Written Testimony of Lance A. Scott, Founder & CEO

February 27, 2020

Via Email:
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RE: **Proposed Senate Bill No. 9**
AN ACT ESTABLISHING THE JOBSCT TAX REBATE PROGRAM

Proposed House Bill No. 5007
AN ACT CONCERNING THE SMALL BUSINESS EXPRESS PROGRAM

Dear Honorable Chairpersons and distinguished Members of the Commerce Committee:

I am writing on behalf of Alliance Technologies, our affiliate companies, and our numerous Connecticut, out-of-State, and international advanced manufacturing clients in strong opposition of proposed Senate Bill No. 9 and House Bill No. 5007.

While I am confident that Governor Lamont, DECD Commissioner Lehman, Chief Manufacturing Officer Cooper, and the many other contributing members of DECD, CERC (AdvanceCT), and Connecticut Innovations have proposed these bills with the best intentions for Connecticut taxpayers, I submit that the proposed solutions far overreach in their attempts to reduce State borrowing and incentives, and thereby jeopardize the economic well-being of our advanced manufacturing ecosystem.

I fundamentally ***agree*** with the bills' intentions to eliminate imprudent incentive packages for large corporations, reduce the need for State bonding, mobilize and support the participation of our private banking industry, and prioritize the advancement of women-, minority-, and veteran-owned businesses. However, the bills propose draconian solutions for a highly complex set of challenges that have not been fully recognized by DECD, and I emphatically ***disagree*** that this approach is in the best interest of our advanced manufacturing sector or the broader economic stability of our great State.

An unfortunate track record of wasteful spending and inadequate enforcement

Connecticut passed the Economic Development and Manufacturing Assistance Act of 1990 (Connecticut General Statutes, Chapter 588l), or MAA, in recognition that the continued development of the state's manufacturing sector is important to the economic welfare of the state and to the retention and creation of job opportunities within the state. The MAA cited that manufacturing was facing increased competition from other geographic areas of the world; that assistance from the state can promote the retention, expansion, and diversification of existing manufacturing and encourage businesses from other geographic areas to locate into the state; and that assistance from the state can enhance employment opportunity and the tax base of communities.

The law includes specific provisions for:

Sec. 32-237. Assistance for defense manufacturers' suppliers and other manufacturers.

Sec. 32-238. Next generation manufacturing competitiveness enhancement program.

Sec. 32-240. Grants for establishment of flexible manufacturing networks.

Sec. 32-231. Economic Assistance Revolving Fund, where repayment of principal and interest on loans shall be credited to such fund and shall become part of the assets of the fund.

Unfortunately, the implementation of MAA strayed drastically from its intended origins, and the General Assembly later added an exemption for **financial institutions** with not less than two thousand qualified employees (Sec. 32-236).

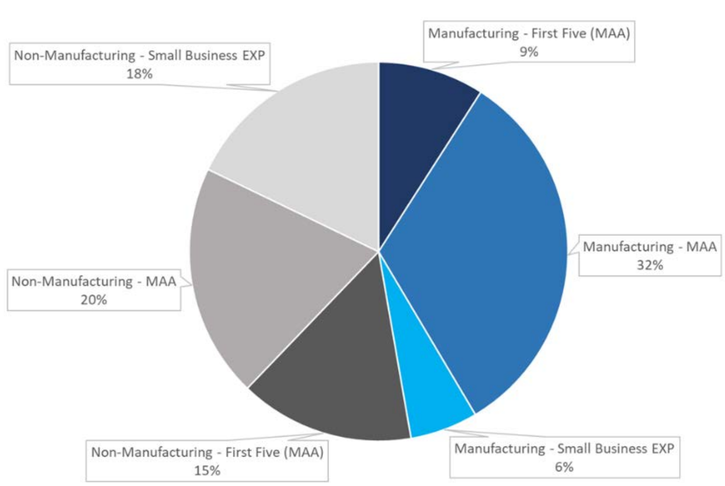
This new provision, together with a generally undisciplined implementation of the broader MAA program, led to the furnishing of nearly **$1.3 billion** in assistance to **2,135** companies from July 2008 through March 2019, with the majority provided to **non-manufacturing** companies that were misclassified as "Manufacturing" under the controversial First Five Program.

