Connecticut Economic Development Subsidies: Costly and Blunt

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Executive Summary

A review of Connecticut's major economic development expenditures reveals high costs, many of which are poorly monitored and may well be undermining those public goods that really do constitute the state's competitive advantage for jobs. Specifically:

- Two-thirds of the state's economic development dollars ($173 million in FY 2011) are spent outside the purview of the Department of Economic and Community Development (DECD) which, although it needs improvement, has more rigorous oversight standards than the other controlling agencies.

- Some of the most expensive subsidies (such as research and development tax credits, the electronic data processing equipment property credit, and the fixed capital investment tax credit) are structured as uncapped, as-of-right subsidies and their eligibility requirements prevent the state from attaining the biggest bang for the buck. In an age of rampant corporate irresponsibility, Connecticut cannot afford to blindly award tax credits on the honors system.

- All business subsidies should be disclosed online to the public. This must include lists of each recipient, the size of the subsidy, job creation and quality outcomes, other agreed-upon outcomes, the compliance status of the recipient and whether a clawback occurred. Caps on spending should be imposed to prevent out-of-control costs. These programs should be subject to periodic sunsets every three years to allow legislators to review the effectiveness of subsidy spending. Each subsidy should include clawbacks, or money-back guarantees, if recipients fail to create jobs at good wages with strong benefits.

- Even for those programs that do officially have clawbacks, their application is unknown. An analysis of DECD's 2010 annual report reveals that 31 business assistance contracts (out of the 70 contracts total) which underwent a DECD audit failed to meet their job creation targets. Combined, these companies were awarded nearly $86 million in subsidies. Unfortunately, DECD has not disclosed whether these companies, all failing state job audits, repaid subsidies. Taxpayers have a right to know whether a clawback occurred, and if so, how much money was recaptured.

- Tax credits can have high cost-per-job figures and result in job losses. One subsidy cost taxpayers $169,667 per job created. The top ten most expensive subsidy packages cost taxpayers an average of $98,672 per job. Worse, in 2005 Connecticut's Finance, Revenue and Bonding Committee commissioned a study which found that 14 out of the 24 studied tax credit programs led to net job losses. For instance, the fixed capital investment credit created a net loss of 226 jobs.

- DECD does not disclose the wages and benefits paid by each company utilizing subsidies. Annual reports, however, show that some companies received subsidies for promising to create low-wage jobs causing hidden taxpayer costs for employees which must rely on the public safety net system. DECD should not allow companies to pay low-wages without benefits and must ramp up disclosure.

- Most job creation promises made by companies receiving subsidies are not creating new jobs in Connecticut. Eighty percent of the job promises relate to retaining jobs from existing Connecticut businesses threatening to leave the state or shut down. Studies on job creation tax credits show that 70% or more of the credits awarded to recipients paid companies for jobs that would have been created anyways.

- Many "new" Connecticut jobs are actually relocating a short distance from adjoining states. For instance, Starwood Hotels received $75 million to move less than 20 miles down the road into Connecticut from Harrison, New York. Some affected workers simply commute from out-of-state and therefore don't pay Connecticut state income taxes, local property taxes, or state and local sales taxes. Shifting jobs in the same metropolitan area doesn't grow regional economies.

Policy Recommendations:

- Apply the state's best transparency and accountability practices already established at DECD to all of Connecticut's economic development spending.

- Economic development should focus not just on job creation, but also on job quality. Connecticut shouldn't subsidize jobs unless they pay market-based wages and include health care benefits. Best practices in other states require market-based wage levels, employers providing at least half of employee health care costs, and paid sick leave, vacation time, and retirement benefits for direct employees (both full- and part-time) and for subcontracted and construction jobs.

- All programs should include three year sunsets allowing legislators to make sure that Connecticut is making best use of limited taxpayer subsidies.

- Programs without annual, company-specific disclosure should be discontinued or retrofitted for disclosure and sunsets. Currently, research and development tax credits, the electronic data processing equipment property credit, enterprise zone and urban jobs tax credits, film tax credits, and the fixed capital investment tax credits lack adequate disclosure.

- DECD's audit system is an important transparency mechanism. Unfortunately, DECD audits do not disclose benefits, especially the employer's contribution to health insurance costs, and say very little about whether subsidies are supporting low-wage positions. DECD should publish in its annual report the wage and benefit levels of each company receiving subsidies. All companies receiving a business subsidy should also be covered by audits.

- Best practices in other states include random compliance audits on five to ten percent of recipients each year. DECD should replicate this practice—and use other tools such as Unemployment Insurance data—to ensure that recipients are compliant each and every year.

Introduction

Connecticut has grown increasingly aggressive in its use of economic development subsidies, also called "incentives," spending hundreds of millions of dollars per year in foregone revenue to attract business. The number of subsidy programs has grown over the years, while the qualifying criteria have been eased multiple times.

A majority of the state's largest tax credit programs are not administered by the state's "lead agency" for economic development, the Department of Economic and Community Development (DECD). Instead, they are claimed by companies when filing their state income tax returns. The Department of Revenue Services (DRS) seems to rely on the honors system for these tax credits: a company is allowed to self-report how much of a credit it is eligible to receive. DRS does not publish information about which companies receive subsidies, the size of subsidies, or whether these subsidies are actually even creating jobs. There is no indication that DRS regularly audits outcomes like DECD.

Economic development subsidies as commonly structured in most states including Connecticut are an inefficient, blunt instrument to create jobs and spur economic development. That's because state and local taxes are a very small cost factor (averaging around one percent), dwarfed by the business basics such as labor and occupancy and then other inputs that vary by business such as raw materials, energy, logistics, etc.

But these large tax breaks have real costs for public goods that actually do matter to all employers: education, infrastructure, public safety and quality of life. When special breaks for favored groups of companies reduce tax revenues, only two things can happen: either the quality of public services declines or tax rates on other businesses and wage earners go up, or some of both. There is no such thing as free growth.

