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**Written Testimony  
Comptroller Kevin Lembo  
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**Concerning**

**H.B. 7316: AAC Evaluation of Business Assistance and Incentive Programs**

Good afternoon Senator Fonfara, Representative Rojas, Senator Frantz, Representative Davis and members of the Finance Committee.

Thank you for raising this legislation and providing me an opportunity to testify on the need for enhancing Connecticut's analysis of the efficiency and effectiveness of our economic development investments.

The state provides hundreds of millions of dollars in economic incentive programs to Connecticut businesses every year for the purpose of advancing 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.

Connecticut can and should be one of the most economically competitive states in the nation – but that can only happen if we adopt best practice in how we analyze the success and failures of our economic development programs. Connecticut is now one of only two states in the nation where the success of economic development programs is analyzed by the same agency that administers the programs. An unbiased assessment of the performance and administration of these programs has in other states resulted in opportunities for savings. For example, New Jersey discovered that the administration of an Urban Enterprise Zone program involved 135 state employees at an estimated annual cost of \$6.4 million.

The statutory language requiring the Department of Economic and Community Development (DECD) to evaluate the state's tax credit and abatement programs every three years dates back to 2009. At the time, Connecticut was one of the first states to require regular evaluation of tax credit programs. Today, 20 states regularly evaluate major economic incentive programs. A review of other state 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. H.B. 7316 seeks to bring our state in line with current best practice for evaluating economic incentives.

Specifically, this proposal streamlines the report requirements, expands the scope of the reporting to all business assistance and incentive programs, requires DECD to provide information and economic analysis on the incentives annually instead of triennially, requires the Auditors of Public Accounts to evaluate the economic analysis performed by DECD and perform a more thorough auditing of specific business incentive programs, and requires specific legislative committees to hold public hearings to discuss the results of the evaluations and receive input from stakeholders.

H.B. 7316 seeks to simplify the requirements of the reporting and place them within DECD's annual report, rather than the triennial report. Connecticut's reporting currently requires more specific data points than most other states. The additional information increases the administrative costs to produce the report. A streamlined report 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. In the last two triennial 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 of producing the report while placing specific emphasis on the most relevant data for policy makers to make informed decisions about the future of business assistance and incentive programs. And requiring the reporting to be done within DECD's annual report rather than their triennial report reduces duplication, while giving policy makers actionable recommendations every year.

Although this legislation does simplify the reporting requirements of the report, it also expands the scope of the programs included in the report. Programs giving out loans and grants, such as those under the Manufacturing Assistance Act, are considered integral to Connecticut's economic development strategy, yet current law only requires the regular evaluation of tax credits and abatements. H.B. 7316 adds all business assistance and incentive programs implemented for the purpose of economic development to the scope of this reporting.

To date, 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 programs it promotes and administers. Of the states that require regular evaluation of their tax credit and business incentive programs, only two charge their economic development agency with performing the evaluation and recommending potential changes. This proposal allows for an independent office, the Auditors of Public Accounts, to evaluate the performance of these incentive programs and the administration of the programs that award them, which is an integral step toward best practice.

Finally, this legislation requires the Appropriations, Finance and Commerce committees to hold a joint public hearing following the release of each report by the Auditors to publicly consider the analysis and recommendations. Requiring a public hearing will ensure the analysis and recommendations included in the evaluations are fully considered by the legislature, and will provide an opportunity for businesses and residents to participate and provide input in the state's economic development policy.

These incentive programs reduce tax revenue at both the state and local level, and increase state borrowing. It is essential that the legislature review their impact and make informed decisions about the continuation, expansion or elimination of each program.

The changes proposed in this legislation 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.

I urge your support.

Thank you for your time.