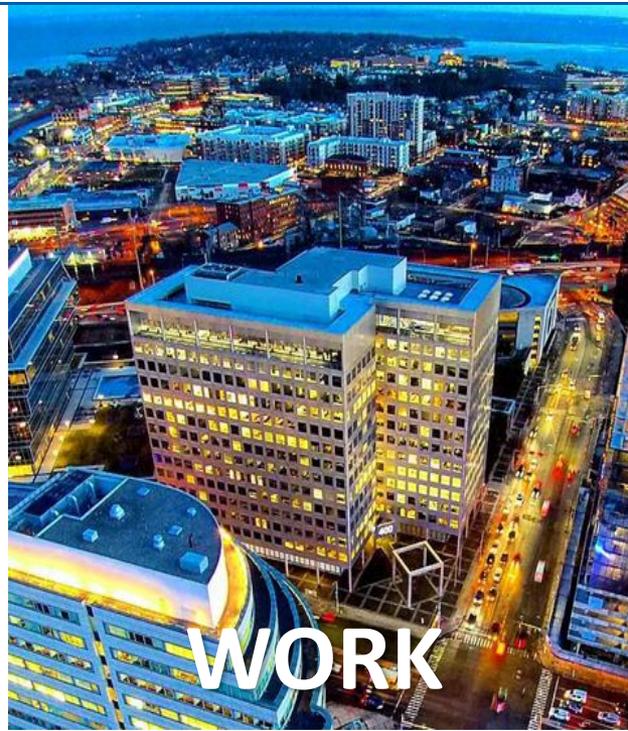




LIVE



WORK



PLAY

Testimony Presented to the Commerce Committee

Senate Bill 9: An Act Establishing the JobsCT Tax Rebate Program
House Bill 5007: An Act Concerning the Small Business Express Program

David Lehman, Commissioner
Glendowlyn Thames, Deputy Commissioner
Department of Economic and Community Development

February 27, 2020

- ✓ JobsCT
- ✓ Other Large Scale Incentive Programs
- ✓ Small Business Express 2.0

New 2020 tools to facilitate private sector job creation:

- **Transparent** — clear, simple incentive for companies to evaluate when considering growing in or relocating to Connecticut.
- **Earn-As-You-Grow** — rebate earned as jobs are created/maintained over time which mitigates state exposure to credit/business risk.
- **Targeted** — industries and focus areas build on our strengths of today — and the ecosystems we want to grow in our economy of tomorrow.