Connecticut is well-positioned to compete for business investment and jobs based on the business basics, including a highly skilled workforce and efficient transportation infrastructure. To be sure, the state faces challenges on issues such as educational attainment, energy costs, and housing affordability. And the state's business leaders have concerns about the cost of health care and workers' compensation. But none of those issues are addressed by company-specific subsidies: in fact, subsidies deplete funding that could address them. And while the state's official business tax rate is often criticized, Connecticut compares well in fifty-state measures of *effective* business tax rates, i.e., taxes actually paid.

Previous studies of Connecticut's economic development programs, including an examination of DECD's business assistance portfolio, raise troubling questions about their performance. Several tax credit programs have been shown to actually cause more public job losses than they created in private sector jobs.[1] Our review of DECD awards continues to show mixed results. More than four out of five jobs promised to DECD in exchange for its subsidies are to retain existing jobs, and only one out of five are for newly created jobs. Just over half of the companies audited in 2010 successfully met their job requirements. While some companies falling short on jobs came close, others failed by hundreds of jobs. Meanwhile, the agency's use of clawbacks to recapture public subsidies is not adequately transparent. And the cost-per-job on some subsidy awards is astronomically high.

DECD has recommended several specific changes to the state's business incentive offerings and called for a blue-ribbon panel to lead a comprehensive review of economic development policy. Despite its significant limitations, DECD has the most transparent and accountable portfolio which should be a starting template to apply to all the state's programs. Given the fiscal challenges they face, states across the country are taking a closer look at incentives and are cutting some of them, especially film production tax credits that have come under repeated criticism. By promoting transparency and demanding performance in its job subsidy programs, Connecticut can still support business investment and jobs while protecting resources for the public investments that matter most.

The Inefficiency of Business Subsidies in Creating Jobs

States grant economic development subsidies to companies to encourage business growth by influencing firms' decisions on where to invest and locate jobs. And while states compete on a variety of factors that matter to businesses, it is difficult for states to make tax breaks or other subsidies the decisive factor. The business basics such as the skills of local workforce and transportation infrastructure typically far outweigh any differences in state tax rates.

Studies measuring incentives' effectiveness have borne out the challenges. The National Conference of State Legislatures surveyed state economic development efforts and concluded, "it is difficult to assess the success of economic development, especially since many economic development programs frequently lack even basic measurable data."[2] NCSL previously observed that, "academic reviews of enterprise zones, often prepared using econometric models, have found little evidence that zone programs would actually result in net job creation and increased community investment."[3] Economist Robert Lynch found, on reviewing hundreds of studies on the effects of state and local taxes on business decisions, that tax cuts and incentives were unlikely to have a cost-effective,

[1] Joachim Hero, Orlando Rodriguez and Shelley Geballe, "Time for Connecticut to Re-examine its Business Tax Credits," Connecticut Voices for Children, April 2010, p. 4.
[2] Judy Zelio, "Taking the Measure of State Economic Development," National Conference of State Legislatures, January 2009, p. 13.
[3] Ian Pulsipher, "Enterprise Zones: Development for Distressed Communities," *Legisbrief*, vol. 13, no. 38, October 2005.

beneficial impact.[4] And the Connecticut Department of Economic and Community Development's (DECD) most recent annual report quoted Prof. Peter Fisher's conclusion that "a central problem with almost all economic-development program evaluation is that, even after decades of research, we lack conclusive evidence on the effectiveness of policy."[5]

Even when subsidies are credited with creating jobs, they do so at a net cost to taxpayers. Public economic development authorities often attempt to demonstrate cost-effectiveness by measuring the taxes generated by business investment and jobs against the value of the incentives. These measurements, like some of those cited in DECD's annual report, inaccurately assume that 100 percent of the companies receiving assistance would not have made the investments they did. In some cases, there may even be a requirement that the company applying for assistance declare that "but for" the incentive, the jobs would not exist. This claim is impossible to verify and experts tell us it is extremely unlikely. In fact, economic studies cited by DECD find that just 20 percent of business tax reductions are returned in the targeted economic activity.[6] Federal Reserve Bank of Boston economist Jennifer Weiner echoed this concern even as she argued that incentives can positively affect business investment. Weiner observed, "business tax credits do lead to new revenues for state government, but not enough to completely offset the initial costs… Thus most credits do not appear to 'pay for themselves.'"[7]

Economic development subsidies therefore have a limited effect even when well-structured. But poorly crafted programs can lead to exploding costs and wasted public resources. The state's film tax credits are a prime example: the actual revenue loss for the credits was more than $90 million in fiscal year 2009, more than three times the projected cost.[8] As if out-of-control costs weren't enough, the film tax incentives have come under widespread scrutiny for failing to generate promised benefits. Eighty-nine percent of Connecticut's film tax credits induced economic activity that occurred outside the state.[9] The Massachusetts Department of Revenue's authoritative 2009 report found that every dollar foregone for film tax credits generated just 69 cents of income for state residents. Economist Robert Tannenwald concluded that it would have been more cost-effective as a stimulus to just send every resident a check.[10]

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4 Robert G. Lynch, Rethinking Growth Strategies (Washington, D.C.: Economic Policy Institute, 2004).
5 DECD FY 2010 annual report, p. 223.
6 DECD, "An Assessment of Connecticut's Tax Credit and Abatement Programs," December 2010, p. 4.
7 Jennifer Weiner, "State Business Tax Incentives: Examining Evidence of their Effectiveness," New England Public Policy Center, Federal Reserve Bank of Boston, Discussion Paper 09-3, December 2009.
8 Joachim Hero, Orlando Rodriguez and Shelley Geballe, "Time for Connecticut to Re-examine its Business Tax Credits," Connecticut Voices for Children, April 2010, p. 4.
9 Shelley Geballe. "Fiddling While Rome Burns: Connecticut's Multi-Million Dollar, Money-Losing Subsidy," Connecticut Voices for Children, June 2009, p. 2.
10 Robert Tannenwald, "State Film Subsidies: Not Much Bang For Too Many Bucks," Center on Budget and Policy Priorities, December 9, 2010, p. 5.

