



## Business Incentives and Economic Development Expenditures: An Overview of Connecticut's Program Investments and Outcomes

### Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Connecticut's full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in Connecticut.

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

In Fiscal Year (FY) 2014, the most recent year for actual spending data is available for all program types, the State of Connecticut spent approximately \$28 million on economic development program expenditures and spent an estimated \$184 million on economic development tax expenditures.<sup>1</sup>

### Overview of Business Incentives

Connecticut has a moderate number of incentive programs, with a total of 35 active incentive programs, including programs specific to targeted geographic areas. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives as well as through non-tax programs such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address one or more needs, such as capital access, workforce preparation, tech and product development, site facility improvements, and so forth.<sup>2</sup>

<sup>1</sup> Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.

<sup>2</sup> The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Connecticut.



In Connecticut, the responsibility for administering state business incentives falls upon primarily the Connecticut Department of Economic and Community Development (DECD), which is responsible for administering 18 of Connecticut’s 35 state business incentives (See Figure 1.)

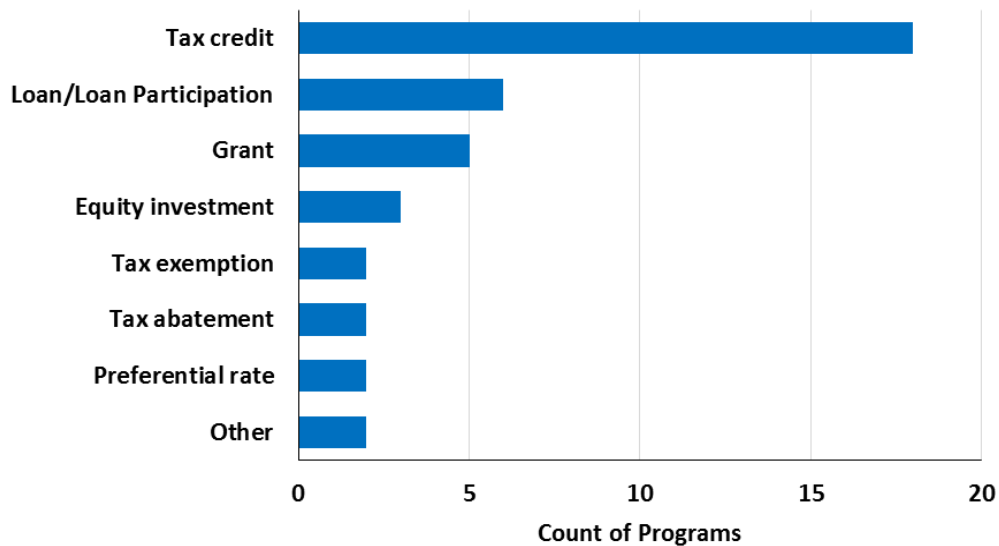
**Figure 1: Connecticut State Business Incentives by Agency, 2015**

State Agency	Number of Programs
Connecticut Department of Economic and Community Development	18
Connecticut Innovations	9
Connecticut Department of Revenue Services	7
Connecticut Department of Labor	1

Source: C2ER State Business Incentives Database

Altogether, Connecticut’s portfolio of 35 state business incentives features a majority of tax incentives. More than half of Connecticut’s active incentive programs offer some kind of tax-related benefit. By comparison, tax incentives represent 45 percent of all state business incentive programs across the nation. Tax credits are the most commonly offered incentives by the state of Connecticut. Other incentives include loans, grants, and equity investment (See Figure 2.)