https://data.ct.gov/Business/First-Five-Tabulated-Data/5ifv-qvnr

Fiscal Year	Company Name	Municipality	Business Industry (DECD Classification)	*Business Industry (Actual)*	Grant Amount	Total Grants (Incl. Forgiveness)	Loan Amount	Forgiveness Earned (if applicable)	Total Assistance
2017	AQR Capital Management, LLC	Greenwich	Manufacturing	***Hedge Fund***	$7,000,000	$7,000,000	$28,000,000		**$35,000,000**
2014	NBC Sports Network, LP	Stamford	Manufacturing	***Cable and Televsion Broadcasting***	$0	$26,000,000	$26,000,000	$26,000,000	**$26,000,000**
2014	CareCentrix, Inc.	Hartford	Manufacturing	***Home Healthcare***	$24,000,000	$24,000,000	$0		**$24,000,000**
2016	Bridgewater Associates, LP	Westport	Manufacturing	***Hedge Fund***	$5,000,000	$10,950,000	$17,000,000	$5,950,000	**$22,000,000**
2012	Cigna Health & Life Insurance Company	Bloomfield	Manufacturing	***Insurance***	$6,000,000	$16,000,000	$15,000,000	$10,000,000	**$21,000,000**
2016	Synchrony Bank	Stamford	Manufacturing	***Banking***	$20,000,000	$20,000,000	$0		**$20,000,000**
2015	Deloitte Services, LP	Stamford	Manufacturing	***Accounting and Professional Services***	$14,500,000	$14,500,000	$0		**$14,500,000**
2013	Navigators Management Company, Inc.	Stamford	Manufacturing	***Insurance***	$3,500,000	$10,500,000	$8,000,000	$7,000,000	**$11,500,000**
2018	Seven Stars Cloud Group, Inc.	West Hartford	Manufacturing	***Fintech***	$0	$0	$10,000,000		**$10,000,000**
2014	Charter Communications Holding Company, LLC	Stamford	Manufacturing	***Media and Telecommunications***	$2,000,000	$8,500,000	$6,500,000	$6,500,000	**$8,500,000**
2015	EDAC Technologies Corporation	Cheshire	Manufacturing		$10,000,000	$10,000,000	$38,000,000		**$48,000,000**
2018	Henkel of America, Inc.	Stamford	Manufacturing		$0	$0	$20,000,000		**$20,000,000**
2014	Sustainable Building Systems USA, LLC	East Windsor	Manufacturing		$0	$0	$19,100,000		**$19,100,000**
2015	Pitney Bowes, Inc.	Stamford	Manufacturing		$1,000,000	$11,000,000	$15,000,000	$10,000,000	**$16,000,000**
2018	ASML US, LLC	Wilton	Manufacturing		$14,000,000	$14,000,000	$0		**$14,000,000**
TOTALS					$107,000,000	$172,450,000	$202,600,000	$65,450,000	**$309,600,000**

Remarkably, only **6%** of the $1.3 billion in MAA assistance was directed to small manufacturers under the **Small Business Express program**.
https://data.ct.gov/Business/Department-of-Economic-and-Community-Development-D/xnw3-nytd/data

Connecticut DECD - Manufacturing Assistance Act (MAA)
(July 2008 - March 2019)



Funding Source	Total Assistance
Manufacturing - First Five (MAA)	$117,100,000
Manufacturing - MAA	$417,306,056
Manufacturing - Small Business EXP	$74,704,151
Non-Manufacturing - First Five (MAA)	$192,500,000
Non-Manufacturing - MAA	$257,183,647
Non-Manufacturing - Small Business EXP	$230,146,940
TOTAL	**$1,288,940,794**

Of the $1.3 billion, there were $329 million in direct grants with another $190 million in loans that were forgiven during that approximately 10-year period. According to the government's own data, there may be as much as **$770 million in loans still outstanding** plus additional penalties for non-performance that may be due to Connecticut taxpayers.

Grant Amount	Total Grants (Incl. Forgiveness)	Loan Amount	Forgiveness Earned (if applicable)	Total Assistance
$329,045,763	$518,635,372	$959,895,031	$189,589,609	$1,288,940,794
	less forgiveness	$770,305,422		

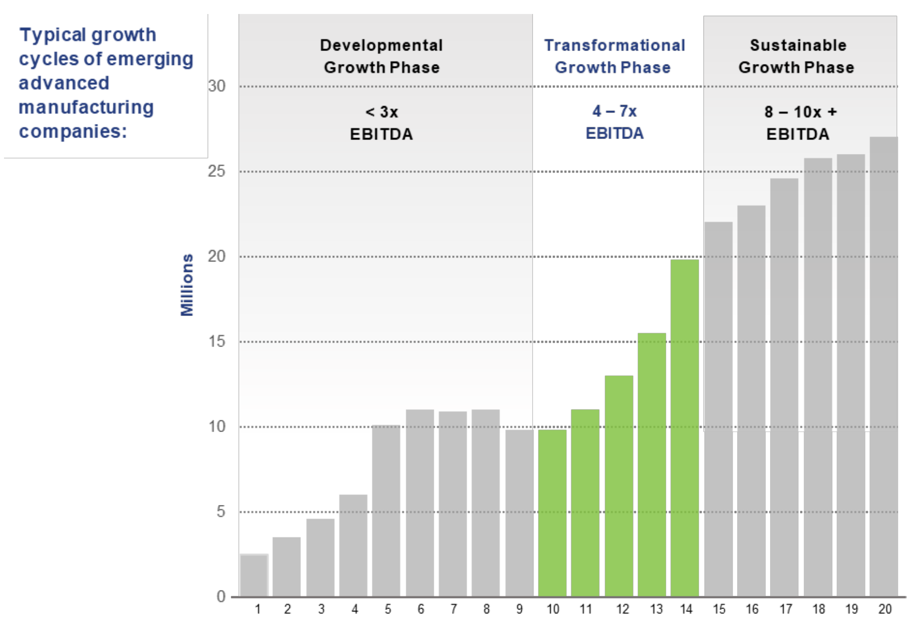
We contend that this enormous pool of outstanding loan and penalty payments should be more than adequate to fund the Economic Assistance Revolving Fund (Sec. 32-231) as well as the Manufacturing Innovation Fund (MIF) in perpetuity.

