ECONOMIC DEVELOPMENT

Connecticut

General Assembly

LEGISLATIVE
PROGRAM REVIEW
AND
INVESTIGATIONS
COMMITTEE

FEBRUARY 1994

CONNECTICUT GENERAL ASSEMBLY
LEGISLATIVE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE

The Legislative Program Review and Investigations Committee is a joint, bipartisan, statutory committee of the Connecticut General Assembly. It was established in 1972 to evaluate the efficiency, effectiveness, and statutory compliance of selected state agencies and programs, recommending remedies where needed. In 1975, the General Assembly expanded the committee's function to include investigations, and during the 1977 session added responsibility for "sunset" (automatic program termination) performance reviews. The committee was given authority to raise and report bills in 1985.

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February 1994

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CHAPTER I
INTRODUCTION

In February 1993, the Legislative Program Review and Investigations Committee voted to study the state's economic development activities. An extremely broad topic, economic development is a term often used to describe any government activity designed to have an impact on the economy. State efforts to promote economic activity have taken many forms. These efforts range from defense diversification, developing an adequate infrastructure, easing the credit crunch, and upgrading the skills of the present work force.

While many agencies are involved in these efforts, one state agency is dedicated solely to economic development. The Department of Economic Development (DED) is responsible for advancing the state's economy through programs designed to produce high employment, encourage investments by existing businesses and industries, attract new businesses and jobs to Connecticut from other states and countries, and bring tourists and related spending into the state. Two quasi-public agencies, the Connecticut Development Authority (CDA) and Connecticut Innovations, Incorporated (CII), play significant roles in assisting the Department of Economic Development.

Scope of Review

The scope of the study includes identifying and evaluating the strategies employed by the state to attract, develop, and retain businesses and industries. This report provides descriptive and analytical information on the current operations and programs administered through DED, CDA, and CII. Although an important economic development activity, tourism is not reviewed in this study.

Methodology

The information contained in this report was obtained through a review of Connecticut statutes, agency documents, data provided by the agencies, and extensive interviews with agency personnel and others knowledgeable in the field of economic development. Former clients were also surveyed to determine program effectiveness and accessibility.

Report Format Organization

This report is organized into six chapters. Chapter II provides an overview of the structure established to deal with economic development, the state's economy, and recent legislation. The next three chapters (Chapters III, IV, and V) describe the operations of DED, CDA, and CII programs. Chapter VI provides analysis of Connecticut's economic development activities and strategies. Chapter VII summarizes the committee's findings and outlines the recommendations. Included in appendices are a table listing all DED, CDA, and CII programs, a description of economic development models followed in selected other states, and the results of a survey of businesses that received services from the agencies.

Agency Comments

It is the policy of the Legislative Program Review and Investigations Committee to provide state agencies subject to a study with an opportunity to review and comment on the recommendations prior to the publication of the final report. Comments from the commissioner of the Department of Economic Development, the executive director of the Connecticut Development Authority, and the executive director of the Connecticut Innovations, Incorporated are contained in the appendices.

CHAPTER II
BACKGROUND

Structure

Currently, all economic development activities are centered in three agencies: the Department of Economic Development; the Connecticut Development Authority; and Connecticut Innovations, Incorporated. The structural relationship among the three is depicted in Figure II-1. Each agency independently administers and operates a number of economic development programs. DED, however, functions as the lead agency among the three, formulating economic development policies and coordinating activities.

The connection between DED, CDA, and CII is the commissioner of economic development who, in addition to heading DED, serves as the chair of both the CDA and CII board of directors. This link is reinforced by the fact that a majority of each board and the DED commissioner are appointed by the governor.

By statute, CDA is governed by an 11-member board of directors. Among the statutorily mandated members are the commissioner of economic development, the state treasurer, the secretary of the Office of Policy and Management, and four gubernatorial and four legislative appointees. Currently, the appointees are to be experienced in the fields of financial lending or the development of commerce, trade, or business. The board's chairperson is appointed by the governor with the advice and consent of the legislature. The board sets policy, approves loans, and oversees the finances and general operations of the authority.

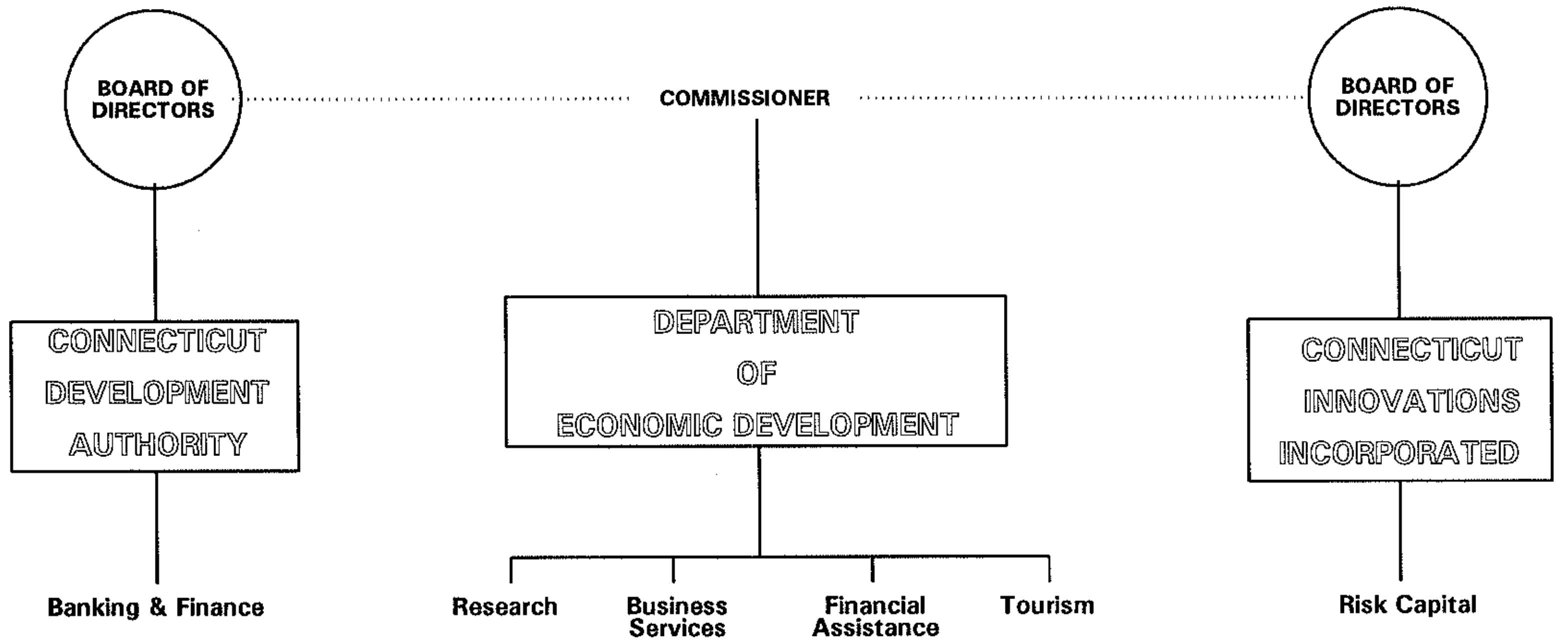
Similar to CDA, CII is headed by an 11-member board of directors and managed by an executive director. The board consists of eight gubernatorial appointments and three ex officio members. The commissioners of economic development and higher education and the secretary of the Office of Policy and Management are the ex officio members, with all the powers and privileges of board members. The board's chairperson is appointed by the governor with the advice and consent of the legislature.