Connecticut's Competitive Advantages, Challenges and Tax Climate

Connecticut possesses advantages in its competition for business investment and jobs. DECD rightly points first to the state's skilled workforce and cites the Milken Institute's observation that "a state's or region's most important competitive advantage is the knowledge embedded in its people (intellectual capital)."[11] Other advantages include a developed transportation infrastructure and technological innovation. These attributes explain Connecticut's highest rating among all states in the United Nations' Development Program's Human Development Index which measures health, education and wealth.[12] The Information Technology and Innovation Foundation's 2010 State New Economy Index ranks Connecticut #5 overall, with very high rankings for workforce education (#4), Migration of U.S. Knowledge Workers #3), Manufacturing Value Added (#2), High-Wage Traded Services (#2), Foreign Direct Investment (#3), Fastest-Growing Firms (#5), Inventor Patents (#5), Broadband telecommunications (#5), Industry Investment in R & D (#5), Venture Capital (#7), Alternative Energy Use (#8), and Initial Public Offerings (#8).[13]

Advantages such as these are systemic, not company-specific: they reflect the cumulative dividends of effective public investments in a skilled workforce and efficient infrastructure that enable companies to thrive and make Connecticut a profitable place to invest.

Nor are company-specific subsidies relevant when DECD cites the need to build on Connecticut's strong record of educational excellence by raising the educational attainment of the next generation of the workforce and closing achievement gaps. The same is true of energy costs, housing affordability and workers' compensation.[14]

Connecticut's "business climate" is the subject of some debate, and the U.S. debate over that concept spans more than 30 years and includes a great deal of junk science. DECD cites a number of reports comparing Connecticut unfavorably with other states with respect to tax rates. Some we would deem subjective and unreliable; others DECD misinterprets. For example, when DECD's annual report cites Ernst & Young's annual state business tax study, it fails to point out that the study shows that Connecticut has one of the smallest state and local business tax burdens of any state as a share of the private-sector economy. In fact, the most recent Ernst & Young report finds Connecticut's state and local *effective* business tax rate (i.e., that actually paid) is the lowest of any state. (The previous year's report put Connecticut at fifth-lowest.)[15]

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[11] DECD FY 2010 annual report, p. 173.
[12] DECD FY 2010 annual report, p. 192.
[13] Robert D. Atkinson and Scott Andes, "The 2010 State New Economy Index: Benchmarking Economic Transformation in the States." Information Technology and Innovation Foundation, November 2010.
[14] DECD FY 2010 annual report, pp. 176, 180-183.
[15] Andrew Phillips, Robert Cline, Thomas Neubig and Julia Thayne, "Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2010," Ernst & Young and Council on State Taxation, July 2011, p. 9; the fiscal year 2009 report is dated March 2010, p. 12.

But looking at tax rates as a core measure of "business climate" is too simplistic. Economic development guru Professor Richard Florida of the Martin Prosperity Institute compared Ernst & Young's 2011 business tax competitiveness index, which measured taxes on new investment, against each state's economic performance.[16] He concluded that Ernst & Young's index bore no statistical association between greater economic outputs per capita, state income, wages, unemployment rates, level of human capital, or well-being. In other words, following Ernst & Young's ratings had no predictive value for economic development outcomes.

DECD tacitly agrees that these business-friendliness rankings can be quite misleading. DECD's 2010 annual report cites *Grading Places: What Do the Business Climate Rankings Really Tell Us.*[17] This rigorously researched book points out the fallacies of so-called business-friendliness rankings that primarily look at tax rates. Not only do such studies, of which there are many, regularly produce different and conflicting results, but the most important variables regularly measured by site-location consultants are conspicuously absent. Labor costs, cultural and recreational amenities, climate, energy costs, transportation, educational attainment, school quality, and health care are overlooked. Taxes matter, but not as much as these studies claim. Businesses don't use these climate rankings to actually choose where to expand. Why should the state of Connecticut?

Connecticut's Growing Use of Subsidies

As previous studies have pointed out, Connecticut has grown increasingly aggressive in its use of subsidies to attract business. The policy research group Connecticut Voices for Children published an in-depth analysis of the state's business tax credits and incentives in 2010. It found that due to a proliferation of new credits and expansion of existing programs, revenue lost to corporate tax credits has grown from $5 million in 1987 to more than $228 million projected for fiscal year 2011. Corporate tax credits, whose costs rise and fall with the business cycle, reached their peak of $306 million in fiscal year 2009. In that year, tax *credits* surged to 54 percent of total corporate income taxes paid, more than double the level in 2006.[18]

DECD began providing financing with the Manufacturing Assistance Act (MAA) in 1990. Eligibility for this loan and grant program has since been expanded to a wide range of industries.[19] The program's revolving loan fund was initially capitalized with general obligation bonds, and DECD regularly requests bond funding for subsidies as part of the

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[16] Richard Florida, "Do State Business Taxes Really Matter?" Martin Prosperity Institute, May, 2011. Available online at: www.theatlantic.com/business/archive/2011/05/do-state-business-taxes-really-matter/238941/

[17] Peter Fisher, *Grading Places: What Do the Business Climate Rankings Really Tell Us?* (Washington, D.C.: Economic Policy Institute, 2005), cited in DECD FY 2010 annual report, p. 169.

[18] Joachim Hero, Orlando Rodriguez and Shelley Geballe, "Time for Connecticut to Re-examine its Business Tax Credits," Connecticut Voices for Children, April 2010, pp. 1-2.

[19] DECD FY 2010 annual report, p. 253.

state's capital budget process.[20] Slowly, however, the state began utilizing more and more off budget tax credits.

DECD is designated as the lead state agency for economic development. But it is just one of many state agencies and public-private entities that grant business subsidies. Table 1 below shows that five of the seven largest tax credit and assistance programs are administered by agencies other than DECD.