**Figure 2: Incentive Programs by Connecticut Incentive Programs by Type (2015)**

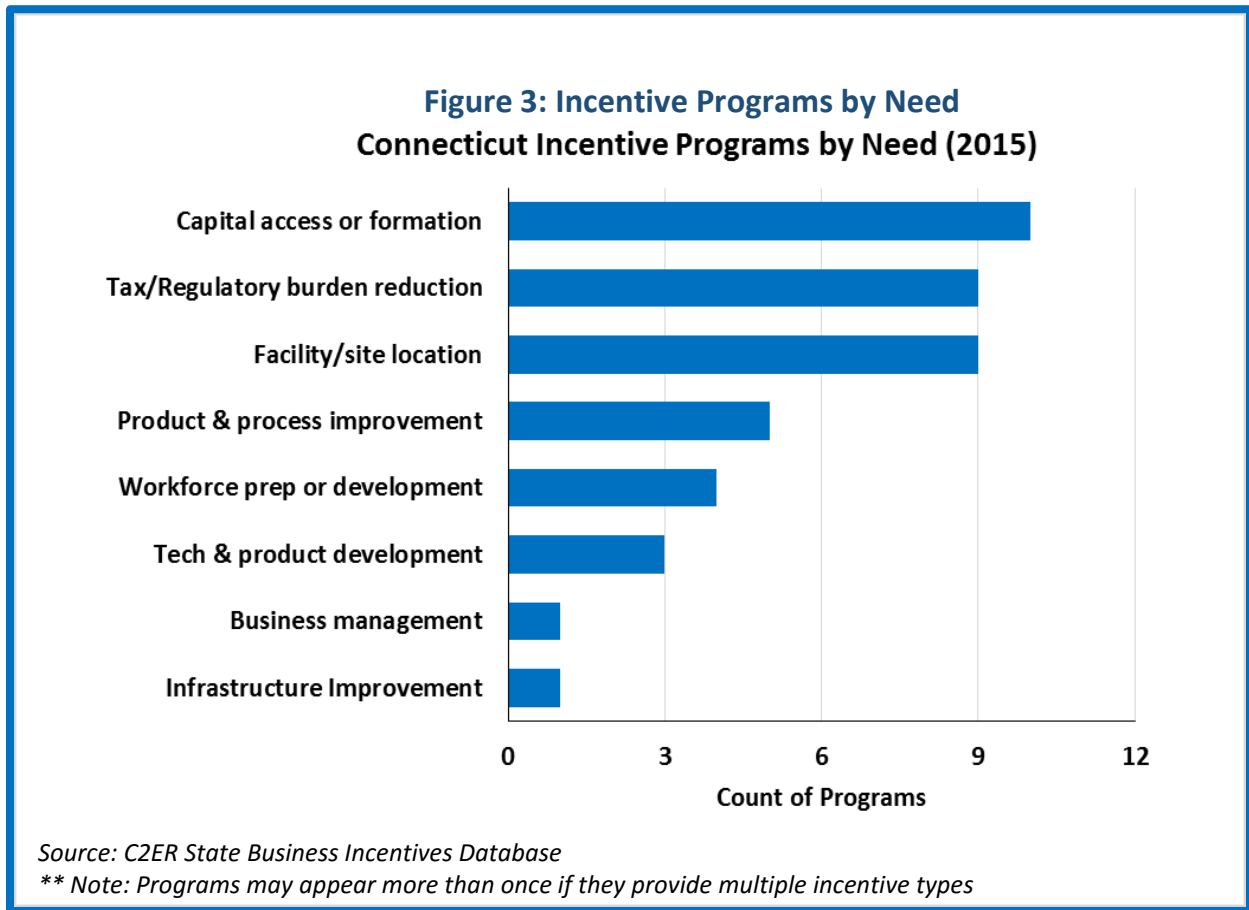


Source: C2ER State Business Incentives Database

\*\* Note: Programs may appear more than once if they provide multiple incentive types



Aside from tax/regulatory burden reduction, Connecticut provides many businesses with access to capital. Access to capital or formation is the greatest need addressed by Connecticut’s state business incentives (See Figure 3.) In regards to capital access, Connecticut’s programs favor equity investments in early-stage companies, gap financing for small businesses, and research and development funding for the biotechnology, life sciences, and custom machining and fabrication industries. Bioscience has become a focal point for Connecticut’s economic development strategy.<sup>3</sup>



