, Commissioner. Apologies for being late. We had Appropriations, and apologies if somebody already asked this question, but I understand that you are supporting the Governor's delayed phase out of the Capital Stock Method of the corporation business hacks. But, I'm wondering if you have heard from entities in our state that maybe have reservations or concerns and how this will affect them going forward?

COMMISSIONER DAVID LEHMAN: So, I do -- so -- Senator Hartley was kind enough to ask me a similar question earlier, so I will -- I will try to --

REP. DATHAN (142ND): Okay.

COMMISSIONER DAVID LEHMAN: No. But, yeah. She didn't want to put me on the spot. I do support the -- [Crosstalk].

REP. DATHAN (142ND): No offense, but I do.

COMMISSIONER DAVID LEHMAN: We support the Governor's budget here. We -- we do the balance though between what was enacted six or eight months ago versus the potential change now we're sensitive to that from a messaging perspective. Now, I do think if you truly look at the numbers and the -- the burden or the cost on those businesses spread across all the businesses -- the \$6 million dollars -- the true delta is small, so in my mind, it's

## PUBLIC HEARING

making sure that we as an administration and a legislature have credibility as it relates to the start-up community on this front, and I think we do is the short answer. I think we need to keep our eye on the ball. I've not had a complaint to directly answer your question or someone who has said, hey, what the heck. You just agreed with this and now it's changing, and I think that's just a function -- it's a very small dollar amount, so to me this is more about making sure that we continue to manage the messaging and enabling these businesses 'cause I mentioned to Senator Hartley before we're 1 of 17 states that has this tax. I do think it's a tax that does need to go away because it inhibits the high growth and the good paying jobs that we want for our citizens.

REP. DATHAN (142ND): I fully agree with you. I think you remember that I came out of the start-up world and did a lot of technology-based start-ups, so for me, I wasn't happy with this, particularly in light because last year we implemented the Pass Through Entity Tax, and I know that that's adversely affecting businesses, and I just think that incrementally I get concerned. I know this is not my lane because I don't sit in Revenue and Bonding, but it is a concern for messaging because I do think if we want to have you know a vibrant tech -- sorry. Start-up market in the state we need to really appeal to them, and I think making it cheaper to do business in our state is the first thing that we need to do to do that. So, thank you for your time today.

COMMISSIONER DAVID LEHMAN: I agree.

REP. MESKERS (150TH): Representative Davis.

## PUBLIC HEARING

REP. DAVIS (57TH): Thank you. Thank you for your presentation here today. I know as you mentioned one of the four pillars of what you see is economic development is the development of the cities and -- and making them more thriving, and one area that seems to get tapped out pretty quickly each year is the historic tax credits and the rehabilitation through the SHPO office and DECD, and the idea that there's a lot of vacant building or buildings that are underutilized in our state's cities, particularly thinking about some of the big factories, and I know the state is involved with some of the projects like in the south end of Hartford here with the food hall that's going in and a few other ones, but I see it also in other cities across the state like Bridgeport, New Haven, even Stamford for that matter. Is there opportunities for us to expand those types of tax credits that get that kind of direct investment into those properties to not only create opportunities for jobs to be placed there but also get those properties kind of back on the tax rolls for those cities so the property tax base continues to grow and provide those additional services without additional state assistance for those cities?

COMMISSIONER DAVID LEHMAN: Yeah. It's a great question. So, I think -- and I'm going to generalize which can be dangerous, but we support the SHPO credits -- the State Historic Credit. As many of you are probably aware, the federal government, I believe, on cap basis allows a credit for 20 percent of hard costs and qualifying soft costs for historic preservation as accompanying federal credit, which is significant for projects. So, for a \$10-million-dollar spend, they're gonna

## PUBLIC HEARING

get a \$2-million-dollar credit. There's a longer compliance period. They're not completely apples-to-apples with the state credits. I think that the challenging thing though for -- for me, Representative Davis, is you know in a world of discrete amount of resources how do we say more historic preservation credits relative to other credits? Because I do think the challenge there is I do think they're tougher to truly quantify, and when you really try to figure out okay if we didn't have this how many of those projects would have happened anyway versus not it's -- there's a lot more judgement I think in ultimately evaluating those credits, so I think they are important, especially because of, you know, what we have here in the state, and a lot of the properties that need to be repurposed in particular in our cities. I would just mention we do have other tools like you know the Sales and Use Exemption. URA tax credits could potentially be used in those capital structures as well. Certainly, the brownfields' dollars, which we haven't talked about yet today. I think brownfields are incredibly important. You know, those are other tools that could be used for historic preservation projects to -- to potentially take the place of if we couldn't allocate more credits.

REP. DAVIS (57TH): Thank you. And, to that point then, are we seeing an increased amount of investors approaching DECD about the opportunities of maybe taking advantage of some of those other tax credits to maybe perform these types of projects?

COMMISSIONER DAVID LEHMAN: Yeah.

