

## **Testimony of House Majority Leader Denise Merrill**

### **In support of HB 5435, An Act Concerning the Recommendations of the Majority Leaders' Job Growth Roundtable**

Thank you Chairman Berger, Chairman LeBeau and members of the Commerce Committee. I am here today to testify in support of HB 5435, AAC Recommendations of the Majority Leaders' Job Growth Roundtable.

Here at the legislature, we have struggled over the last year with massive budget shortfalls. But make no mistake about it Connecticut's budget woes are the symptom of the real problem---job loss.

Connecticut has lost 94,000 jobs since this recession began.

As you know, I and Senate Majority Leader Martin Looney jointly convened a group this fall which we called the Majority Leaders' Job Growth Roundtable. Members of the Senate and the House were included in the Roundtable, and it also included leaders in the business community, labor, educators, entrepreneurs and venture capitalists. Attached to my written testimony is a copy of the report.

The mission of this roundtable was to evaluate strategies to facilitate job growth and strengthen our economy. This is a time when the state has no resources to spare. But, I would also say that this is not a time to be passive, sit back and do nothing. The consequences of that are far worse.

So, we --- the state's elected leadership --- need to be strategic to be effective with limited resources. We need to be confident that our policies will be effective. And, so, the Roundtable asked: "What does Connecticut want to be?" And the answer is: we want Connecticut to be a center of innovation and entrepreneurship -- a place where Yankee ingenuity can flourish.

This is a major departure from the very traditional --"old school" -- model for economic development, which our state and many others still use. By that I mean the strategy of landing "one big deal" at a time. Our economy is in the worst recession since the Great Depression. There are quite frankly very few of these "one big deals" to be had right now -- big corporations that are household names -- like General Motors -- are fighting for survival. And Connecticut --- despite all the wonderful things our state offers -- has not been nearly aggressive enough.

In these times, with scarce resources, the best action our state can take is to make it possible for talented people, and great ideas to take root. This new strategy of “innovation economics” can transform Connecticut into a center of innovation that can be a magnet for entrepreneurs across the region. There are many people already in our state that want to launch new businesses and within an hour’s drive there are is one of the largest concentrations of entrepreneurs who operate outside of the Silicon Valley.

The Job Growth Roundtable’s recommendations that are reflected in bill HB 5435 include:

- Investing in all stages of business growth
- Exporting assistance
- Innovation in Government
- Realignment of tax credits
- Support for industry clusters

### **Investing at all stages of business growth:**

Today, one of the greatest challenges to our businesses is the lack of risk investment capital. It’s a need that is “across the board” at all stages of business development...

HB 5435 creates a series of funds that will grow private sector investors by leveraging state resources. Pre-seed, early stage and later stage funding are all outlines in this support. It’s important to note that funding and matching funds at these different stages are linked because it’s the most effective system design. If we do not support all stages of businesses development, those entrepreneurs will face a dead-end --- or a “cliff”— that undermines their success. If we, for instance, only support businesses at the early stage and not at later stages then that business, which is when jobs are created, then that business may find that support in another state in leave, which means Connecticut will have no return on its investment.

HB 5435 creates an Angel Investor Tax Credits program. Currently, Connecticut has a small number of angel investors. The bill proposes tax credit equal to 25% of their investment up to \$125,000. This will make investor dollars go further and attract other investors from the greater region to Connecticut deals.

Funding for these items will come from the redirection of the Insurance Reinvestment Fund tax credits, which are valued at \$200 million. There are also parameters as to what kind of investment will qualify.

For instance:

- it must be a Connecticut business,
- owned primarily by the management of the business and their families,
- have operating in the state less than ten consecutive years,
- has annual gross revenues less than \$5 million, and
- received less than \$4 million in cash investment eligible for these tax credits

The value of the credits will be capped at \$6 million in the first two years, capped at \$3 million in the following years, and sunset on July 1, 2020.

### **Supporting Industry Clusters:**

As supported in the PRI committee's recent report, The State's Economic Competitiveness in Certain Areas, the industry cluster model has shown to be effective. Unfortunately in recent years, support for these clusters has decreased significantly. We need to reinvigorate the industry clusters and evaluate any new cluster designations that should be added, like green jobs or health care.

HB 5435 includes the need to support clusters with the appropriate amount of support. One of the often heard criticisms of the DECD is that they are not proactive. Industry clusters are the antidote. Perhaps the most important thing about clusters is that they are an effective way for the state to give ongoing support to existing businesses.

This bill is part of a series of proposals related to the Roundtable's recommendations, so it's important that I also mention how important it is for communication and cooperation to make the industry clusters succeed. There is another bill that would reinstate the Competitiveness Council. Unfortunately, like the clusters, the commitment to the Competitiveness Council diminished in recent years and Governor dissolved it last February. It should be reinstated so that we can all come together and work as a team to support industry in our state.

### **Exporting Assistance:**

With the downturn in the economy many businesses are looking to find new markets elsewhere for their products. And, in fact, surveys show that there has been a rapid increase in the number of companies that have begun exporting since the economy went sour. They also show that businesses that haven't begun to export have a strong interest in doing so, but they lack information about how to where to start. Sadly, few of them know that the state can assist them.

We have to help these businesses begin exporting --- we must keep these jobs. Right now, at the DECD there is only one person who does exporting assistance, and it's not even a full time job. That's not acceptable.

The bill requires the assignment of adequate staff to provide technical assistance to businesses in the state in exporting, manufacturing and cluster-based initiatives and to provide guidance and advice on regulatory matters.

### **Realignment of Tax Credits**

The Roundtable recommends the realignment of selected tax credits – at no new net cost – to provide incentives to job growth that are in line with the priorities that the Roundtable has set. For instance, as I mentioned earlier, the Insurance Reinvestment Fund tax credit will be

redirected to support pre-seed, early stage and later stage companies and will help to leverage private investment funding.

Also included in HB 5435 is a job growth tax credit. The criteria for this tax credit are:

- The employee hired must be a Connecticut resident
- The job they are hired for must pay at least 80% of the median income and include health insurance.
- And the company must sufficiently demonstrate that it has added jobs.
- The value of the tax credit is 15% of the new employee's wages, capped at \$4,000 for 3 years.

To manage the cost of this new credit to the state, we recommend that the total value of the credit be capped, that it sunset in 2013, and that the legislature eliminate some of the other existing tax credits that are more specialized or underutilized.

### **Paperwork Reduction:**

The way that businesses interface with the state has a lot to do with how they perceive the state: as an ally or an adversary. If the state routinely asks for duplicative information, fails to use modern systems like web based processes and isn't able to give clear expectations about when approval (or denial) will occur then we fuel the perception that Connecticut is not business friendly. HB 5435 establishes a paperwork reduction commission that will streamline and modernize the state's information system.