A major distinction among the three agencies is that DED is a state agency subject to the laws and regulations governing operation of all state agencies, while CDA and CII are quasi-public agencies, not subject to many of the administrative controls of state government.

Purpose

The purpose of all three agencies is similar. Each agency provides assistance to any economic development project that may create high quality jobs, develop new products or services, enable businesses to sell goods and services out of state, or generally increase employment. The basic eligibility requirement is that an applicant cannot obtain conventional

FIGURE 1. STATE ECONOMIC DEVELOPMENT STRUCTURE



financing. Operationally, the three agencies have a similar approach to providing services to businesses. Each agency has established an initial point of contact for information or referral, a unit for intake assessment and application review, and a division for funds management.

Resources

While the three agencies have similar functions, they differ in size. Table II-2 shows the number of staff employed by each agency and its estimated FY 93 expenditures. To fulfill its responsibilities, DED has a staff of 87 employees and an operating budget of $12,178,694. These resources allow the department to manage financial assistance programs, provide an array of nonfinancial services, operate a tourism division, and perform economic analysis, research, and planning. Acting primarily as financial institutions, CDA has 43 employees and a budget of $4,139,774 while CII has 14 staff members and an operating budget of $1,351,171.

TABLE II-2. RESOURCES OF THE DED, CDA, AND CII IN FY 93

CATEGORY	STAFF	EXPENSES
Department of Economic Development	87	$12,178,694
Connecticut Development Authority	43	$4,139,774
Connecticut Innovations Incorporated	14	$1,351,171
TOTAL	**144**	**$17,669,639**

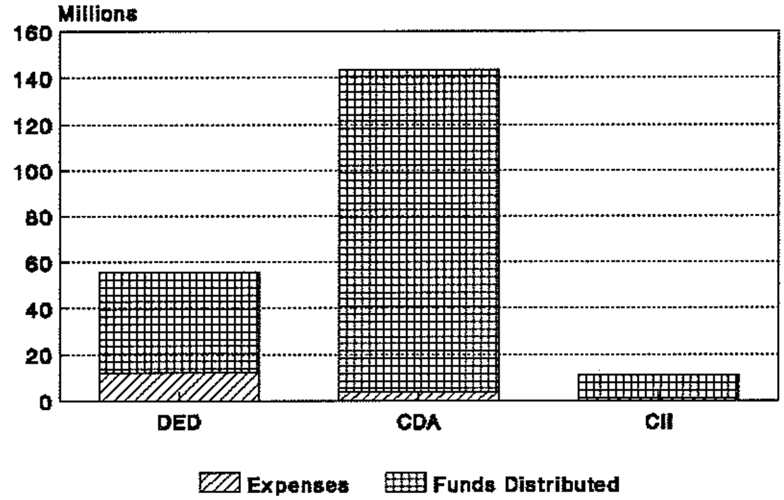
Source: DED, CDA, CII DOCUMENTS

Figure II-3 compares the funds consumed and money allocated for distribution by DED, CDA, and CII in FY 93. The graphic shows that CDA committed or reserved nearly twice as much money as DED and CII combined. The emphasis on services at DED is reflected in the fact that its administrative expenses were about 3 times greater than CDA's administrative costs and more than 10 times the expenses of CII. It is noteworthy that all three agencies have low, expense-to-funds-distributed ratios.

State Economic Environment

The state's economic fortunes over the past 10 years are illustrated in Figure II-4. The graph charts the growth rate of Connecticut's real gross state product (GSP), which is a measure of the market value of the goods and services produced in the state after adjusting for inflation. As shown in Figure II-4, the state's economy experienced high rates of growth in the mid-1980s. Between 1983 and 1988, the average annual increase in the state's GSP was 6.8 percent compared to the national average of 4.6 percent. Beginning in 1989, Connecticut's GSP turned negative and has continued that way through the end of 1992.

FIGURE II-3. FY 93 FUNDS CONSUMED AND APPROVED FOR DISTRIBUTION



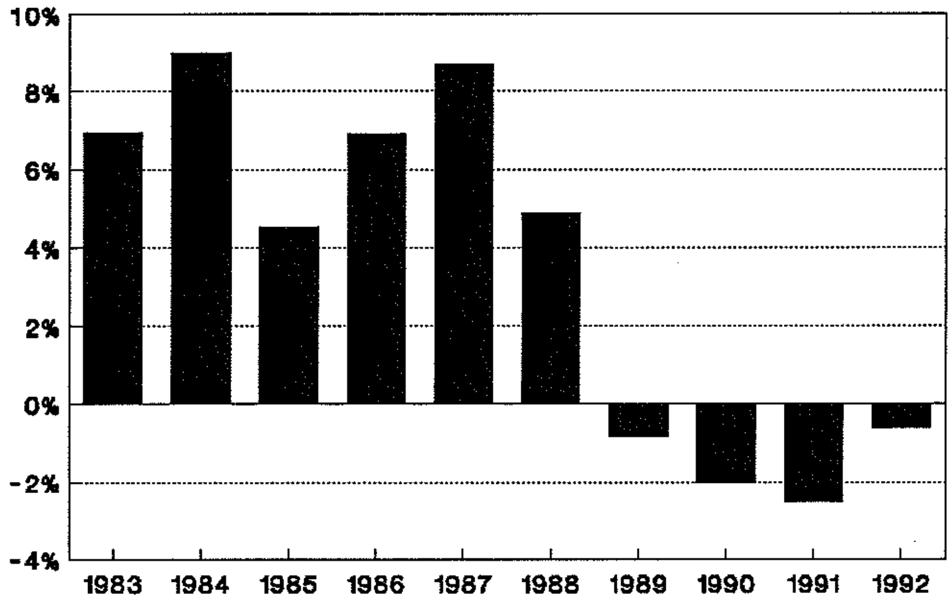
Source of Data: DED, CDA, CII

Figure II-5 charts the size of the state's labor force and the number of jobs from 1983 through 1992. As expected, the employment picture closely parallels changes in the state's economic activity. The number of persons employed trends upward, peaking in the first quarter of 1989. As the graph shows, through the second quarter of 1988, the increase in the number of jobs in the state exceeded additions to the labor force. As a result, the state's unemployment rate steadily declined reaching a low 2.7 percent in the second quarter of 1988. Over the last five years shown in the graph, the number of individuals holding jobs has declined, while the labor force has continued to expand. These two factors combined to drive the state's unemployment to 7.2 percent in the fourth quarter of 1992.