## PUBLIC HEARING

REP. DAVIS (57TH): 'Cause the struggler there too is if a building isn't necessarily historically designated then it doesn't qualify for that, but it could potentially qualify for some of these others.

COMMISSIONER DAVID LEHMAN: Sure. And, we -- so we are inundated -- I'll come back to brownfields, which is a very strong conviction that those are taxpayer dollars and very well spent -- brownfields' dollars. So, there are backlogs of folks that are looking to access some other monies whether they be through loans or grants, and then start preservation. We also have a list of folks that are looking to access those dollars, so I think the -- that some of this is related to potentially opportunity zones, but the developer interest in Connecticut in repurposing a lot of older properties and some properties that need to be cleaned up in particular in our cities is quite strong across the board.

REP. DAVIS (57TH): So, is there opportunities for us to -- to change programs in certain ways to eliminate that backlog and get those projects up and running as quickly as possible?

COMMISSIONER DAVID LEHMAN: I think it's -- it's dollars, again.

REP. DAVIS (57TH): Dollars dedication.

COMMISSIONER DAVID LEHMAN: And, I know, Representative, you and I have talked about CRDA. I sit on the CRDA board. I'm a very big believer in what they are doing, but having the -- one other thing that we should consider -- and I'm certainly not one to suggest more quasi or more entities -- but I do think making sure that we have an efficient

## PUBLIC HEARING

governing structure to put out these dollars when they -- when they are available is really important, and at DECD, I think we feel good about this with brownfields and the other programs we have, but I think it's just making sure we're constantly measuring how efficient are we at getting those dollars out and in programs like Historic Preservation where we have not necessarily measured it in the past, are there ways that we should be measuring it to make better judgements in the future?

REP. DAVIS (57TH): Mm-hm. Thank you.

REP. MESKERS (150TH): Representative DiMassa.

REP. DIMASSA (116TH): Thank you, Mr. Chairman. I appreciate it. I was going to say good morning, but good afternoon, Commissioner. It's good to see you both here. I should preface my comments by saying I've had only one cup of coffee today, and sometimes I get cantankerous, so just take it as constructive criticism. I think the steps you're taking towards accountability are fantastic lessons, you know. We're all stewards of the taxpayer's dollar. I think it's important that when we have a commitment from a private entity they live up to their commitment. I also have great respect for Representative Cummings. I think she's correct that you're judging it on a case-by-case basis, and that's important too because if they can reach their benchmarks but it's going to take them a little more time to get there for obvious reasons in their industry, I think we should allow them the latitude with your oversight to do that. Some of my concerns stem from the fact that I feel sometimes in -- in government, we're a little disjointed in the way we

## PUBLIC HEARING

operate. You obviously, as pointed out, have oversight over marketing, you know job creation, kind of making Connecticut competitive in growth. We have many proposals every year including this year that affect major industries whether it's gaming, whether it's marijuana, and there's a lot of jobs in a lot of industries tied to those concepts, and sometimes I'm concerned that I don't necessarily know what some of the larger stakeholders who maybe courting you to come into Connecticut where they stand on some of these issues and perhaps where we can work with them to craft legislation to get ahead of the game. I believe -- and unfortunately, she left -- but I know Senator Somers has worked on a bill as far as data centers and trying to attract those operations. My concern is that with a number of these big ticket items, our delay in action is a delay in many, many, many jobs over many industries, and I'm concerned about our competitiveness, and I would also caution that I agree with you that we need to restructure the way in which we provide assistance. I think -- I think you're moving in the right direction, but I would also say that to stay competitive we are going to still have to be competitive with some of the surrounding states because let's face it, you're absolutely right. They -- they are looking to poach large -- large employers, so definitely I look forward to seeing some of your proposals if I'm here next legislative session on that, and I thank you for your work, but just you know going forward -- and I don't know, again, I think sometimes we assume these are discussions that happen on a higher level with perhaps the Governor's staff, you know. He took the lead on -- on some of the gaming discussions -- but just, you know, I guess maybe the question for you

## PUBLIC HEARING

is -- is that something where it would be helpful if your office received perhaps communication from some of our committees and some on some of larger bills saying what do you think as far as the job creation on this or have you heard from the private sectors that this is something that we have potential for?

COMMISSIONER DAVID LEHMAN: So, Representative DiMassa, I appreciate all of your comments, so let me just take a quick swing at answering, and I believe the data center legislation, as an example, I am very familiar, and I've spent a lot of time on that, and -- and you know, with some constructive suggestions and changes, from DCEDs perspective, we are absolutely supportive of moving on that bill with urgency this term. But, in general, just to hard on the urgency point, I mean, again, the culture we want to have and -- and -- and we're working on and we have it in many ways already is one of urgency and accountability, so if there are -- if the legislature is aware of things that aren't happening or where we're dropping the ball, we certainly want to hear it -- Deputy Commissioner Thames and myself and the buck stops with us, so we want to make sure we're a very active and responsive partner to the private sector and to the taxpayer because it's their money we're spending. So, if you get feedback that that's not happening, please call me at any time.