<sup>3</sup> For instance, see DeFrancesco, Chris. UCONN Today. University of Connecticut. June 9, 2014. Accessed at: <http://today.uconn.edu/2014/06/bioscience-connecticut-2300-jobs-over-two-years/>; and Governor Malloy: New Bioscience Connecticut Initiative Will Create Thousands of New Jobs, Sustain Economic Growth Going Forward, & Spur Innovation In The Future. Connecticut Department of Community & Economic Development. State of Connecticut. May 17, 2011. Accessed at: <http://www.ct.gov/ecd/cwp/view.asp?a=1104&q=479708>



## Economic Development Program Expenditures

Examining Connecticut's budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.<sup>4</sup>

According to Connecticut's FY 2016-2017 Biennial Budget, which details the state's finances and appropriations for the 2016 and 2017 fiscal years and actual expenditures for FY 2014, the state spent \$28 million on economic development in FY 2014.

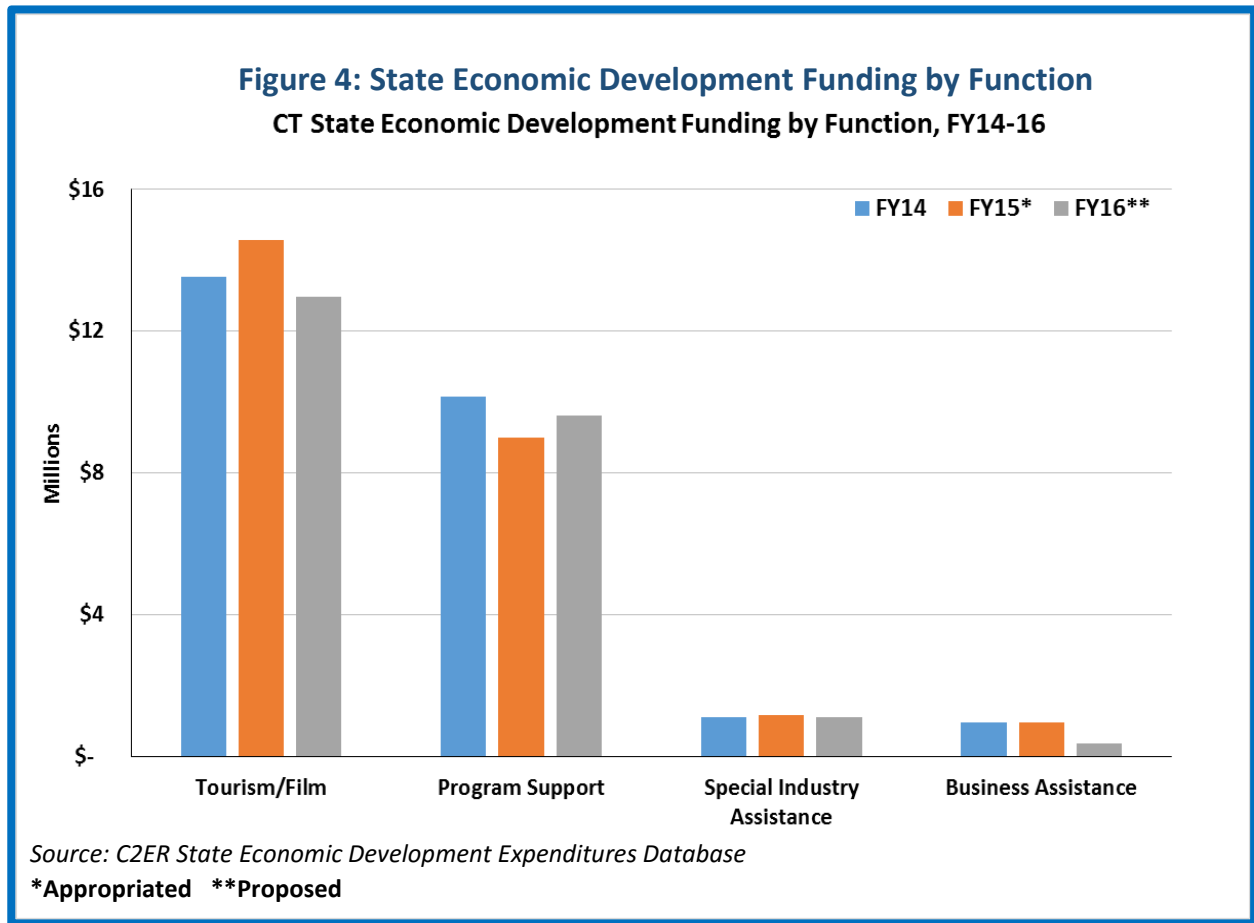
Between FY 2014 and FY 2016, Connecticut held steady its investment in economic development. Most notably, Connecticut continues to invest heavily in tourism and film (See Figure 4.) National trends indicate a reduction in state spending on tourism and film related expenditures, with many states reducing or eliminating tax credits for film production. Connecticut continues to offer production companies tax credits for digital media and motion picture film produced in the state. The Office of Film, Television, and Digital Media administers three programs intended to promote in-state film production of which, the most notable is the Film Production Tax Credit program. The program offers tax credits equal up to 30 percent of qualified production expenses for costs of \$1 million or more, in relation to the production of digital and motion pictures within the State of Connecticut. The tax credit also features a maximum carryforward limitation of three successive years.<sup>5</sup>