Table 1. Business Tax Credits and Assistance by DECD and Other Agencies

FY 2011 Cost ($ Millions)	**DECD**	**Other Agencies**
Historic Homes, Structures, Mixed Use Rehab		$47
Fixed Capital Investment Credit		45
Film (Industry, Infrastructure, Digital Animation)	$41	
Manufacturing Assistance Act	33	
Electronic Data Processing		30
Sale of R & D Credit		30
Research, Development, & Experimentation		15
Insurance Reinvestment	7.5	
Manufacturing/Service Facilities/Enterprise Zones	3.5	
Job Creation*	3.3	
Housing Program Contribution		3.0
Neighborhood Assistance		1.7
Human Capital		1.5
Urban and Industrial Site Reinvestment Credit*	0.5	
Displaced Worker Credits	< 0.1	
Total Selected Programs	**$89**	$173
Share of total selected program cost	**34%**	66%

Sources: Adapted from table published by Connecticut Voices for Children, April 2010; data from Office of Fiscal Analysis, Connecticut Tax Expenditure Report, March 2010 and DECD Annual Report for FY 2010.
(*) FY 2010 cost as reported by DECD.

The other agencies managing tax credits include the Connecticut Commission on Culture and Tourism (CCCT) and the Department of Revenue Services (DRS). It should be noted that film tax credits were transferred to CCCT in 2003 from DECD. In 2009, the program was transferred back to DECD, but without the disclosure requirements that existing DECD programs require. These other agencies should have the same disclosure requirements as DECD. DECD should fix programs without disclosure under their own purview.

As costs have grown, tax credit eligibility standards have also loosened. For example, the Job Creation Tax Credit has been altered to loosen eligibility requirements from 50 new jobs created to just 10, and its value was raised from 25 percent of employee tax

[20] Economic Development and Manufacturing Assistance Act of 1990. Sections 32-220 to 32-234. See the State Bonding Commission Agenda available online at: http://www.ct.gov/opm/cwp/view.asp?a=3010&Q=382918

withholding to 60 percent.[21] The awarding of an employee's personal income tax withholdings to the companies he or she works for is particularly perverse. Given the current fiscal realities, personal income taxes are the most stable source of revenue that a state collects. Losing them at the same time states and municipalities reduce or abate property taxes, corporate income taxes, sales taxes, and franchise taxes leaves little for public services.

DECD states that loans represent 91 percent of the agency's assistance portfolio. However, many of the largest awards allow for total or partial forgiveness if job creation benchmarks are met. These are more like grants with clawbacks than traditional loans.[22] DECD's annual report does not describe its loan forgiveness program or policies, nor does it disclose which beneficiaries have received full or partial loan forgiveness.

Connecticut's increasing number of tax credits, loans, grants and other subsidies to prospective or current employers. They carry a growing cost for state taxpayers and compete with other public priorities for scarce revenues. The next section of this report explores whether these incentives have produced results.

Connecticut's Incentive Programs Fail to Demonstrate Results

The policy analyses published by Connecticut Voices for Children are consistent with the findings of others that cast doubt on the efficacy and cost-effectiveness of the state's business incentive programs. For example, the University of Connecticut Center of Economic Analysis (CCEA) conducted a study on behalf of the General Assembly's Finance, Revenue and Bonding Committee. The analysis found that 14 of the 24 tax credit programs cost more jobs than they created because of their net cost in foregone revenue. CCEA concluded Connecticut's corporate tax rate reductions, credits and exemptions were "a mixed and small success for the Connecticut economy, because private sector job creation and retention is offset by public sector forgone hiring and by public goods and services provision reductions" (p. 10).[23] Separately, the Program Review and Investigation Committee in a 2005 study found that 16 of 26 business tax credits were not benefiting Connecticut's economy.[24]

[21] See the history section of the Job Creation Tax Credit statute Section 12-217ii: http://search.cga.state.ct.us/surs/sur/htm/chap208.htm#Sec12-217ii.htm

[22] "Connecticut's Economic Competitiveness In Selected Areas." December 2009. Legislative Program Review and Investigations Committee of the Connecticut General Assembly. http://www.ctmirror.org/sites/default/files/documents/Connecticut's_Economic_Competitiveness.pdf

[23] William F. Lott, Stan McMillen, "The Economic Impact of Connecticut's Corporate Tax Policy Changes: 1995-2012," University of Connecticut Center for Economic Analysis, December 8, 2005, p. 10.

[24] Joachim Hero, Orlando Rodriguez and Shelley Geballe, "Time for Connecticut to Re-examine its Business Tax Credits," Connecticut Voices for Children, April 2010, p. 3.

Department of Economic and Community Development Assistance Portfolio

DECD publishes an annual report with information on each company that benefits from one or more of its subsidy programs. DECD specifies whether the beneficiary company is subject to job retention and creation requirements, and if so, the results of its jobs audit. A separate employment survey details each company's current full-time and part-time jobs within its current subsidy portfolio. Good Jobs First rated Connecticut sixth best in terms of economic development transparency in the country in late 2010 because of these disclosures, despite the state not disclosing film tax credits and enterprise zone and urban jobs tax credit recipients.

DECD has awarded a number of very large packages, especially in more recent years. A listing of the companies with the largest DECD awards appears in Table 2 below. Note that companies with an asterisk have not yet had their jobs audits and have additional time to fulfill contractual commitments.