Manufacturing

Corporate
Headquarters

Life Sciences

Entertainment &
Digital Media

Clean Energy

Financial
Services

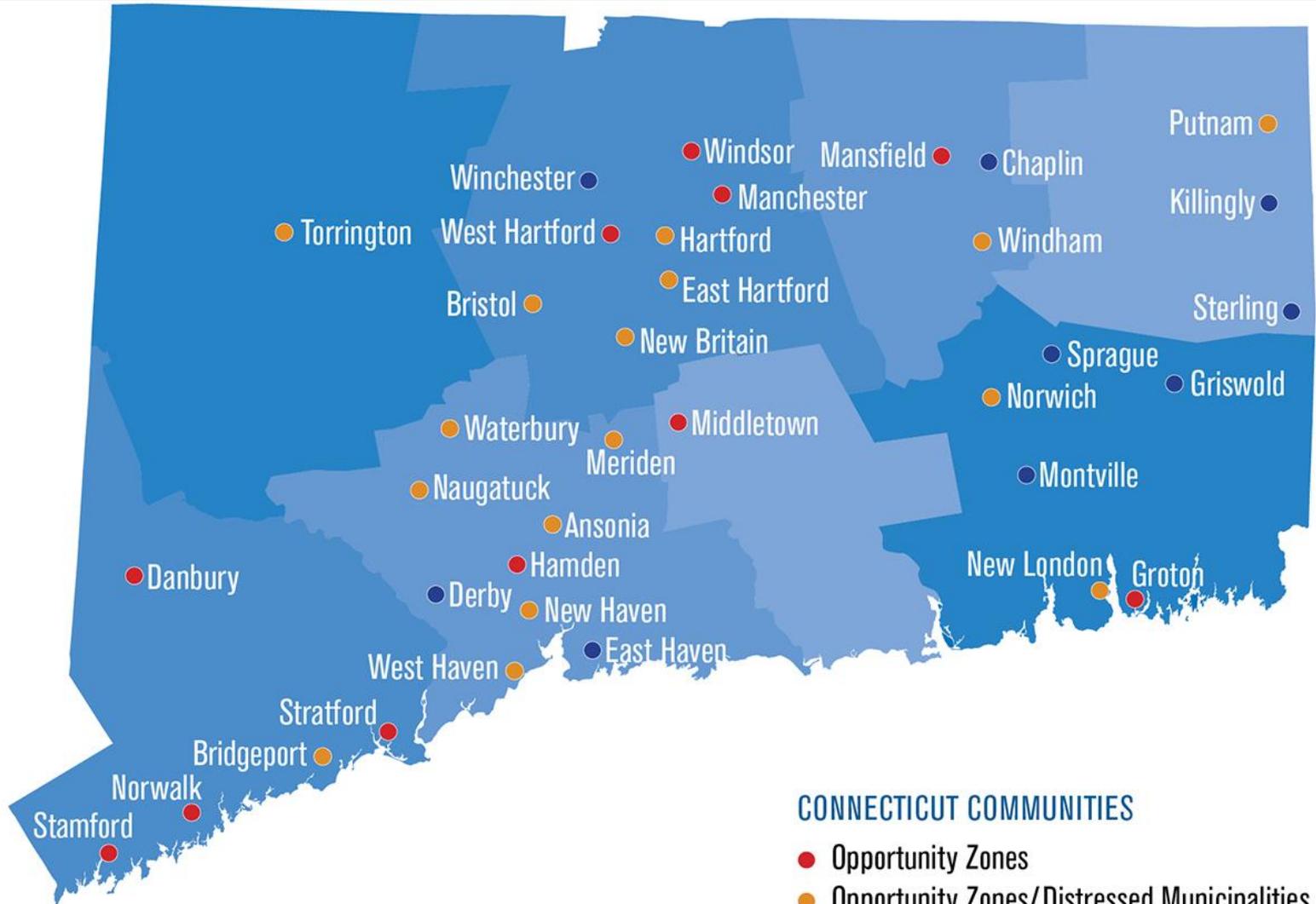
R&D Facilities

Aerospace/
Defense

Information
Technology

- Eligible employers who meet the below requirements will be rebated 25% of the withholding taxes from net new employees.
- Employers that locate or grow in a Distressed Municipality or Opportunity Zone: employer is eligible for 50% rebate.
- Program requirements
 - Create a minimum of 25 new jobs.
 - Salaries must be 85% of the median household income of the municipality where the jobs will be located.
 - Employers must be in a Jobs CT focus area.
 - Minimum annual salary: \$37,500.
 - Rebate per job, per year will be floored @ \$1,000 and capped @ \$5,000.
 - Base incentive rebate in years 3 through 7. Years 8 and 9 discretionary.

Map of Distressed Muni/OZ



CONNECTICUT COMMUNITIES

- Opportunity Zones
- Opportunity Zones/Distressed Municipalities
- Distressed Municipalities

Example

Company in focus area creates 25 jobs

- Salary per job: \$100,000
- Income tax rate: 5.5%

Net new tax revenue over seven years: \$962,500

- State's portion: 25% \$790,625 – 50% \$618,750
- Company rebate: 25% \$171,875 – 50% \$343,750

New Tax Revenue	\$137,500	\$137,500	\$137,500	\$137,500	\$137,500	\$137,500	\$137,500	\$962,500
Year	1	2	3	4	5	6	7	Total

State revenue	\$137,500	\$137,500	\$103,125	\$103,125	\$103,125	\$103,125	\$103,125	\$790,625
Company rebate (25%)	\$0	\$0	\$34,375	\$34,375	\$34,375	\$34,375	\$34,375	\$171,875
Year	1	2	3	4	5	6	7	Total

State Revenue	\$137,500	\$137,500	\$68,750	\$68,750	\$68,750	\$68,750	\$68,750	\$618,750
Company Rebate (50%)	\$0	\$0	\$68,750	\$68,750	\$68,750	\$68,750	\$68,750	\$343,750
Year	1	2	3	4	5	6	7	Total

*Actual time of rebate: Year 4, Q1

JobsCT:

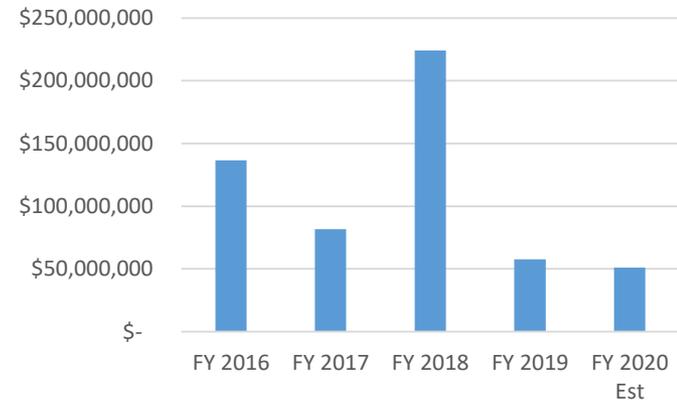
- Financial Assistance per Job: Estimated between \$5,000 and \$10,000
- Annual Cap: \$40M
- Annual Bonding Requirements: \$0

Other states with performance-based incentives:

- Massachusetts
- New York
- Missouri
- North Carolina
- South Carolina

MAA/First Five:

- Financial Assistance per Job: Avg. \$18,992 (DECD 2019 Annual Report)
- Annual Cap: None
- Annual Bonding:



Urban and Industrial Site Reinvestment Tax Credits (URA)

- Tax incentives for companies seeking to revitalize urban and industrial sites, creating significant jobs and capital investment.