An examination of economic activity between 1983 and 1988 reveals one of the major problems facing Connecticut. During the boom period when the state's economic activity expanded at an average annual rate of 6.8 percent, manufacturing averaged only 2.3 percent real growth. The sectors leading the state's growth spurt were the service industry, with average annual increases in real terms of 10 percent, and finance, banking, and real estate, which experienced real average annual growth of 10.9 percent. The construction industry grew at an annual rate of 13.5 percent between 1983 and 1988.

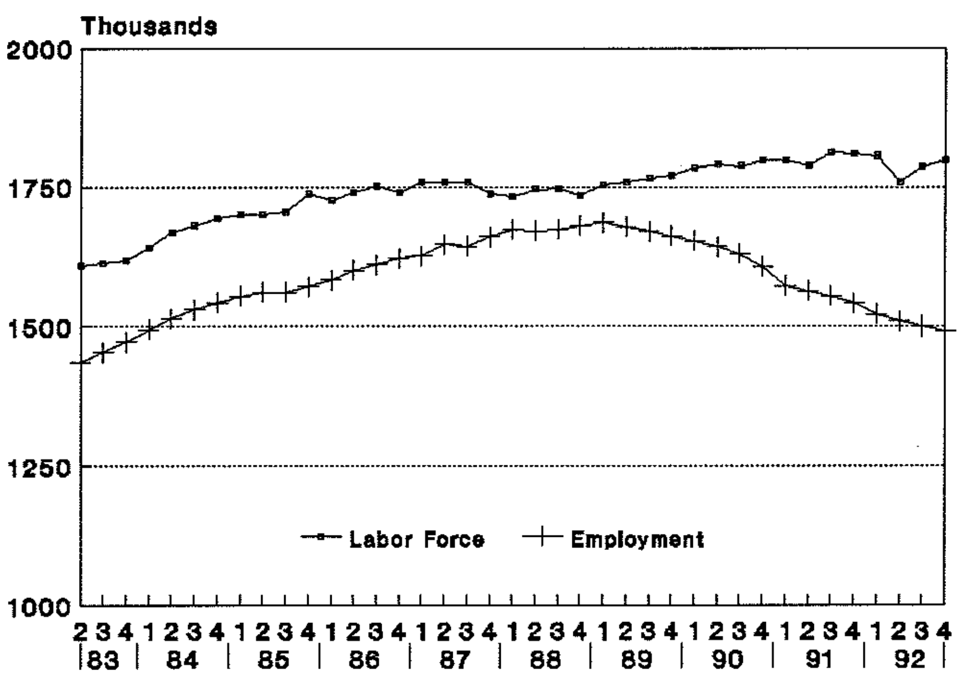
As a result of the differential growth rates, manufacturing's portion of Connecticut's GSP declined from approximately 27.7 percent in 1983 to 21.3 percent in 1989 (the latest year for which data were available). Nationally, the percent of Gross Domestic Product accounted for by manufacturing rose from 21.0 to 22.5 percent. According to the University of Connecticut's quarterly review The Connecticut Economy, manufacturing jobs as a percent of state employment declined from roughly 27 percent in 1983 to 21 percent in 1992. This translates into a net loss of about 100,000 jobs.

FIGURE II-4. CHANGES IN REAL GROSS STATE PRODUCT



Source: 1983-89 CEIS
1990-92 CT Economic Quarterly

FIGURE II-5. LABOR FORCE AND EMPLOYMENT



Source of Data: CEIS

A study by the University of Connecticut's Center for Economic Analysis, which appeared in the April 1993 edition of The Connecticut Economy, forecasts little change in the number of state manufacturing jobs through 1997. The same forecast indicates that the biggest area of job growth will be in the nonfinancial services sector, which will account for slightly more than half of the predicted 55,000 new jobs.

State Development Programs

The legislative and executive branches of state government responded to the economic downturn by expanding existing economic development programs and initiating several new ones. Since 1991, the subject of economic development has produced a proliferation of legislation covering a wide range of topics including manufacturing, taxation, enterprise zones, and public and private mechanisms for implementing state policies. Much of the legislation focused on creating, restructuring, and expanding financial assistance programs operated by the Department of Economic Development and the Connecticut Development Authority.

Specifically, 1991 legislation increased the statutory limits of program funds and gave CDA and DED more flexibility in providing financial assistance. This trend was continued in 1992 with the creation of more programs designed to meet the credit needs of established businesses and to promote the growth of small and medium size companies. Changes were also made in sales, property, and corporate income taxes paid by manufacturers, allowing tax credits and exemptions aimed at reducing business costs.

Significant changes in the state's economic development program were contained in 1993 legislation. Accountability measures and reporting requirements to the legislature were strengthened to ensure prudent use of state funds and evaluation of state economic development programs. Greater emphasis was placed on regional economic development efforts initiated at the local level, and several public and private partnerships were established to aid all phases of manufacturing.

Excluding the programs established by 1993 legislative acts, but not operational at the time of the committee's review, DED, CDA, and CII administer a combined total of 40 financial and 14 service programs. Appendix A contains a table that provides an overview of the 54 programs.

CHAPTER III
DEPARTMENT OF ECONOMIC DEVELOPMENT

Purpose

The Department of Economic Development is responsible for all aspects of the state's efforts to plan for, develop, maintain, and improve business, commerce, industry, and tourism (C.G.S. Section 32-1b). It is the successor agency to the Department of Commerce, which was created in 1973 when the Connecticut Development Commission was separated into a state agency (Department of Commerce) and a quasi-public agency (Connecticut Development Authority). In 1977, a general reorganization of state government resulted in the name of the Department of Commerce being changed to the Department of Economic Development (P.A. 77-614).

Organization

Figure III-1 depicts the Department of Economic Development's organizational structure. As shown, the department is divided into the commissioner's office and five divisions. The commissioner's office includes the commissioner, deputy commissioner, support staff and units managing communications, research, and legislative matters. The five divisions are: Agency Operations, Tourism, Business Development and Finance, Regional and Program Development, and Community Reinvestment.

Resources

Table III-2 shows the number of staff employed by the department and an estimate of its FY 93 expenditures. Included under the administration category are funds provided by state utility companies to support an advertising campaign and equip a resource center for promoting the state and its programs.

The table also shows funds appropriated to the department that were designated to be transferred to specified institutions of higher education and nonprofit organizations for use in projects designed to assist small businesses and emerging technologies. The money shown in Table III-2 came from several sources including approximately $6.7 million from the General Fund, $600,000 in bond funds, $5.7 million in private contributions, and $40,000 in federal funds.

Figure III-3 shows the department's operating budget in constant dollars over the past five state fiscal years. Note that total expenditures increased in the last two fiscal years after three straight years of decline. Most of the increase is the result of an infusion of money from other sources. The most significant origin of outside funds was a $5 million contribution from state utility companies in FY 93. An additional $5 million contribution from state utilities has been projected in the department's budgets for FY 94 and FY 95.