Table 2. Companies with largest DECD assistance awards

Company	Award Fiscal Year	DECD Assistance	Jobs Required (Audit)	Employment at 6/30/2010
RBS Securities	2007	$100,000,000	1,850	1,685*
UBS Investment Bank	2001	$46,000,000	2,000	3,209
Diageo North America	2004	$40,000,000	1,000	677
General Re Corp	2010	$28,500,000	820	758*
Blue Sky Studios	2008	$26,000,000	300	405
Lowe's Home Centers	2005	$20,000,000	525	418
DRS Fermont (Engineered Elec)	2010	$13,500,000	499	373*
Prudential*	2009	$12,600,000	988	833*
ING Life Insurance Annuity	2007	$9,900,000	1,700	1,781*
Electric Boat Corp	2008	$9,900,000	4,000	8,024
Factset Research Systems	2005	$7,000,000	536	627
Comcast of CT	2010	$6,500,000	1,271	1,342
Aetna	2009	$6,000,000	7,466	7,417
CF Foods	2010	$5,850,000	265	349
Pfizer Central Research	2000	$5,000,000	1,300	4,518
Eppendorf Manufacturing Corp	2006	$5,000,000	108	122
Chaves Bakery II	1999	$5,000,000	100	159
GE Capital Corp	2001	$4,292,250	340	576
IDEX Health & Science (Halox)	1998	$3,500,000	100	161
Tenergy Christ Water, LLC	1999	$3,175,000	51	34
Burris Logistics	2009	$3,008,210	220	201*
Kaman Aerospace Corp	1993	$3,000,000	None	281
AT&T East (SNET/SBC)	2001	$3,000,000	9,000	213
Purdue Pharma	2001	$3,000,000	660	521
Incubator Associates	1993, 2004	$3,000,000	None	4
Latex Foam International	2002	$3,000,000	253	143
Weeden & Co	2009	$2,500,000	153	165
Aero Gear	2009	$2,400,000	140	128

Company	Award Fiscal Year	DECD Assistance	Jobs Required (Audit)	Employ-ment at 6/30/2010
Derektor Shipyards Conn	2000, 2010	$2,200,000	125	250
Protein Sciences Corp/MEDCO	1992	$2,099,074	None	73
Windsor Marketing Group	2009	$2,000,000	125	119*
Carling Technologies	2008	$2,000,000	150	82
Cytec Industries	1996	$2,000,000 1	50 1	46
MBI	2003	$2,000,000 6	25 5	17
Yarde Metals	2001	$2,000,000 2	80 3	82
PEZ Manufacturing	2006	$2,000,000 1	47 1	31
Aldi, Inc (Connecticut)	2010	$1,900,000 3	0 6	5
Lincoln National Corp	2000	$1,800,000 6	00 5	78
R.R. Donnelley (Pro Line Printing)	1993	$1,600,000	None	87
Hilltop Investments/Daticon	2003	$1,500,000	600	NA
Swiss Army Brands	2008	$1,500,000	150	160*
OptiWind Corp	2010	$1,500,000	65	28*
Innovative Arc Tubes Corp	2000	$1,500,000	75	9
Walgreen Eastern Co	2007	$1,500,000	550	450*
Martin Brower Co	2002	$1,500,000	158	250
Hartford Provision Co	2007	$1,500,000	181	167*
Volve Aero (Aero-Craft)	2007	$1,500,000	92	93*
Greenwich Associates	2008	$1,500,000 1	78 1	46
Sun Products Corp	2010	$1,496,426	None	201
Flanagan Brothers	2007, 2008	$1,166,000	106	104*
Asterisk Financial	2010	$1,081,437	None	7
Porcelen Limited Connecticut	2002	$1,040,000	168	110
Polylok 2	007	$1,000,000	59	50*
Becton Dickinson	2002	$1,000,000 5	63 3	46
* Company has not yet had its contractual jobs audit as of 6/30/2010 and has additional time to meet job commitments.				
Source: DECD FY 2010 annual report.				

Many of the largest recipients are finance and insurance companies. In fact, DECD's overall portfolio favors them most. Finance and insurance represent 42% of its business assistance portfolio, while manufacturing represents less at 41%.

Promised Jobs, Assistance, and Audit Results

The companies in DECD's current portfolio have promised to retain an aggregate 36,837 jobs and create 8,194 new jobs, for a total of 45,031 jobs retained or created. These companies have received approximately $442 million in subsidies through loans, tax credits and grants, for a total subsidy per promised job of about $9,800. DECD points out that some companies receive assistance in pursuit of goals other than jobs, such as brownfields redevelopment. However, just three percent of the total assistance granted falls into this category.

The most optimistic estimates suggest that taxpayers are receiving an extremely varied return on many of these subsidies. Using DECD's most current annual report, we tallied the cost-per-job figures using Tables A-2.3a and A-2.3b. These reflect full- and part-time jobs creation that companies self-reported to DECD. We counted companies' self-reported employment surveys, including part-time jobs. We think that provides a very conservative cost-per-job figure. Part-time jobs shouldn't be treated equally to full-time jobs; however, the state does not disclose full-time equivalencies. Some companies also received two subsidies from different programs, often with different job creation standards in each program. We did not tally the total assistance a company received from all subsidies which could increase cost-per-job figures. We also excluded companies that failed to submit employment surveys.

Despite these factors, which should underestimate the true cost-per-job figures, we still find that many subsidies carry extravagant costs. See the Table 3 below. The ten most expensive subsidies carry an average cost-per-job figure of $98,721. It is important to note that these figures were not available for download into a spreadsheet, but had to be compiled and entered from the annual report. Connecticut lost points in Good Jobs First's Show Us the Subsidies study for not posting downloadable data.

Table 3. Top 25 Highest Cost-Per-Job Figures for Current Connecticut Subsidies

Rank	Company	Program	Total Assistance	Full-Time and Part-Time Employment on 6/30/10	Percent Part-Time	Cost-Per-Job
1	Innovative Arc Tubes Corporation	MAA	$1,500,000	9	22%	$ 166,667
2	Asterisk Financial, Inc.	JCTC	$1,081,437	7	0%	$ 154,491
3	Incubator Associates, LP	MAA	$500,000	4	0%	$ 125,000
4	Chromium Process Company	MAA	$487,500	5	0%	$ 97,500
5	Tenergy Christ Water, LLC	MAA	$3,175,000	34	3%	$ 93,382
6	Creamery Brook Farms	MAA	$85,000	1	0%	$ 85,000
7	Mercuria Energy Trading	JCTC	$472,500	6	0%	$ 78,750
8	Composite Machining Experts, LLC	MAA	$270,000	4	0%	$ 67,500
9	Greenwich Capital Markets, Inc n/k/a RBS Securities, Inc	URA	$100,000,000	1,685	0%	$ 59,347
10	Diageo North America, Inc	URA	$40,000,000	677	1%	$ 59,084
11	OptiWind Corp.	MAA	$1,500,000	28	4%	$ 53,571
12	Lowe's Home Centers, Inc	URA	$20,000,000	418	1%	$ 47,847
13	Eppendorf Manufacturing Corp.	URA	$5,000,000	122	1%	$ 40,984
14	Composition Materials Co., Inc	MAA	$300,000	8	0%	$ 37,500