Sales and Use Tax Exemption

- Tax relief on the purchase of tangible personal property for qualifying retention and expansion projects, or projects that significantly contribute to a targeted industry cluster.

Governor's Closing Fund (No legislation required; MAA Funded)

- \$2-5M grant to offset relocation costs for large corporate Headquarters.

- **Background:** EXP was created to help stimulate the economy after the Great Recession when financial institutions were not lending. It was never meant to be a long-term program, rather a bridge until the financial sector regained its footing.
- **Goal:** Collaborate with the CT lending community to incentivize greater capital access for businesses to grow with a special focus on minority, women, veteran, and disabled-owned businesses.

Two-pronged approach

- Partner with CT Innovations (CI) to leverage their existing Capital Access for Business (CAB) loan guarantee program.
 - Additionally, allow CI the flexibility to use a third-party provider to establish this program, similar to Massachusetts and Rhode Island.
- Develop a process for expanding the state's direct lending and access to capital infrastructure through partnering with Connecticut community development financial institutions (CDFI).

Examples of potential partners/providers include:



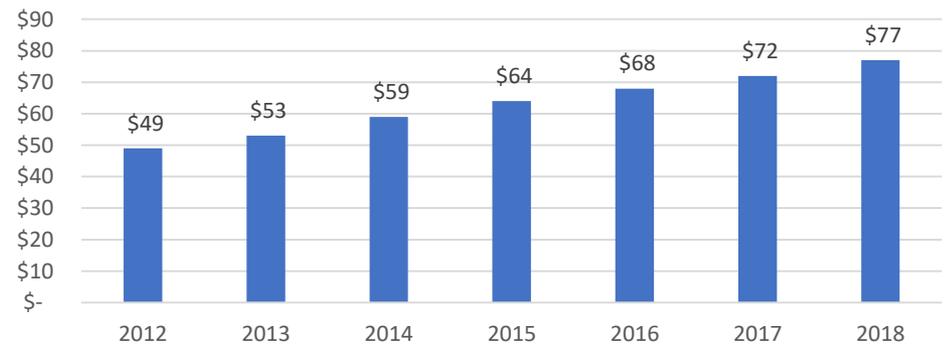
Why Small Business Express (EXP) 2.0?

EXP Contract Trends by State Fiscal Year



(Data.ct.gov)

Bank Lending in Billions (Real Estate & C&I)



(federalreserve.gov)

Bank Lending Up 64%

Benefits:

- Partner with the private-sector to increase lending capacity for small business which may not be able to obtain traditional financing.
- Leverage existing CT CAB program.
- Better aligned state resources for greater efficiency with a customer-centric approach.
- Implement with existing bonding resources while significantly lowering risk and ongoing funding needs.
- Superior leverage factor: 20x leverage vs. negative leverage in existing program.
- Increase access to capital for underserved and underrepresented communities who face barriers accessing conventional lenders due to their limited credit history and at times low levels of borrowing they seek.
- Targeted investment toward market gaps.

Funding over 4 year period:

1st Loss Guaranty CAB Program

- \$1.4M operating cost
- \$1.7M contribution to Loan Guaranty Fund to support \$20M in deployment

Direct Lending and Technical Assistance with Partners:

- \$6M annually over 4 year period

Total = \$27.1M

Appendix: Example 2

Company in focus area creates 25 jobs

- Salary per job: \$60,000
- Income tax rate: 5.5%

Net new tax revenue over seven years: \$577,500

- State's portion: 25% \$790,625 – 50% \$618,750
- Company rebate: 25% \$171,875 – 50% \$343,750

New Tax Revenue	\$82,500	\$82,500	\$82,500	\$82,500	\$82,500	\$82,500	\$82,500	\$577,500
Year	1	2	3	4	5	6	7	Total

State revenue	\$82,500	\$82,500	\$57,500	\$57,500	\$57,500	\$57,500	\$57,500	\$452,500
Company rebate (25%)	\$0	\$0	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$125,000
Year	1	2	3	4	5	6	7	Total

State Revenue	\$82,500	\$82,500	\$41,250	\$41,250	\$41,250	\$41,250	\$41,250	\$371,250
Company Rebate (50%)	\$0	\$0	\$41,250	\$41,250	\$41,250	\$41,250	\$41,250	\$206,250
Year	1	2	3	4	5	6	7	Total

*Actual time of rebate: Year 4, Q1