### State Economic Development Expenditures Function Areas

- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority Business Development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

<sup>4</sup> See Glossary definitions here - [http://www.stateexpenditures.org/about/Definition\\_of\\_ED\\_Functions.pdf](http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf)

<sup>5</sup> Film Production Tax Credit. Connecticut Department of Revenue Services. State of Connecticut. Accessed at: <http://www.ct.gov/drs/cwp/view.asp?a=3807&q=523950>

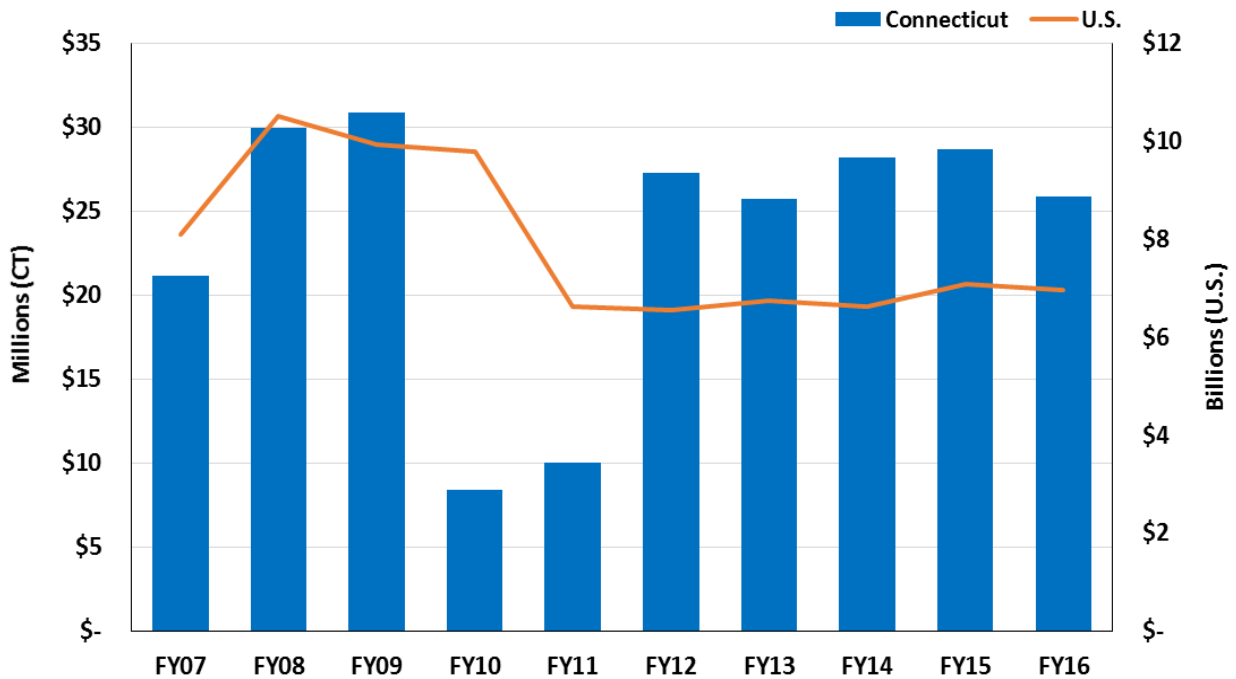


Overall, Connecticut’s spending pattern on economic development is consistent with the national trend. Prior to the onset of the Great Recession, Connecticut economic development expenditures rose from \$21 million in FY 2007, to \$29 million in FY 2008, to nearly \$31 million in FY 2009. Between FY 2009 and FY 2010 Connecticut’s economic development program expenditures fell by more than 260 percent. This reduction reflects a near \$21 million spending cut. In a 2009 press release by the Connecticut State Comptroller’s Office, evidence of dramatic revenue shortfalls were first realized. The Comptroller’s Office indicated that the FY 2010 state budget faced at least a \$500 million deficit, citing lower than expected sales and income tax receipts.<sup>6</sup> However, after FY 2011, economic development funding has returned to near pre-recession levels (See Figure 5.)

<sup>6</sup> Wyman Says Revenue Trends Indicate Deficit Likely for 2010. Office of the State Comptroller. State of Connecticut. October 1, 2009. Accessed at: <http://www.osc.ct.gov/public/pressrl/2009/october01.htm>



**Figure 5: Total State Economic Development Funding**  
**Total State Economic Development Funding, FY 07-16**



Source: C2ER State Economic Development Expenditures Database  
 \*\*Note: FY16 represents proposed spending. FY15 represents appropriated spending.  
 All other years depict actual spending.

## Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”<sup>7</sup> *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