Rank	Company	Program	Total Assistance	Full-Time and Part-Time Employment on 6/30/10	Percent Part-Time	Cost-Per-Job
15	Avalence, LLC	MAA	$200,000	6	17%	$ 33,333
16	CBS Manufacturing Co., Inc/35 Kripes Rd	MAA	$900,000	28	4%	$ 32,143
17	Allied Controls , Inc	MAA	$250,000	8	25%	$ 31,250
18	Al di, Inc (Connecticut)	URA	$1,900,000	65	0%	$ 29,231
19	Protein Sciences Corporation/MEDCO	MAA	$2,099,074	73	4%	$ 28,754
20	Fairfield Crystal Technologies, LLC	MAA	$200,000	8	75%	$ 25,000
21	Genomas, Inc	MAA	$200,000	8	0%	$ 25,000
22	Carling Technologies, Inc	MAA	$2,000,000	82	2%	$ 24,390
23	Halox Technologies, Inc n/k/a IDEX Health & Science	UA/ MAA	$3,500,000	161	0%	$ 21,739
24	Strain Measurement Devices, Inc	MAA	$500,000	23	4%	$ 21,739
25	Latex Foam International, LLC	MAA	$3,000,000	143	0%	$ 20,979
MAA is the Manufacturing Assistance Act. URA is the Urban and Industrial Site Tax Credit program. UA is the Urban Act. JCTC is the Job Creation Tax Credit.						
Source: DECD FY 2010 annual report.						

Unfortunately, DECD doesn't adequately justify these variable cost-per-job figures in the annual reports. With such high cost-per-job figures, it would also be relevant to compare the average and median wages of the jobs to the costs.

Retaining existing jobs is a recognized goal of DECD's programs. However, it is important to bear in mind that four out of every five jobs promised are *existing* jobs that would be retained by the companies. There is a tremendous hazard in subsidizing companies that make threats to leave the state. What's to stop every company from threatening to leave? There is no adequate way to gauge whether a threat is credible. Studies on job creation tax credits show that 70% or more of the credits awarded to recipients paid companies for jobs that would have been created anyways. [25]

Many of Connecticut's "new" jobs aren't so new either. Blue Sky Studios relocated 300 jobs about 12 miles from White Plains, New York to Greenwich without technically creating any new jobs.[26] Diageo moved the same number of jobs about the same distance from Harrison, New York to Stamford.[27] Starwood moved 800 jobs a slightly longer

[25] "State Job Creation Tax Credits," Connecticut Voices for Children, March 2010, p. 1.
[26] Jerry Gleeson. "Blue Sky Studios lured from White Plains by Connecticut cash." The Journal News (Westchester County, New York).
[27] Barbara Woller. "Diageo chooses Norwalk for HQ." The Journal News (Westchester County, NY). February 18, 2004.

distance from White Plains to Stamford.[28] The latter deal was also controversial because the company benefited from a $35 million Recovery Act transportation grant to relocate. Many workers will likely now endure longer commutes as a result. Paying companies to shift jobs around within the same metropolitan area doesn't grow regional economies.

Excluding companies with no jobs requirements, there are 70 companies that have job commitments and have undergone their DECD job audit as of June 30, 2010. For the purposes of this analysis, a "company" is a contract between a firm and DECD. A company may be counted more than once if it has multiple assistance contracts with DECD. DECD distinguishes between companies that have "fulfilled" their jobs commitments and those that have "not met" them. These two categories are presented in Table 4 below. These companies are required to retain or create 32,253 jobs and received $231 million in assistance, for a cost-per-job of $7,172. DECD's employment survey for June 30, 2010 shows these companies have retained or created 26,171 jobs, for a cost per job of $8,839.

Table 4. Assistance and Jobs for Audited Companies

Audit Status	# Cos	DECD Assistance	Jobs Required (Audit)	Jobs Required (Survey)	Jobs Retained or Created	Jobs vs. Required (Survey)
Fulfilled	39	$145,374,750 1	8,119 1	7,429	21,951	4,792
Not Met	31	$85,947,825	14,134	5,407	4,220	-1,187
Total Audited	**70**	**$231,322,575**	**32,253**	**22,836**	**26,171**	**3,605**
Assistance per:			$7,172		$8,839	
Note: A company can be counted more than once if it has arranged multiple contractual commitments over the DECD portfolio period.						
Source: DECD FY 2010 annual report.						

Of the 70 audited contracts, 39 were reported as meeting their obligations and 31 as not meeting them. The 39 contracts with companies that fulfilled their obligations pledged 18,119 jobs and had retained or created 21,951 jobs as of the June 30, 2010 employment survey.

The state does not clarify whether companies that failed their job audits underwent clawbacks or contract modifications. The 31 business subsidy contracts that failed to meet contractual job requirements received nearly $86 million in assistance. Table 5 below presents the companies designated by DECD as failing to meet their jobs commitments, the total amount of DECD assistance, jobs commitment from the job audit, and the shortfall from the jobs required as reported in DECD's employment survey. The list also includes a handful of companies that appear to have exceeded their jobs commitments, yet inexplicably are designated as not meeting their requirements. No additional details are presented in DECD's annual report on these cases.

[28] Eric Gershon. "New 'Star' For State; Starwood Hotels & Resorts Moving Global Headquarters to Connecticut, Stamford." Hartford Courant. Novermber 19, 2009.