FIG. III-1 Department of Economic Development

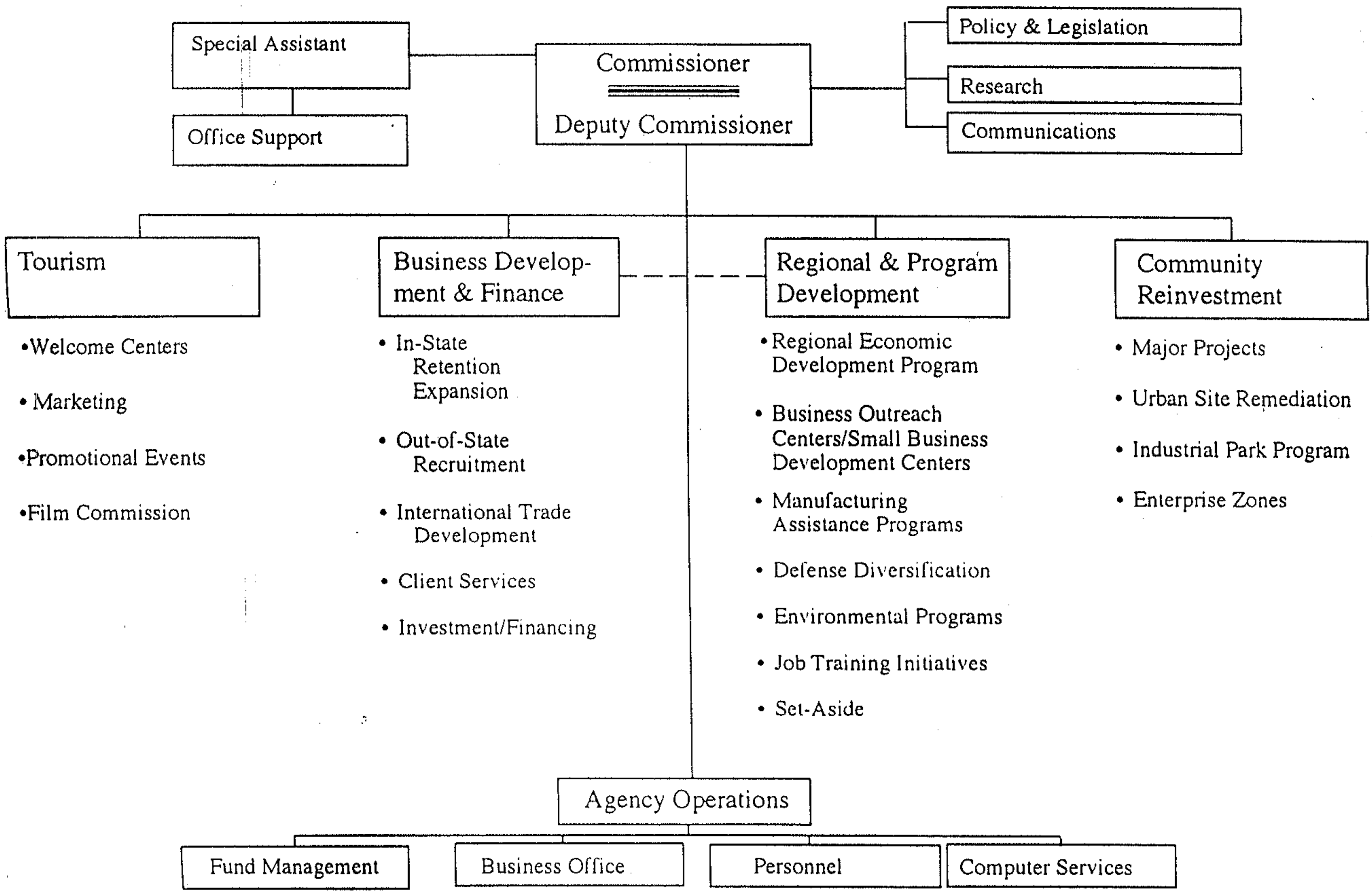
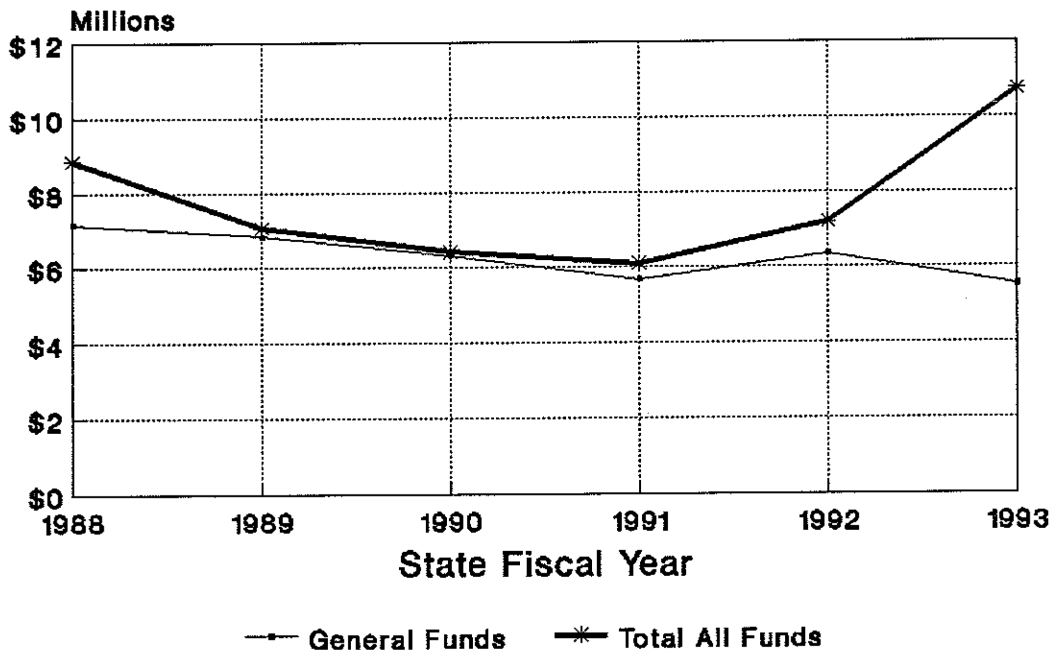


TABLE III-2. RESOURCES APPROPRIATED FOR USE BY THE DEPARTMENT OF ECONOMIC DEVELOPMENT IN FY 93			
CATEGORY	STAFF (1)	ESTIMATED EXPENSES	FUNDS TO BE TRANSFERRED
Administration	24	$7,043,723	$818,750
Business & Reg. Develop.	28	$2,066,291	$5,000
Community & Bus. Finan.	21	$1,731,670	$93,677
Tourism	14	$1,337,010	$0
Total	87	$12,178,694	$917,427

(1) Filled positions as June '93
Source of Data: DED and Governor's Budget FY 1994-95

FIGURE III-3. DED ANNUAL EXPENDITURES FY 88-FY 93 IN CONSTANT 1988 DOLLARS



Source of Data: Governor's Budget

Operations

Policy. The department's leadership role in formulating economic development policy is carried out through an informal process centered around regular interaction between the commissioner and senior DED staff, the heads of CDA and CII and their directors, the governor and key members of his staff, members of the governor's economic cabinet, business leaders, economists, and state legislators. The strategies formulated during the discussions are articulated through a variety of means. The most prominent are the budgets and informational literature produced by DED, CDA, and CII.