The [FY 2014 Connecticut Tax Expenditure Report](#), published by the Office of Fiscal Analysis in January 2014, is used for the analysis in this section. Data was collected by reviewing and recording all line items in this report relate to economic development, including all tax credits, abatements, refunds/rebates and exemptions that are designed to influence business development and behaviors. For a large number of tax expenditures, the estimated FY 2014 fiscal effect is recorded. In some cases, tax incentives are described as ‘less than \$100,000’. In other cases, tax incentives are listed as (-) or ‘indeterminate’ indicating either an unknown or no fiscal impact.

<sup>7</sup> *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: [www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm](http://www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm)



In FY 2014, the State of Connecticut's economic development tax expenditure totaled approximately \$184 million which is significantly greater than the \$28 million Connecticut invested in economic development program expenditures for that fiscal year. Connecticut administers its economic development tax expenditures mainly through the Connecticut Department of Economic and Community Development (DECD) in coordination with the Connecticut Department of Revenue Services (DRS). Connecticut Innovations – a state-funded venture capital fund – also has authority to administer select tax programs such as the states' Tax Increment Financing (TIF) and Angel Investor Tax Credit programs.

For FY 2014, a total of 53 economic development tax expenditures were implemented. The primary function of these expenditures were to provide special industry assistance. Special industry assistance concerns state investments in developing and promoting new products in areas of specific interest to the state. Traditionally, special industry assistance includes special promotion efforts identified within an agency's budget to help important or emerging state industries. In FY 2014, greater tax preference was awarded to Connecticut's finance, energy, and research and development industries.