REP. DIMASSA (116TH): I appreciate that.

COMMISSIONER DAVID LEHMAN: I know you will, but -- [Crosstalk].

REP. DIMASSA (116TH): [Laughing] Absolutely. I appreciate that, Commissioner, and I will just leave you with this. I do take exception to one thing I

## PUBLIC HEARING

think one of my colleagues pointed out up here. I actually flip it around. Instead of us finding you the money, I want you to find and create those jobs and have those businesses paying taxes and find us the money. That makes my job a lot easier, so thank you very much. And, thank you, Mr. Chairman.

COMMISSIONER DAVID LEHMAN: We're aligned.

REP. MESKERS (150TH): Senator.

SENATOR HARTLEY (15TH): Yes. Thank you very much, Mr. Chair. And, I -- I just want to bring up a conversation which kind of crosses lanes and is not in your report, but I think perhaps should be, and that is Connecticut's participation on SBIR grants, and -- and also their sister grants, and so I would like to have that included in the report, and I would actually like to have a definitive plan where we are working in unison. Right now, we know that it is housed across agencies with CI, but I, you know, talk about, you know, leaving opportunity on the table. I believe that this may be a posterchild for that. So, if you want to comment, I welcome the comments.

DEPUTY COMMISSIONER THAMES: Absolutely. I think we're in agreement there. We've, you know, engaged in very robust conversations and I know we're gonna continue to dialogue relative to how do we increase our participation in the SBIR program because it's, you know, to some extent, you know, has plateaued, you know, relative to, you know, businesses winning awards, and one of the things that I just want to point out is that, you know, we don't have a whole lot of insight onto, you know, the companies or PIs from the universities that are applying, so we don't know the volume of applicants because there's kind

## PUBLIC HEARING

of a federal black box, if you will, but we do track who is winning those awards, right, and we provide, you know, a comprehensive robust suite of programming to ensure that people are aware of the opportunities, have access to the opportunities, and providing them with strategic business support to win those opportunities, if you will. And, so you know we have limited resources and we will continue to do that, and I -- and I look forward to continuing working with you on how we can continue to move the needle, but you know, overall, federal awards have been down, so you know the numbers relative to Connecticut remaining flat. You know, that -- that's consistent across the board with our peers, but again, we want to ensure that we are continuing getting our fair share of those awards and are priming the pump and building that pipeline as much as we can.

COMMISSIONER DAVID LEHMAN: And, we've -- just to underscore this point. We've -- we -- SBIR grants are critical right now. Any federal dollars we can import to the state, especially for R&D in high-growth companies absolutely critical. If you look at the data over long periods of time, and we've looked at it, you know there's been broadly a level of the playing field where it used to be Connecticut, Massachusetts, California a disproportionate amount per capita of those grants in states like those, but the other -- the rest of the 50 states have caught up, and -- and we have suffered as a result of it. We need to do everything we can to -- to remain competitive because I do think it's critical, and we can talk about implementing some of the strategy suggestions that have been made previously to do that, but this

## PUBLIC HEARING

-- this probably does take -- to do this right, in my opinion, it takes more resources than we have.

SENATOR HARTLEY (15TH): So, when we look at -- and I understand that, you know, everybody's kind of come to the game here -- but when we look at our neighbor -- our neighbors, in particularly Massachusetts --

COMMISSIONER DAVID LEHMAN: Yes.

SENATOR HARTLEY (15TH): And -- and we see a real divergence on those slope lines, I guess I wonder, you know, why our trajectory has changed. Other than the fact that -- okay. So, you've got more people applying, more states applying, but it seems like still the states that were our competitors on this are outpacing us.

COMMISSIONER DAVID LEHMAN: No. They are, and this comes down to ecosystem, so the way -- and just a stat. Some of you heard this, but we are top decile, certainly quartile, as it relates to patents and ideas coming out of Connecticut. We are in the bottom quartile though in terms of business formation for high-growth companies, so said in plain English, we do a great job coming up with these good ideas. We do a really poor job of turning them into jobs and money. We need to -- we need to fix that. The good news is we've got the ideas here and a lot of great companies should be housed in Connecticut. We need to make sure that they feel like Connecticut is the place for them, and that -- that comes down to the ecosystem, and Massachusetts has more of that than we do right now candidly. We need to change that.

## PUBLIC HEARING

SENATOR HARTLEY (15TH): Okay. Thank you. Thank you, Mr. Chair.

REP. MESKERS (150TH): If there are no further questions, I'd like to thank the Commissioner for your testimony. I think as some of the members mentioned I think it was a refreshing approach to the analysis of business, and I want to encourage you in your endeavors. Thank you very much.

COMMISSIONER DAVID LEHMAN: Thank you. We've been called a lot worse than refreshing, but we appreciate it. [Laughter]. Thank you, guys, for listening to us.