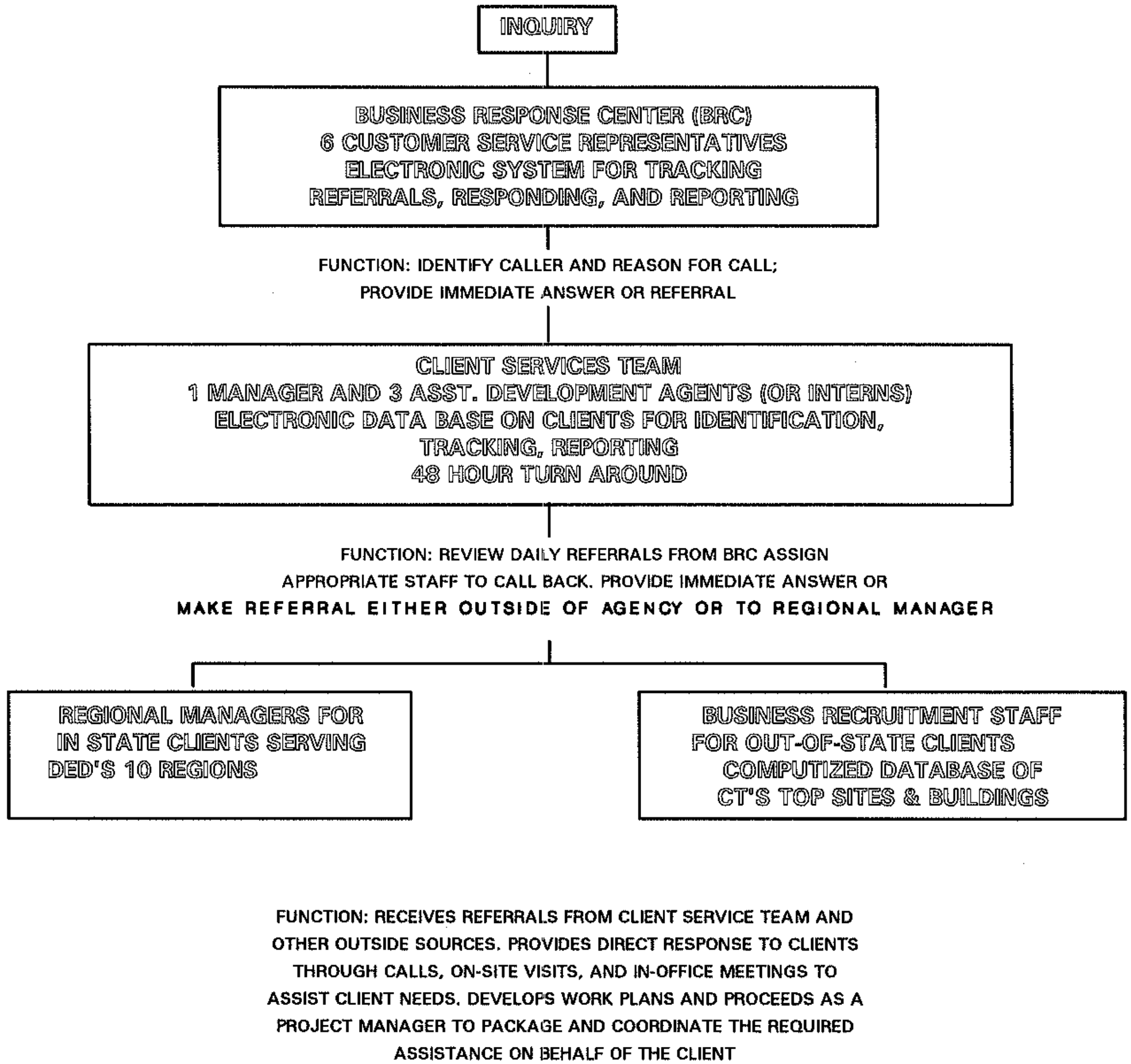
Business services. As previously noted, a variety of nonfinancial services are offered to state businesses. Among the key services is the ***Business Response Center***, which has been designed to be the initial point of contact for businesses and individuals seeking assistance from DED, CDA, or CII. The center is staffed by six customer services representatives who answer questions and begin the process of matching callers with those who can best meet their needs. During FY 93, the center handled 10,526 calls of which 2,754 were passed along to DED for further action.

The formal process for dealing with customers is outlined in the diagram presented in Figure III-4. A key element in the process is the client services team, which makes a judgment, based on the nature of the customer's request, as to whether the firm's needs can be met through a telephone call, informational literature, or a follow-up from one of the development agents is necessary.

Development agents, or managers, are organized into four sections. Three sections serve in-state businesses along regional lines --- eastern, western, or central parts of the state. The fourth, business recruitment, serves out-of-state businesses.

Development agents are responsible for determining what, if any, role the state can play in meeting a customer's needs. If the state can assist, an agent is assigned as a case manager. In this role, the agent may provide the customer with applicable information on economic conditions, demographic variables, labor market statistics, taxes, available real estate, and relevant state service and financial assistance programs. If warranted, the manager may guide the customer through the state's licensing and environmental permitting processes and

FIGURE III-4. CUSTOMER SERVICE FLOWCHART



even broker services such as ride share or day care from outside sources. In general, it is the manager's responsibility to act as an advocate for the company and coordinate the development and delivery of an assistance package.

The Department of Economic Development administers several specific services designed to meet special needs, including the Defense Information Services Network (DISN), the Connecticut Manufacturing Program for Energy Technology, clean air act compliance, the state set-aside program, the international services program, and the Economic Resource Center. Businesses are typically made aware of the services by development agents, promotional literature, calls to the Business Response Center, and consultants hired to operate the programs.

The ***Defense Information Services Network*** is a program aimed at helping defense firms obtain more defense contracts and diversify into nondefense federal procurement and commercial markets. The program is overseen by the department, but is administered by a private contractor who provides defense firms with technical assistance in the form of: assessments of needs; new technologies and products; marketing assistance such as information on commercial and nondefense opportunities; links to the state's technology assistance centers for technical, financial, research, and information assistance; and workshops and seminars.

During FY 93, 296 firms requested information through the program, and 69 sought admission to the DISN clearinghouse. A total of 44 firms were provided on-site diversification and business consulting. Three workshops were hosted under the DISN program. One that dealt with techniques for moving technology from federal laboratories to the private sector and also covered obtaining federal and congressional support for businesses impacted by defense cutbacks had 47 attendees. Another workshop conducted to familiarize defense contractors with opportunities for providing products and services needed to support development of an anticipated federal smart highways program was attended by 130 individuals. The third workshop, in which 82 individuals participated, provided defense firms with an awareness of the most effective way to do business with NASA.