## Analysis of Available Outcome Data

In September 2014, the Connecticut Department of Economic and Community Development (DECD) published a report assessing the fiscal impact of the state's various tax credit programs between 1995 and 2012. DECD commissioned the report in consultation with the Connecticut Department of Revenue Services (DRS) using data supplied by DRS and the Connecticut Office of Policy and Management (OPM). The report entitled, "An Assessment of Connecticut's Tax Credit and Abatement Programs" is mandated by the Connecticut General Assembly to be completed every three years. It outlines each program administered by DECD providing historical and quantitative details, and an estimated economic and fiscal impact performed through economic modeling software. For each DECD program a recommendation is offered for its disposition, and non-DECD programs are given general observations.

The 2014 report concluded that tax credits with the greatest yield were tied to the number of jobs created by eligible companies. In addition, the report cited the difficulty by which the state can evaluate the effectiveness of automatic tax credits based on the amount of certain company activities. To this end, DECD recommends that fewer credits and abatements – not requiring a certification or audit – be offered. Instead, the Department advises the Legislature to require specific conditions be met to induce targeted activity therefore, allowing the state to more accurately assess the impact of each program. Aside from the Connecticut Department of Economic and Community Development, the Connecticut General Assembly's Office of Fiscal Analysis (OFA) reviews and evaluates the outcomes of state appropriations.



## Conclusion

In summary, Connecticut administers a moderate number of incentives, with an emphasis on providing both capital access or formation and tax/regulatory burden reduction. Connecticut spends below the national median for per establishment investment. Meanwhile Connecticut competes with New York, Massachusetts, and New Jersey for business attraction and retention. Cognizant of its relatively higher corporate tax rates compared to others, Connecticut has responded to businesses' needs by employing state business incentives which provide greater access to capital and reduce tax/regulatory burden. One of the largest beneficiaries of Connecticut's tax preference is the tourism/film industry.

Connecticut assesses the effectiveness of each of its tax incentive programs every three years, using economic modeling to evaluate the fiscal impact each tax credit program yields for the state, and providing recommendations on the future of each program. In addition, Connecticut produces annual budget revisions which significant expenditure changes, proposed, and actual expenditures of each budgeted state agency. Overall, Connecticut has in place policies to evaluate the outcomes of its state business incentives and economic development program expenditures. The state employs a thoughtful approach and methodology for evaluating its programs' effectiveness, however, there remains room for improvement.





## Appendix A: Full List of Connecticut's State Business Incentives (2015)

Program Name	Program Provider	Business Need(s)	Type
Film Production Infrastructure Tax Credit	Connecticut Department of Economic and Community Development	Infrastructure Improvement	Tax credit
Abandoned Brownfield Cleanup (ABC) Program	Connecticut Department of Economic and Community Development	Facility/site location; Tax/Regulatory burden reduction	Grant
Brownfield Municipal Grant Program	Connecticut Department of Economic and Community Development	Facility/site location	Grant
Connecticut Digital Media & Motion Picture Tax Credit	Connecticut Department of Economic and Community Development	Tax/Regulatory burden reduction	Tax credit
Digital Animation Tax Credit	Connecticut Department of Economic and Community Development	Tax/Regulatory burden reduction	Tax credit
Economic and Manufacturing Assistance Act	Connecticut Department of Economic and Community Development	Product & process improvement; Tech & product development	Loan/Loan Participation
Enterprise Zone Program	Connecticut Department of Economic and Community Development	Facility/site location	Tax abatement; Tax credit; Tax exemption
Film Production Tax Credit	Connecticut Department of Economic and Community Development	Tax/Regulatory burden reduction	Tax credit
Fixed Capital Investment Tax Credit	Connecticut Department of Economic and Community Development	Facility/site location	Tax credit
Insurance Reinvestment Fund Credit	Connecticut Department of Economic and Community Development	Tax/Regulatory burden reduction	Tax credit
Manufacturing Innovation Fund	Connecticut Department of Economic and Community Development	Capital access or formation	Loan/Loan Participation; Grant
Manufacturing Reinvestment Account	Connecticut Department of Economic and Community Development	Capital access or formation; Workforce prep or development	Preferential rate