The role of non-dilutive capital as an accelerator of growth

Advanced manufacturing is a unique business in that it is particularly capital-intensive for business owners to operate and maintain competitiveness in the face of rapidly progressing technology, automation, artificial intelligence, etc. At the same time, the broader economic benefits of manufacturing job creation are exceptional when compared to any other jobs.

The **Economic Policy Institute** projects that there are **7.44** indirect jobs created for every durable goods manufacturing job. This employment multiplier is a fundamental cornerstone of every State's economic development policy, and has apparently been overlooked or ignored by the DECD recommendations.
https://www.epi.org/publication/updated-employment-multipliers-for-the-u-s-economy/

We fully agree that private businesses must assume significant risks to launch and grow their businesses, but we believe that public-private-academia-partnerships are essential to remain competitive at both the State and National level. Access to grants and forgivable loans (non-dilutive capital) is paramount to the success of companies at three key phases of development: **Start-up**, **Foreign Direct Investment (FDI)**, and **Business Expansion/Relocation**.



Start-up Community

- The elimination of Grants and Forgivable Loans is a crushing blow to the start-up and early stage advanced manufacturing sector
- Angels and Seed investors effectively see a doubling of valuation due to the lack of matching grants and other non-dilutive capital (MIF programs: EXP, MVP, IWTP)

Lower-middle market "legacy" manufacturers

- Family-owned or aging shareholders are reluctant to make the massive investments necessary without State support.
- Outside investors are reluctant to invest in these businesses, or may relocate to secure matching grants, et al.
- Large manufacturers like EB, Sikorsky, Pratt, are depending on these smaller manufacturers, but at increasing risk of quality and supply chain catastrophe.

Foreign Direct Investment

- Connecticut was already in a comparatively weak position due to well-financed economic development programs like Ohio's Jobs Ohio R&D Center Grant that includes up to $100 million to FDI companies to create new R&D centers
- CT's participation and results from SelectUSA fall well-behind most other States

Jack Crane of CONNSTEP, a CBIA affiliate, says 50 percent of the state's manufacturers have no more than 10 employees, and Commissioner Lehman agreed during a recent *Made in America* podcast interview with Ari Santiago, that the median size of the typical Connecticut manufacturer was only 20-25 employees.

Refinement, improved enforcement, and growth-oriented advanced manufacturing focus is required for future MAA, MIF, Small Business Express, and related incentive programs, but eliminating all grants and forgivable loans as proposed in S.B. No. 9 and H.B. No. 5007 has already harmed our start-up and FDI communities, and will inflict consequential damage to our entire advanced manufacturing ecosystem – including the vital small business supply chains that fuel our economic powerhouses like Pratt & Whitney, Electric Boat, Stanley Black & Decker, and others.

A more thoughtful path forward

We believe that it is possible to achieve the inherent objectives of the Governor's and DECD's proposal without causing undue harm to the advanced manufacturing ecosystem. Alliance Technologies recommends that the Commerce Committee consider the following:

1. Request that the Economic Unit (EU) of the DECD perform a comprehensive Economic Impact Analysis. Several methodologies exist for economic impact assessment and range from simplistic, accounting-based, pencil-driven cost benefit formulations to complex equation-intensive computerized econometric models. The primary model employed by DECD is Regional Economic Models Inc.'s Policy Insight model of Connecticut. In addition to the REMI model, the department uses other impact models, such as the federal Bureau of Economic Analysis RIMS II and Minnesota IMPLAN Group's IMPLAN in preparing EIAs. The EU employs "off-model" calculations and specialized spreadsheet analysis as needed.

2. Maintain (i.e., immediately reinstate) the existing MIF programs – funded by recovered MAA loans. Existing programs for small businesses have proven essential to the health of our advanced manufacturing ecosystem, e.g., Small Business Express (EXP), MIF Manufacturing Voucher Program (MVP), Step-Up, MIF Apprenticeship Training, MIF/CT-DOL Incumbent Worker Training Program, Small Business Innovation and Diversification Program, CT Next Technology Talent Bridge, etc.

3. Reconstitute the focus of MAA exclusively on small businesses <500 employees to support manufacturing projects that offer strong economic development potential. The State should:
   - Exclude eligibility for all non-manufacturing companies
   - Ensure diligent tracking of job creation and economic performance
   - Require companies to remain in CT for 5+ years
   - Scrap the First Five program and avoid the temptation to issue assistance to companies merely for remaining in the State without a substantial matching investment

I welcome any questions that you may have, and I look forward to working with DECD, AdvanceCT, Connecticut Innovations, CT-DOL, CCAT, CBIA, and the many public, private, and higher education institutions to develop programs that will foster economic prosperity for our advanced manufacturing ecosystem in the great State of Connecticut. Thank you for your consideration.

With best regards,

Lance

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