The ***Connecticut Manufacturing Program for Energy Technology***, referred to as COMPETE, is funded by state utilities. The program is designed to encourage businesses to conserve energy and to assist state firms in developing technologies and manufacturing energy conservation products. Under the program, the department's development agents are trained to work with a company to identify methods and financial assistance sources that can be used to reduce the firm's energy costs. In FY 93, representatives of the program worked with approximately 20 energy and transportation related companies. In addition, COMPETE functions as a source of information for state companies and government agencies on federal financial assistance programs and legislation pertaining to energy and environmental issues.

Under the ***clean air act compliance program***, development agents and Department of Environmental Protection staff try to help businesses understand the requirements and implications of the Federal Clean Air Act. Technical assistance is provided to assist firms to identify actions the firms can take to meet the standards and timetable set out in the act. It should be noted that efforts are underway to establish a market where state companies can buy and sell clean air rights. Such a market would allow companies whose actions enabled them to exceed the air standards to get credits that could be traded to companies that did not meet the standards or to new companies.

The state ***set-aside program*** requires state agencies to reserve a percentage of funds for construction contracts and the purchase of goods and services from small, minority, and women-owned businesses. The department has a statutory mandate to certify businesses for participation in the program. In addition to certification duties, the department provides eligible businesses with information concerning purchasing and construction contracts. During FY 93, the department certified 1,871 businesses under the program. The total included 1,113 small businesses, 461 women-owned enterprises, and 297 minority businesses.

The ***international services program*** seeks to identify export opportunities for state businesses and interest international companies in locating Connecticut. The program employs consultants in Europe, Japan, and Mexico on a retainer basis. Through the department's staff and the consultants, trade missions are organized to promote Connecticut products and establish relationships between state and foreign businesses. In addition to the trade mission activity, the consultants attempt to identify business leads and foreign companies interested in expanding their operations to the United States. The consultants work with the department to pursue any opportunities that have been identified.

The ***Economic Resource Center***, developed using funds provided by state utilities, is a presentation facility built to market the state's strengths to companies seeking a Connecticut location. It houses state of the art technology for customized presentations to CEOs and other high ranking company officials. The center is available for use by state, regional, and local development officials to prepare presentations that showcase their areas.

Regional development services. In addition to providing services directly to individual businesses, the department assists regional and municipal agencies in their efforts to address economic development. Among the department's activities are coordinating the statewide system of business outreach centers and providing technical assistance in developing regional planning grants and plans for the state's community investment program.

The business outreach centers, which are supported by state funds, are regionally based, nonprofit or governmental entities that provide small, minority, and women-owned businesses with assistance in such areas as business management, business plan development, financial planning, marketing, and loan packaging. Regional planning grants are made to regional economic development commissions or corporations, planning agencies, and councils of elected officials to prepare regional economic development plans. The role of the department is to identify the type of projects the state is willing to support and provide technical assistance in preparing the plan.

Similarly, planning assistance is offered to municipalities eligible to receive formula grants under the state's Public Investment Community Program. The plans must be submitted to the secretary of the Office of Policy and Management and detail how the funds will be used for the following: job training, reduction in workers' compensation costs, facilitation of environmental compliance and permitting, manufacturers' tax rebates, contributions to regional development revolving loan funds, creation of new jobs in retail businesses, and retention and creation of jobs in manufacturing.

Economic data services. Responsibility for producing and making available information and analyses on the state's economy falls primarily on the research unit, which is attached to the commissioner's office. Through access to a variety of data sources, and contracts and agreements with outside parties, the research unit compiles, analyzes, and reports relevant statistics about the state's economy and social climate.

The Connecticut Economic Information System (CEIS) is an example of an information service being put in place to meet the economic data needs of the state's public and private sectors. CEIS, which is currently being field tested, is designed to integrate existing databases covering demographic, financial, economic, and occupational information at the state, regional, and national level. Examples of some of the data available in the system include: gross state product by sector; employment by sector; personal income; housing starts; and state and town demographic statistics. Once it is fully developed, CEIS will be a valuable planning tool for public and private organizations, all of whom will have an opportunity to obtain direct access to the system.

The Accelerated Export Enhancement System (AXES) is another example of an information system being used to serve the needs of state businesses. AXES includes international economic and market data that can be employed to analyze Connecticut's past and present export performance, and future opportunities. An example of this was the April 1993 publication of the <u>Connecticut Export Report: 1987 to 1991</u>. The report was a detailed analysis of the role exports play in the state's economy. An ongoing use of AXES involves department staff scanning the system for announcements of foreign governments seeking goods or services. Such information is compared through a computer program with state firms that can meet the need. When matches are found, the firms are notified of the business opportunity.

The University of Connecticut is a major resource for the department. One result has been that the university's Center for Economic Analysis, in return for ongoing monetary support and financial assistance in purchasing a policy simulation and econometric model, provides the department with a state economic forecast. A letter of agreement associated with the financial support gave the department the right to select three projects per year for the center to analyze. The projects selected in FY 93 were the proposed closing of the Groton submarine base, an assessment of the value of export trade to Connecticut's economy, and the construction of a football stadium.

Another service performed in conjunction with the University of Connecticut is a quarterly business survey conducted through a contract with the Institute for Social Inquiry. The survey is designed to measure business confidence, opinions on how well known and received are the state's economic development efforts, and selected special issues.

A third use of resources at the University of Connecticut involves the department's role as a partner with several businesses and business organizations in providing the initial financing of The Connecticut Economy, a quarterly publication of the university. The publication tracks several key economic indicators and provides a review of the state's economy.

Financial assistance. In FY 93, the Department of Economic Development was authorized to distribute $75.3 million to private businesses, municipalities, regional entities, institutions of higher education, and nonprofit agencies. The authorizing legislation dictated the methods the department must follow in distributing the money.