<b>Program Name</b>	<b>Program Provider</b>	<b>Business Need(s)</b>	<b>Type</b>
Real & Personal Property Tax Exemptions	Connecticut Department of Economic and Community Development	Facility/site location	Tax exemption
Service and Manufacturing Facilities Tax Credit	Connecticut Department of Economic and Community Development	Tax/Regulatory burden reduction	Tax credit
Small Business Express Program	Connecticut Department of Economic and Community Development	Capital access or formation	Grant; Loan/Loan Participation
Targeted Brownfield Development Loan Program	Connecticut Department of Economic and Community Development	Facility/site location	Loan/Loan Participation; Preferential rate
Urban and Industrial Site Tax Credit Program	Connecticut Department of Economic and Community Development	Facility/site location; Tax/Regulatory burden reduction	Tax credit
Urban Jobs Program	Connecticut Department of Economic and Community Development	Workforce prep or development	Tax abatement
Manufacturing Apprenticeship Tax Credit	Connecticut Department of Labor	Workforce prep or development	Tax credit
Donation of Open Space Land Credit	Connecticut Department of Revenue Services	Facility/site location	Tax credit
Electronic Data Processing Equipment Property Tax Credit	Connecticut Department of Revenue Services	Product & process improvement	Tax credit
Human Capital Investment Tax Credit	Connecticut Department of Revenue Services	Workforce prep or development	Tax credit
Machinery and Equipment Expenditure Tax Credit	Connecticut Department of Revenue Services	Product & process improvement; Tax/Regulatory burden reduction	Tax credit
Neighborhood Assistance Program Credit	Connecticut Department of Revenue Services	Tax/Regulatory burden reduction	Tax credit
Research and Development Incremental Expenditures Tax Credit	Connecticut Department of Revenue Services	Product & process improvement; Tech & product development	Tax credit
Research and Development Non-incremental Expenditures Tax Credit	Connecticut Department of Revenue Services	Tech & product development	Tax credit



<b>Program Name</b>	<b>Program Provider</b>	<b>Business Need(s)</b>	<b>Type</b>
Angel Investor Tax Credit Program	Connecticut Innovations	Capital access or formation	Tax credit
Direct Loans	Connecticut Innovations	Capital access or formation	Loan/Loan Participation
Eli Whitney Equity Fund	Connecticut Innovations	Capital access or formation	Equity investment
Grants for Brownfields Redevelopment	Connecticut Innovations	Facility/site location; Product & process improvement	Grant
Industrial Revenue Bonds	Connecticut Innovations	Capital access or formation	Other
Pre-Seed Fund	Connecticut Innovations	Capital access or formation	Equity investment
Seed Investment Fund	Connecticut Innovations	Capital access or formation	Equity investment
Tax Increment Financing	Connecticut Innovations	Business management	Other
URBANK	Connecticut Innovations	Capital access or formation	Loan/Loan Participation



## Appendix B: CT Economic Development Program Expenditures (2014)

Function	Activity	Total State Funding
Business Assistance	Industry association support	\$570,000
Business Assistance	Small business dev. (e.g., SBDCs)	\$387,093
Community Assistance	Community center revitalization	\$162,305
Community Assistance	Grants to local/regional dev. orgs.	0
Program Support	Data dissemination/web site	\$400,677
Program Support	Economic research	\$137,902
Program Support	In-state regional offices	\$9,620,145
Special Industry Assistance	Advanced manufacturing	\$732,256
Special Industry Assistance	Aerospace and defense	\$181,636
Special Industry Assistance	Energy and environment	\$175,000
Technology Transfer	Modernization/mfg. extension	\$588,382
Technology Transfer	Research & development	0
Technology Transfer	Technology commercialization	0
Tourism/Film	Film Promotion	\$927,553
Tourism/Film	Tourism development	\$636,418
Tourism/Film	Tourism promotion (exc. Advertising)	\$11,968,476
Workforce Preparation and Development	Apprenticeships	\$560,828
Workforce Preparation and Development	Incumbent worker training	\$367,183
Workforce Preparation and Development	Sector-specific training (all non-manufacturing industries)	\$746,952
<b>TOTAL</b>		<b>\$28,162,806</b>



