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TESTIMONY IN SUPPORT OF R.B. 1055, AAC STRANDED TAX CREDITS AND STRATEGIC ECONOMIC DEVELOPMENT

Senator Fonfara, Senator Frantz, Representative Rojas, and members of the Committee, I am Jim Horan, CEO of the Connecticut Association for Human Services (CAHS). CAHS is a statewide nonprofit agency that works to reduce poverty and promote family economic security through policy and program initiatives.

CAHS strongly supports Sections 1 and 2 of R.B. 1055, which enables businesses to use “stranded” research and development tax credits. These credits **can play a critical role in helping to grow the state’s economy by encouraging business expansion, driving new capital investment, and creating high-paying, permanent jobs.** As an organization that advocates on behalf of lower-income people, CAHS is concerned about the state’s slow economic growth and lack of net job growth since 1989. This slow growth and absence of new jobs contributes greatly to the current budget shortfall and makes it harder for people to find jobs, the best route out of poverty and to financial stability.

It is critical for the Finance Committee and legislature to **develop a budget and policies that generate economic and job growth, while avoiding deep cuts that could de-stabilize Connecticut’s economy and cause major job losses.** CAHS is promoting an “Opportunity Connecticut” agenda that can do this, while promoting racial and economic equity for the long-term health of the state and all its people. CAHS supports additional revenue to fund effective human services programs (we submitted separate written testimony today regarding revenue), while also supporting legislation to help businesses grow and to make Connecticut more economically competitive, to stimulate the economy and generate jobs.

Use of stranded tax credits was the basis of the [deal Governor Malloy Administration’s reached with UTC in 2014 to keep thousands of Pratt & Whitney jobs in the state](#) and to build its new global headquarters in East Hartford. With this bill, these credits can be used to develop thousands of construction jobs in a relatively short period, and thousands more high-paying, permanent research and development jobs for the long-term, in several industries (including pharmaceuticals and advanced manufacturing) and throughout the state, according to a [2010 study co-authored by University of Connecticut Economics Professor Fred Carstensen](#).

Allowing targeted use of “stranded” research and development investment tax credits could be the jump start Connecticut needs to dramatically increase job growth. This bill allows stranded credits to be used going forward for targeted purposes, while not allowing them to be used to offset current tax liabilities.

There are numerous reasons to support this legislation:

- Companies earned the tax credits in good faith. They should have a path open to use them—and the state benefits dramatically when companies use those credits to build new facilities.
- Currently, companies can only use credits *retrospectively*, against state tax liabilities for things they have already done. R.B. 1055 allows the credits to be used *prospectively*, to encourage a business to expand or undertake a major capital project, e.g., a major building or lab—in Connecticut. Because capital costs in Connecticut can run as much as 30% more than in competing locations outside of the Northeast, the use of the credits can be decisive in making our state competitive for a major project.
- Cashing in the credits provides economic benefits for the state over several years. The Connecticut Center for Economic Analysis (CCEA) at the University of Connecticut modeled the process at 20% a year for five years, beginning after the project was underway. There was **no loss of net revenue** over the five years; the construction and beginning operations of the capital project generated sufficient new revenue to fully offset the credits being redeemed. After the five years, there is a dramatic increase in state revenue.
- **Job creation:** Because this bill involves building facilities that house jobs (e.g., UTC's aerospace research facility), the number of jobs created is vastly larger than direct subsidies of jobs. The CCEA analysis projected using \$1 billion in tax credits in this way would generate 30,000 to 45,000 permanent jobs, depending on the sector. This is far more than conventional development initiatives generate. Not only does permitting use of stranded tax credits in this way cost the state no loss of revenue in the short run and a big gain in the long run, it leads to powerful job creation.

Table 5: Direct Annual Operating Shock by County and Connecticut (Jobs)

Industry	Fairfield		New Haven		Hartford		New London		Connecticut	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Chemical Manu. Ex. Petroleum, Coal, Plastics and Rubber	404	809	238	475	330	660	112	225	1,084	2,168
Computer and Electronic	391	782	230	460	319	639	109	217	1,049	2,098
Transportation Equip, Manuf. ex. Vehicles	428	856	251	503	349	699	119	238	1,148	2,295
Food Manuf.	209	417	123	245	170	341	58	116	559	1,118
Paper	203	405	119	238	166	331	56	113	544	1,087
Professional and Technical Services	492	983	289	578	401	803	137	273	1,319	2,637
Insurance Carriers and Related Activities	904	1,808	531	1,062	738	1,476	251	502	2,424	4,848
Total	3,030	6,060	1,780	3,560	2,474	4,948	842	1,684	8,126	16,253

Source: “Driving Recovery: 2020 Vision for Connecticut,” Peter Gunther and Fred Carstensen, Connecticut Center for Economic Analysis, March 2010.

- Unlike simply subsidizing jobs, having a business build a major new facility specifically for its business serves as a much more powerful anchor holding the business and the jobs in Connecticut. A Jackson Labs or a Pratt & Whitney aerospace research center cannot be

moved. By supporting major capital projects, stranded tax credits create a much deeper attachment to the state.

CAHS recommends extending Section 2(b)(2)(D) for using credits to fund technical education—to include the University of Connecticut. This would allow, for example, UConn’s Engineering Department to ramp up its aerospace research capacity to support the UTC/Pratt and Sikorsky initiatives.

The Finance Committee and legislature should support R.B. 1055, to help generate the economic and job growth Connecticut needs. Thank you for raising the bill, and for the opportunity to testify. I would be happy to answer any questions.