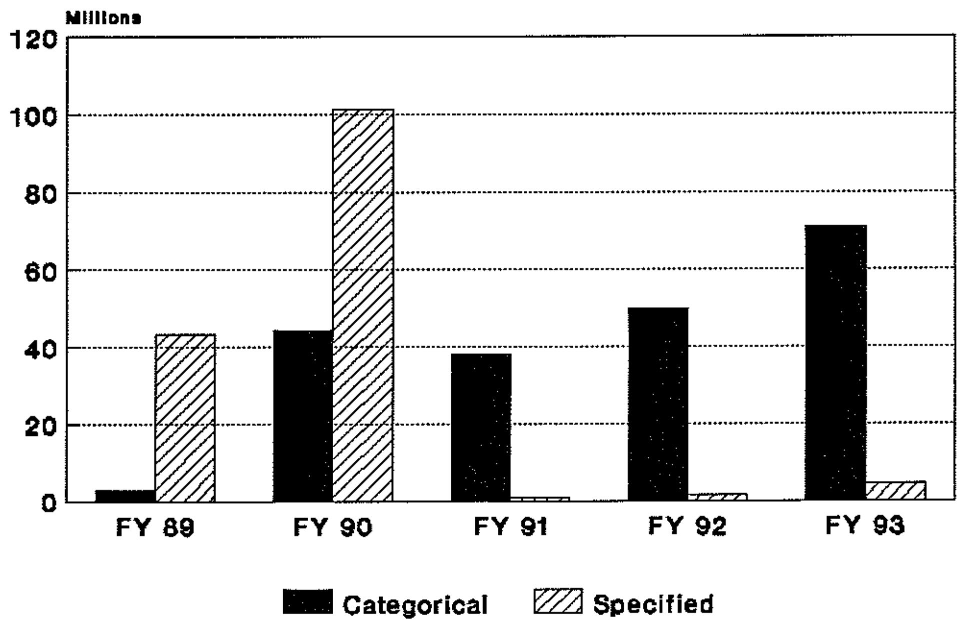
One approach requires the department to provide a grant to a named or narrowly defined recipient, generally for a specified amount of money. A majority of the authorizations of this type are grants-in-aid to a specific municipality for a designated purpose, such as $750,000 to the Town of Wethersfield for land acquisition and improvements in the historic district.

The second authorization method gives the department discretionary authority to determine recipients of financial assistance within broad categories such as aid for manufacturing firms of a certain size, diversifying defense-dependent firms, enticing businesses to locate in depressed urban areas, or encouraging regional economic development efforts. Distributions under this method are made through grants, loans, or loan guarantees.

Figure III-5 shows the amount of money the department was authorized to distribute under the specified and categorical approaches in FY 89 through FY 93. The graph illustrates that a significant change has occurred. In the five years shown, there has been a decline of nearly $40 million in funds to be allocated under the specified approach and an increase of about $68 million in the categorical area. As a result, only 6 percent of the funds authorized for distribution by the department in FY 93 were designated to be given to a named recipient, compared to 94 percent in FY 89.

Distribution of specified funds. Nearly all of the specified funds are stipulated in various state bond acts. A relatively small amount of the specified funds, less than $1 million dollars in FY 93, are designated through the appropriations process.

FIGURE III-5. ANNUAL DED FUNDING AUTHORIZATIONS



Source of Data: DED

In the case of funds specified through a bond act, the department, operating through the fund management section of the Agency Operations Division, contacts the named recipient and requests that it prepare an application for the funds. The application includes a description of the project, data detailing its cost, and other items needed for action by the State Bond Commission. After the application has been submitted to the Department of Economic Development, the funds management staff organizes the information into a format acceptable to the Bond Commission and forwards the data to the Office of Policy and Management. If no objections are raised by either staff of the Office of Policy and Management or the governor's staff, the request is placed on commission's agenda and acted upon at its next meeting.

Funds specified through the appropriations process are handled differently. In this instance, the department contacts the named recipient and develops a memorandum of agreement that outlines how the funds are to be used. Once the agreement has been signed by both parties the department's business office prepares a transfer invoice and submits it to the state comptroller's office for action.

Distribution of categorical funds. Funds distributed under the categoricial approach are tied to programs outlined in the Manufacturing Assistance Act, the Defense Diversification Initiative, the Urban Action Grant Program, the Regional Economic Development Program, the Energy Conservation Loan Program, the Restoration of Historic Assets Program, and the Naugatuck Valley Revolving Loan Fund. Money to support all except the Naugatuck Valley program is raised through the sale of state bonds. The Naugatuck Valley program is federally funded. Each of the programs has its own eligibility criteria and rules dictating whether grants, loans, or loan guarantees are used.

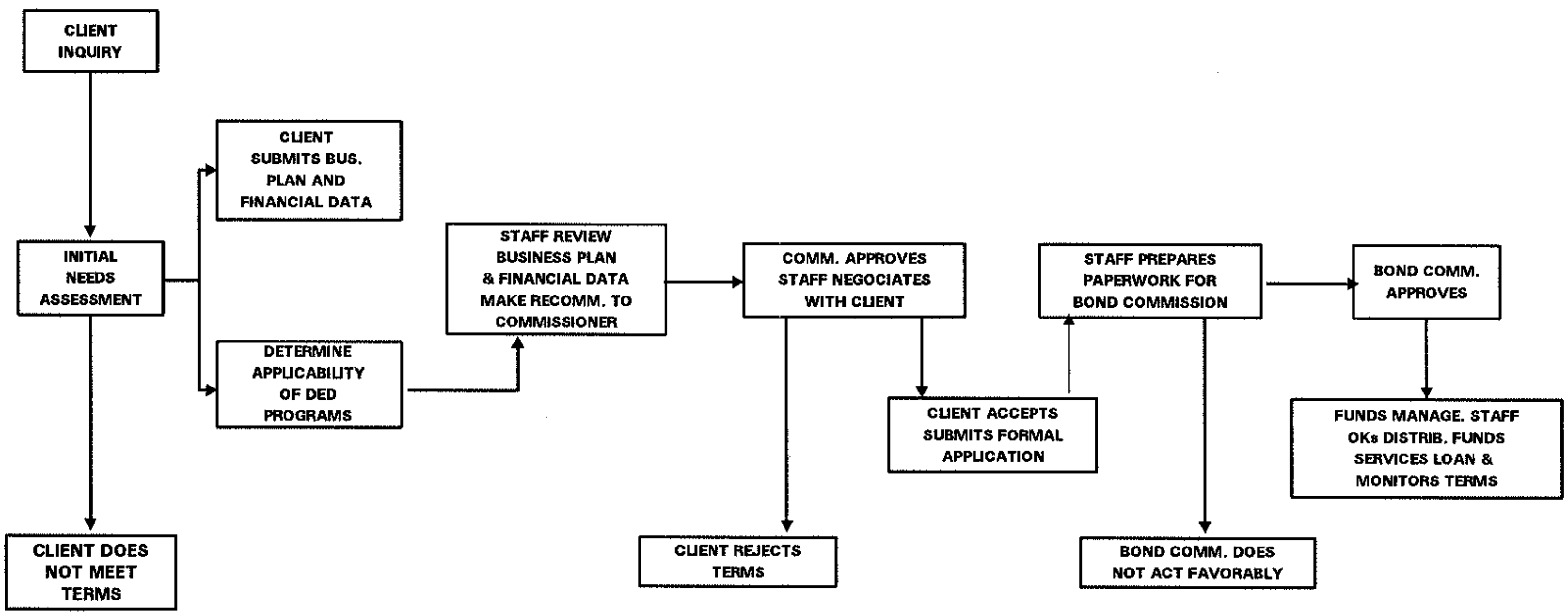
Figure III-6 presents a simplified version of the process. It involves three stages: 1) the initial contact and screening to determine if the business represents the type of project the department wants to take on; 2) a review to determine which programs the business might be eligible for; and 3) an evaluation of the merits of the project.