## Appendix C: CT Economic Development Tax Expenditures (2015)

Description	Total Funds
Aero-derived gas turbine systems	Indeterminate
Aircraft repair or replacement parts	\$19,000,000
Alternate energy systems companies	Indeterminate
Apprenticeship training credit in construction, manufacturing, and plastic trades	\$500,000
Aviation fuel	\$9,200,000
Aviation fuel used exclusively and directly in the experimental testing of any product	Indeterminate
Bunker fuel oil, intermediate fuel, marine diesel oil and marine gas oil	\$100,000
Capital gains from the sale to be preserved as open space or watershed land	Less than \$100,000
Certain sales of computer and data processing services	Indeterminate
Commercial Heating Oil Blend	\$9,900,000
Commercial photographic film and paper processing materials	Indeterminate
Commercial trucks, truck tractors, and semi-trailers and vehicles used in combination therewith	\$6,000,000
Commodities in the form traded on boards of trade and not converted to use by purchaser	Indeterminate
Companies located in an insurance financial services export zone	Indeterminate
Cosmetic grade mineral oil	\$300,000
Customer-side distributed resources	\$300,000
Digital animation production	\$6,700,000
DOT contracted service stations along state highways	Indeterminate
Electricity generated by a resources recovery facility	\$500,000
Film production	\$18,600,000
Film production infrastructure	\$500,000
Financial institutions	Less than \$100,000
Fuel cell and alternative energy systems	\$300,000
Fuel used by industrial consumers	\$100,000
Fuel used in high occupancy commuter vehicles	\$110,000
Fuel used in vessels engaged in interstate commerce	\$1,400,000
Gold or silver bullion, legal tender of any nation, rare and antique coins	Indeterminate
Heating oil used in commercial fishing vessels	\$400,000
Historic home rehabilitation, historic structure, and mixed use historic rehabilitation	\$5,400,000
Insurance department assessment credit	\$600,000



Description	Total Funds
Insurance reinvestment fund	\$300,000
Job expansion	\$14,000,000
Machinery and equipment	\$1,500,000
Machinery, equipment, tools, materials, supplies and fuel used in the biotechnology industry	\$900,000
Manufacturing facilities, service facilities, and enterprise zones	\$1,100,000
Manufacturing reinvestment accounts	Less than \$100,000
Marine fuel	\$20,600,000
Neighborhood assistance	\$2,100,000
New Jobs creation	\$800,000
Non-U.S. Corporations whose sole activity in state is the trading of stocks, commodities, and securities	Indeterminate
Passive investment companies	Indeterminate
Personal property for incorporation into or used in waste treatment facilities	\$1,700,000
Printed material manufactured for purchaser in Connecticut to be delivered for use outside the state	\$200,000
Qualified small business job creation	Less than \$100,000
Railroad companies when certified by the DOT	\$700,000
Regulated investment companies and real estate investment trusts	Indeterminate
Replacement parts in enterprise zones	\$2,400,000
Research and development	\$5,000,000
Research and experimentation	\$14,800,000
Sale of repair or maintenance on vessels	\$3,800,000
Services or tangible personal property used or consumed in operating solid waste-to-energy facilities	\$700,000
Services related to personnel, management or research when company rendering service and recipient are participating in a joint venture for purposes of research and new product development	Indeterminate
Urban and industrial reinvestment	\$33,200,000

'Indeterminate' indicating either an unknown or no fiscal impact.

\*\*Data represents amount of tax credits used for FY 2014.