Table 5. Companies Failing to Meet Contractual Jobs Commitment

Company	DECD Assistance	Jobs Required (Survey)	Jobs Shortfall
Diageo North America	$40,000,000	1,000	-329
Lowe's Home Centers	20,000,000	525	-112
Factset Research Systems	7,000,000	536	85*
AT&T East (SNET/SBC)	3,000,000	9,000	Unknown**
Latex Foam International	3,000,000	253	-110
Carling Technologies	2,000,000	150	-70
Greenwich Associates	1,500,000	178	-34
Innovative Arc Tubes Corp	1,500,000	75	-68
Porcelen Limited Connecticut	1,040,000	168	-58
ADKO Intertrade	600,000	75	-28
Alto Products Corp (Plainville) 600,	000	52	Unknown***
Colonial Bronze Co (listed twice)	598,544	79	-47
Ahlstrom Windsor Locks	550,000	510	-76
Atlantic Steel & Processing (listed twice)	550,000	35	-18
Atticus Bakery	540,000	90	106*
Cuno (listed twice)	537,500	750	-52
Neeltran 500,	000	98	12*
Asper (Futuristics Components)	400,000	34	-5
Composition Materials Co	300,000	17	-9
Energy Beam Sciences	300,000	20	-9
Genomas	200,000	25	-17
Industrial Heater Corp	200,000	90	-62
Vertrax 200,	000	40	-25
Carla's Pasta	197,831	111	-35
Hartford-West Indian Bakery Co	195,000	67	-34
Southington Manufacturing Corp	175,000	34	2*
Americus Dental Labs 153,	950	75	Unknown***
DCG-PMI 110,	000	47	-4
Total	**$85,947,825**	**14,134**	**-1,192**

***** Company is listed as not meeting its contractual requirements despite apparently creating sufficient jobs.

****** AT&T's job commitment is listed as 9,000 retained jobs on page A-3 of the DECD FY 2010 annual report. The commitment is reported as 400 newly created jobs on page A-10. The company did not apparently meet either commitment, according to the report. The FY 2005 annual report indicated that the company fell short by 614 jobs out of the 9,000 pledged.

******* Company did not provide current employment figures as of June 30, 2010.

********Three companies apparently failed two contracts they had with DECD.

Source: DECD FY 2010 annual report. Jobs Commitment figures from job audit data; Jobs Shortfall calculated from employment survey.

DECD agreements contain clawback and penalty provisions, but the agency states that it goes to some lengths to restructure agreements to avoid imposing penalties. Instead, officials often recalibrate the deals. The agency's annual report states:

> "In cases where a contractual job obligation is not met, DECD has, in accordance with the assistance agreement between the department and the recipient, the right to impose penalties that include an increase in the interest rate of the loan for the remainder of the life of the loan and/or require a dollar-per-job penalty repayment. However, in some cases, DECD will need to work with a client that has failed to meet its contractual obligation and come to a suitable resolution."[29]

DECD does not publicly report its use of clawbacks, recalibrations or rescissions in the annual report. The agency reported penalizing Diageo and FactSet in 2009 and 2007, respectively, for failing to meet job commitments.[30] The type and amount of the penalties is unknown.

"Audit Pending" Companies and Assistance per Job

Another 35 companies are in "Audit Pending" status. These more recent recipients have additional time to create the promised jobs. This is a sizable group, with nearly $195 million in subsidies, representing 44 percent of DECD's total portfolio.

These companies promised to retain or create 12,184 jobs. This is less than the companies' total jobs at the times of their applications, primarily because Electric Boat Corporation's $9.9 million assistance award requires it to retain only 4,000 jobs out of its original approximately 10,000 jobs.

Excluding Electric Boat Corporation, the remaining Audit Pending companies are required to grow their total employment from the times of their applications. However, as shown in Table 6 below, the assistance per job retained or created skyrockets to approximately $22,600, far greater than DECD's typical award. Even if a number of these jobs are in the relatively high-wage financial sector, this is a generous commitment by taxpayers to private industry.

Table 6. Audit Pending Companies (Excluding Electric Boat Corp)

Number of companies	34
DECD assistance	$184,974,170
Jobs commitment	8,184
Assistance per job	$22,602
Source: DECD FY 2010 annual report.	

[29] DECD FY 2010 annual report, p. 255.
[30] DECD, "An Assessment of Connecticut's Tax Credit and Abatement Programs," December 2010, p. 73.

Evaluating DECD's Assistance Portfolio

DECD's performance measures assume that all jobs created by recipient companies exist because of the assistance. As discussed above, this is a common misrepresentation by economic development agencies overstating the true impact of incentives. This is an especially serious error since DECD includes the income taxes paid by workers in subsidized jobs among the impacts of its programs, and makes revenue-neutrality a benchmark for certain forms of assistance.[31] If a large share of those jobs would have occurred even without the subsidies, as economists say they would tend to, the agency is claiming undue credit for a share of the state's tax revenue.

DECD states that it measures the quality of jobs created and retained. And indeed, salaries of portfolio projects average $69,233, significantly higher than the statewide average wage of $51,783.[32] However, these averages mask a troubling number of subsidized low-wage jobs.

According to a DECD report from 2009, at least 18 out of 114 (16 percent) portfolio companies were allowed to promise to pay wages below the Federal Poverty line for a family of four at $21,200.[33] As of June 30th, 2010, DECD continues to allow companies to create and retain low-wage subsidized jobs, creating hidden taxpayer costs to the state. The agency's most recent data shows that a smaller number of recipient companies continue to pay below-poverty level wages, but at least 19 percent of recipients are allowed to count jobs paying less than $30,000 per year.[34] A more realistic measure of bare-subsistence income for a family of four is published by Wider Opportunities for Women. Its Self-Sufficiency Budget as of late 2005 said a family of four in Hartford needed an annual income of $47,499.[35] Without even accounting for inflation, at least 44 out of 115 subsidized companies, a staggering 38 percent, did not meet that standard as of June 30th, 2009.

