



***TESTIMONY PRESENTED TO THE COMMERCE COMMITTEE***

*February 27, 2020*

*David Lehman, Commissioner  
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*Senate Bill 9: An Act Establishing the JobsCT Tax Rebate Program*

*House Bill 5007: An Act Concerning the Small Business Express Program*

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Good afternoon Senator Hartley, Representative Simmons, Senator Martin, Representative Cummings and members of the Commerce committee. My name is David Lehman, and I am commissioner of the Department of Economic and Community Development (DECD). On behalf of Deputy Commissioner Thames and myself, I appreciate this opportunity submit testimony on Senate Bill 9: An Act Establishing the JobsCT Tax Rebate Program and House Bill 5007: An Act Concerning the Small Business Express Program. We thank Gov. Lamont for proposing this legislation, and we support Gov. Lamont's efforts to more efficiently use incentive programs to grow the state's economy. These Governor's bills will support business growth and job creation, while reducing the per job cost to the state, and will leverage the state's financial institutions.

As you know, our mission at DECD is to develop 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 Connecticut's arts, cultural and tourism assets.

Historically, the state has offered different incentive programs to attract and support businesses in Connecticut. Small businesses have been able to access grants and loans through Small Business Express. Medium and large businesses have been incentivized by providing upfront grants and forgivable loans through the Manufacturers Assistance Act (MAA). Our incentive programs have averaged \$200 million in annual bonding and cost the state an average of \$18,000 per job. Senate Bill 9, if passed, will cut the amount of bonding required to incentivize by close to 70%, and the cost of the program will be \$5,000-\$10,000 per job created.

### **Summary of SB 9:**

Eligible employers a) who create a minimum of 25 new full time employees (FTEs) b) with salaries that are 85% of the median household income of the municipality where the jobs will be located, with a minimum of \$37,500, and c) are in a JobsCT focus area can be rebated 25% of the withholding taxes from the new FTEs for up to 7 years, starting in month 25 up to month 108. The program will have 5 years of benefit standard; year 6 and 7 would be at the discretion of the Commissioner.

In addition, if an employer locates and grows new FTEs in one of Connecticut's Opportunity Zones or Distressed Municipalities, the employer is eligible to retain 50% of the withholding taxes over the same time period.

Rebate per job, per year has a floor of \$1,000 and a cap of \$5,000.

The focus areas for Jobs CT will be:

- Aerospace/Defense
- Clean Energy/Renewables
- Corporate Headquarters
- Distribution and Logistics
- Entertainment and Digital Media
- Financial Services
- Information Technology
- Life Sciences
- Manufacturing
- R&D Facilities

### **Reason for SB 9:**

A simple, transparent, targeted, earn-as-you-grow incentive program for businesses to expand in or relocate to Connecticut.

**Transparent** – A clear and simple incentive for companies to evaluate when considering growing in or re-locating to Connecticut. No “black box.”

**Performance-based** – Benefit is earned as jobs are created and maintained over time, which eliminates any credit or counterparty risk.

**Targeted** – Industries and focus areas are strategic. They build on our strengths of today and ecosystems we want to grow in our economy of tomorrow. There is no “winner-picking,” and all eligible employers within the focus areas will benefit.

### **Significant Impacts of SB 9:**

**Significant reduction in bonding:** Previous economic incentives required an average of \$200 million in bonding per year. Over the past year, DECD has been able to reduce its bonding by close to 70%. Once the program is fully implemented, it will not require any additional bonding.

**Paying less per job:** Under the previous incentive programs, the state paid over \$18,000 per job on average. We anticipate the cost per new job in the focus areas to be between \$5,000 and \$10,000, depending on FTE wage.

**Focus on distressed municipalities and Opportunity Zones:** While companies around the state that grow 25 jobs or more are eligible for a 25% income tax rebate, those that locate or expand in distressed municipalities or Opportunity Zones are eligible for a 50% rebate. We believe this added incentive will help drive investment and job creation to areas of the state that will have the most impact.

**Incentivizing good paying jobs:** The additional requirements for companies to pay their employees 85% of the median household income of the municipality where the jobs will be located is designed to ensure we are focused on raising incomes and not incentivizing low paying jobs. Additionally, the program's \$1,000 rebate minimum ensures all companies that are relocating to or expanding in the state receive a minimum benefit, which ensures we stay competitive with neighboring states.

**Supporting companies that hire individuals from disadvantaged backgrounds:** The Governor's proposal allows companies that hire a large proportion of their employees from disadvantaged backgrounds, such as the formerly incarcerated, to participate in the program even if the jobs created at the companies don't otherwise meet the 85% of median household income requirement.

### **Summary of HB 5007:**

The Small Business Express program (EXP) was created to help stimulate the economy after the Great Recession when banks were not lending. EXP was not intended to be a long-term program, rather a bridge until the financial sector regained its footing. The Governor and DECD have met with financial institutions and other stakeholders on multiple occasions, and we believe that now is the time for the state to exit from direct lending and to stop competing with financial institutions. House Bill 5007 would allow DECD to partner with financial institutions and Community Economic Financial Institutions (CEFI), while also giving DECD the ability to increase our efforts to focus on women, minority, veteran and disabled-owned businesses.

**First**, DECD will partner with CT Innovations (CI) or another third party to administer and leverage the existing CAB loan guarantee program or contract with a third-party operator to provide a loan guarantee program, similar to what is done in Massachusetts and Rhode Island.

**Second**, DECD will work with local/regional financial institutions and CEFI's to provide investment in their revolving loan fund programs to build capacity and ensure sustainable capital for higher risk credit profiles.

In total, we expect both programs to cost \$24-\$27 million of existing resources over the first four years.

**Significant Impacts:**

**Utilize private-sector expertise:** This new program will allow the state to utilize private-sector expertise in all facets of providing loans to small businesses while allowing financial institutions the flexibility to widen the credit box.

**New partnerships with private-sector:** Partner with financial institutions to increase lending capacity for small businesses and entrepreneurs. This provides multiple options to access capital for small businesses and entrepreneurs while acknowledging barriers to traditional financing.

**Lower cost, no new bonding:** Over that past eight years, DECD has bonded over \$290 million to support the EXP program. EXP 2.0 will cost significantly less moving forward, allowing DECD to use existing resources rather than new bonding.

**Leverage Factor:** Potential 20x leverage vs. negative leverage in the current program.

**Targeted investment toward market gaps:** This new program will put an emphasis on supporting women, minority, veteran, and disabled business owners by allowing them access to additional capital through our network of community banks. DECD will design the specific criteria and go out to bid with an RFP process for this program. Additionally, the existing Minority Business Initiative (MBI), which is funded through EXP bonding, will continue to operate and be fully funded.

Thank you for your time and consideration. I am happy to answer any questions that you have.