News from:
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO URGES ENHANCED ANALYSIS OF ECONOMIC DEVELOPMENT AND JOB CREATION PROGRAMS

Comptroller Kevin Lembo, in testimony submitted to the state legislature's Finance, Revenue and Bonding Committee today, said that businesses and all taxpayers deserve the most efficient and effective analysis of whether hundreds of millions of dollars in economic incentives provided to businesses are fulfilling their intended purpose.

Current law requires that the state Department of Economic and Community Development (DECD) submit a report to the Finance Committee every three years to assess the economic and fiscal impact of the state's tax credit and abatement programs.

An Act Concerning Municipal Taxing Districts, the Sales Tax, the Apprenticeship Tax Credit, Certain Fees and the Tax Credit Report would, among other things, improve this reporting process. The proposed changes would streamline the process, focus more emphasis on the most useful data, shift the analysis to a state office other than the one that oversees the program in order to assure the most unbiased reporting and it would increase legislative oversight and input from stakeholders, Lembo said.

"The state provides hundreds of millions of dollars in tax credits to Connecticut businesses every year," Lembo said. "These various tax credit programs are designed to incentivize economic development and job creation. The state owes it to businesses and all taxpayers to fully analyze the return on investment that these sizable and important programs actually deliver in order to assess whether such resources are fulfilling their intended purpose or, if not, whether state funds would be better deployed to other economic development or infrastructure investments.

"This legislation seeks to enhance the efficiency and effectiveness of Connecticut's assessment of these investments."

Lembo, who has successfully advocated for greater openness surrounding the state's economic development incentives, noted that legislation requiring regular evaluation of the state's tax credit and abatement programs dates back to 2009. At that time, he said, Connecticut was one of the first states to require regular evaluation of tax credit programs. Today, 20 states regularly evaluate major economic incentive programs – and a review of other states' evaluation criteria by PEW Charitable Trusts identifies certain areas in which the state of Connecticut could improve its report by utilizing best practices developed in other states.

Specifically, the legislation would streamline the report requirements, transfer some of the reporting responsibilities to the Office of Program Review and Investigations (PRI) and require legislative committees to hold hearings to discuss the results of the evaluations and receive input from stakeholders.

It would give PRI the primary responsibility for authoring the report, including evaluating the efficiency and effectiveness with which the programs are being administered, recommending whether each tax credit and abatement should be continued or expanded and providing recommendations on improving the effectiveness or efficiency of administration. DECD would continue to provide the data and economic modeling required by PRI to complete the report.

"The changes allow a well-respected independent office to evaluate the performance of tax credits and abatements and the administration of the programs that award them," Lembo said. "DECD has done an admirable job in providing an unbiased analysis of the programs it oversees, but it can be challenging for an agency to fairly evaluate the programs it promotes and administers."

Lembo said that, of the states that require regular evaluation of their tax credit programs, only two charge their economic development agency with performing the evaluation and recommending potential changes.

"An unbiased assessment of the performance and administration of tax credit and abatement programs has in other states resulted in opportunities for savings," Lembo said.

Lembo highlighted an example in New Jersey where it was discovered that the administration of an Urban Enterprise Zone program involved 135 state employees at an estimated annual cost of $6.4 million.

"Assessing both the impact of tax credit and evaluation programs and the efficiency of their administration will help our state make better decisions in the future to ensure that we are getting the best return on the investments we make in economic development initiatives," Lembo said.

The legislative change also seeks to simplify the requirements of the triennial report, Lembo said. Connecticut's report currently requires more specific data points than most other states.

"A streamlined report, relieving some of the administrative costs, should focus on the most pertinent information, like the economic impact of each program, the extent to which it is meeting statutory and programmatic goals and the efficiency with which the program is being administered," Lembo said. "In the last two reports, DECD has not fulfilled all of the statutory report requirements, noting that gathering all of the required data would require significant administrative effort while providing limited utility to the legislature and other policy makers. Removing unnecessary data requirements in the report will reduce the burden on the entity charged with producing the report while placing added focus on the most relevant data for policymakers to make informed decisions about the future of the tax credit and abatement programs evaluated in the report."

The legislation would also require that the legislature's Appropriations and Finance Committees hold a public hearing following the release of each triennial report to publicly consider the report's analysis and recommendations.

"Requiring a public hearing will ensure the analysis and recommendations included in the report are fully considered by the legislature," Lembo said. "Tax credits and abatements reduce tax revenue at both the state and local level. It is essential that the committees that oversee the state's tax and spending policy fully review their impact and make informed decisions about the continuation, expansion or elimination of each program.

"The changes will help our state make data-driven decisions about tax credit and abatement programs, ensuring that we are focusing state resources toward their highest and best use."

Lembo thanked the Finance Committee – particularly the co-chairs, state Sen. John W. Fonfara and state Rep. Jeffrey J. Berger, as well as ranking members, state Sen. Scott L. Frantz and state Rep. Christopher Davis – for raising this issue.

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