DECD devotes little attention to employment benefits, masking whether subsidized employers create hidden taxpayer costs by relying on state welfare programs, such as HUSKY plan. As of June 30th, 2010, 14 percent of subsidy recipients stated that they did not provide health insurance to their full-time employees or refused to answer the state survey. [36] For part-time employees, 49 percent of companies report creating jobs without health benefits with 27 percent refusing to report to the state. That means that as many as 76 percent of subsidized part-time jobs don't have health benefits.

Simply providing employees with a health benefit of any kind, however, is not enough. The level of benefit and the employer contribution share is not reported, despite the fact

[31] DECD FY 2010 annual report, pp. 270, 305.
[32] DECD FY 2010 annual report, pp. 264.
[33] DECD FY 2009 annual report, Appendix 2-22.
[34] DECD FY 2010 annual report, p. A-17.
[35] Dana Pearce, "The Real Cost of Living in 2005: The Self-Sufficiency Standard for Connecticut." Prepared for Office of Workforce Competitiveness, State of Connecticut, December 2005.
[36] DECD FY 2010 annual report, p. A-20.

that standards in other states typically require subsidy recipients to cover at least 50 percent of employee health insurance costs.[37]

Connecticut Must Better Manage Its Incentive Programs and Demand Results

Before expanding business tax credit and incentive programs yet again, Connecticut would be better served by thoroughly and honestly evaluating the performance of its current incentive offerings. Independent evaluations dating back years have cast doubt on the effectiveness of the state's programs.

Some of the evaluation work has already begun. The General Assembly has mandated that DECD evaluate its programs every three years.[38] DECD's annual report and this program evaluation have identified a number of programs with troubling results. DECD states, "from the economic and fiscal impact results it seems clear that several tax credit programs could safely be terminated with insignificant effect."[39] Specifically, DECD recommends that Connecticut:

- Eliminate the Enterprise Zone tax credit for lack of effect, and the Enterprise Zone property tax abatement, due to its "negative net benefits for Connecticut for a range of inducement assumptions" and because "the literature described above shows little benefit from such programs across the country;"[40] and

- End the property tax exemptions for machinery and equipment in manufacturing and research and development, because the net benefit to the state is "clearly negative" and the $60 million in foregone revenue "could be spent on critical infrastructure such as education, workforce training, transportation ...housing and energy investment."[41]

DECD also criticizes other programs such as the Manufacturing Facilities Tax Credit and the Financial Institutions Tax Credit for having criteria that are too strict to be widely used. DECD recommends eliminating the Urban Jobs Tax Credit in part because other programs are available without the "unrealistically high" job creation thresholds.[42] The problem of duplicative tax credits is more than just a bureaucratic or transparency challenge; it reduces the effectiveness of the best-designed programs. Newly created or expanded incentives are likely to cannibalize results from existing programs that do a better job safeguarding the public interest.

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[37] Other states include Iowa, Kansas, Maine, Missouri, North Carolina, Oklahoma, and Wisconsin.
[38] DECD, "An Assessment of Connecticut's Tax Credit and Abatement Programs," December 2010, Executive Summary p. iii.
[39] DECD FY 2010 annual report, p. 207.
[40] DECD FY 2010 annual report, pp. 208, 212.
[41] DECD FY 2010 annual report, p. 212.
[42] DECD FY 2010 annual report, p. 213.

DECD itself recommends creating a blue-ribbon panel to evaluate Connecticut's tax structure, including examining "the costs and benefits of each tax credit, abatement and exemption that is currently in force and effect."[43] We agree that a blue-ribbon panel could be a positive step—especially given that about two-thirds of the state's spending for economic development happens through tax expenditures, not DECD—but we are reminded that an existing law that already establishes a committee to review business tax credits has been ignored. Connecticut Voices for Children points out that the Corporation Business Tax Credit Review Committee "has failed to meet regularly, study the existing credits, and submit its recommendations, as is required by law."[44]

For all its shortcomings, most of DECD's programs at least provide some accountability and transparency. While DECD's disclosure should be improved with better report organization and a more accessible online database of recipients, the greater problem is that DECD's system fails to cover the hundreds of millions of dollars in tax credits, exemptions and abatements. Many of these are as-of-right tax credits overseen by other agencies such as the electronic data processing property tax credits, R&D tax credits, and fixed capital investment credits. Others are administered by DECD without equivalent transparency and accountability such as the Film Tax Credit, Enterprise Zones, and the Urban Jobs Tax Credit program; they scored 0 out of 100 points on Good Jobs First's transparency report card.[45]

Moving toward increased scrutiny of tax incentives would put Connecticut in step with many states across the country. Colorado, Iowa and Kansas have limited the revenue lost to tax credits. Film tax credits in particular have been eliminated or pared back in several states: Arkansas, Arizona, Idaho, Kansas, Maine, New Jersey, and Washington suspended or allowed their programs to expire, while Michigan capped its program. Iowa suspended its program in the wake of a criminal scandal. A subsequent probe found that $25 million of the $32 million in credits were improperly issued.[46]

As DECD's 2010 annual report points out, "taxpayers that depend on public services and assets to promote their general welfare should require the public sector to demonstrate the efficient and effective use of their money towards that end. Otherwise, key public investments such as education and transportation may be compromised."[47]

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[43] DECD FY 2010 annual report, p. 200.
[44] Joachim Hero, Orlando Rodriguez and Shelley Geballe, "Time for Connecticut to Re-examine its Business Tax Credits," Connecticut Voices for Children, April 2010, p. 5.
[45] See the states rankings at: http://www.goodjobsfirst.org/states/connecticut
[46] "Budget Woes Lead States to End Film-Tax Incentives (Video)," Bloomberg, October 7, 2011, www.washingtonpost.com/business/budget-woes-lead-states-to-end-film-tax-incentives-video/2011/10/07/gIQAih2EUL_video.html, accessed October 11, 2011.
[47] DECD FY 2010 annual report, p. 224.