Firms may initially contact the department as a result of their own initiative, agency outreach efforts such as field agents and published literature, and referrals from state and local elected and appointed officials. Typically, businesses in contact with the Department of Economic Development have already been found too risky for either conventional or Connecticut Development Authority financing.

A project is considered for financial assistance from the Department of Economic Development if its staff determines the company is:

- in imminent danger of closing or undertaking employee layoffs;
- already in contact with other states about moving;
- threatening to move out of one of the state's urban areas;
- desiring to expand but lacking sufficient capital; or
- considering moving to Connecticut.

FIGURE III-6. DED FINANCIAL ASSISTANCE PROCESS



Although the stringency and formality of the analysis of need may vary, if it is determined a business meets any of the above criteria the project enters the second phase. During this phase, staff from the department's central office or the regional managers, or both, conduct a review to determine under which of the DED funding programs the company might be eligible for financial assistance. The review involves analyzing the firm's size, industry type, and location plans.

The third phase of the distribution process begins if the business has been found eligible for any DED categorical funding programs. At this point a six-step project analysis is undertaken. The six steps are outlined below.

1. Company Evaluation
   - History
   - Industry
   - Underlying cause of company problem/need

2. Project Description
   - Sources and uses of funds
   - Reason for request

3. Eligibility
   - Applicant (SIC Code)
   - Project
   - Use of funds
   - Inducement
   - Community/Need (Consequences of not doing; expectations if done)
   - Availability of funds

4. Financial Analysis
   - Historical financial statement analysis and conclusions
   - Cash flow projections-based upon history (including debt coverage)
   - Personal financial status of the owners
   - Credit worthiness/bank references

5. Economic Impact Ananlysis
    - Payroll taxes
    - Corporate taxes
    - Sales tax
    - Payback period and internal rate of return for grant

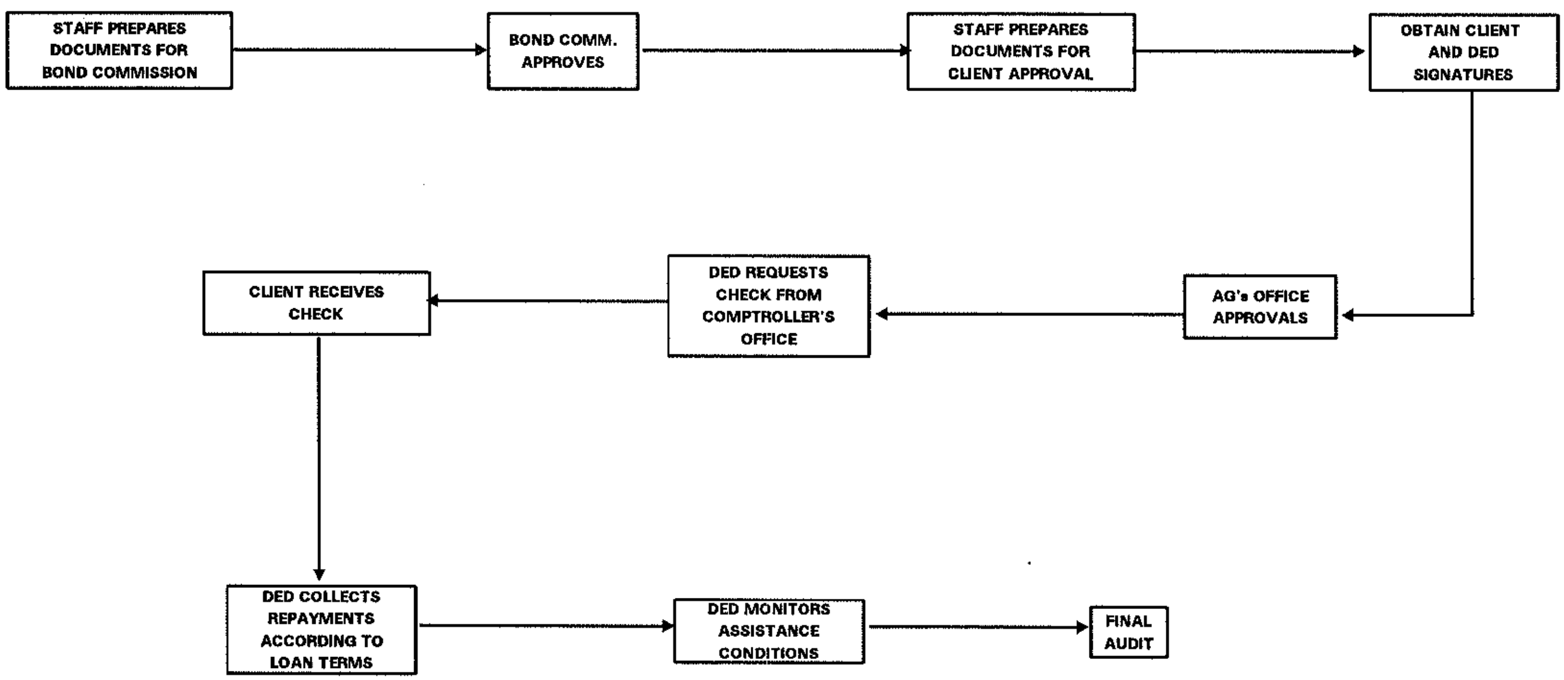
6. Employment Analysis
    - Existing Employment
    - Employment threatened if state does not participant
    - Time frame of projects and jobs
    - Types of new jobs created and average pay scale

If the analysis is positive, staff from the Community and Business Finance Division seek approval from the commissioner to develop a financial assistance package. If the commissioner agrees, direct negotiations with company officials begin. The talks involve the amount of assistance that will be provided, the method of financing (i.e., grants, loans, loan guarantees, or some combination), and terms and conditions of the assistance including such matters as the payback schedule, collateral, and the number of jobs to be created or retained. Finally, a formal application is prepared and submitted for the commissioner's approval.

The final or funds management phase begins with the preperation of documents needed for a decision on the project by the State Bond Commission. Most of this work, as well as the work occurring after the bond commission approves a project, is handled by the fund management section of the Agency Operations Division. Figure III-7 presents a flow chart diagraming the process involved in managing a project once it has been approved by the bond commission through the end of the project. It should be noted that much of the process just described was not operational prior to the start of FY 94. Equally important, this process only applies to routine projects handled by the department. Special projects such as the potential relocation of a large firm into Connecticut or a large scale urban development proposal are dealt with in a slightly different manner.

Special projects are managed by a group consisting of staff from the Department of Economic Development, the Connecticut Development Authority, and the Office of Policy and Management. If the nature of the project involves an issue related to transportation,

FIGURE III-7. DED FUNDS MANAGEMENT PROCESS



environmental protection, or some other matter overseen by a state agency, then staff from the associated agency are added to the group.

In handling special projects, the basic steps of the financial assistance process illustrated in Figure III-6 are followed, with a few notable exceptions. First, the special projects group, which is lead by one of DED's executive directors, takes on the role played by the investment staff in phases II and III. Second, the increase in the number of agencies involved expands the services that can be offered, funding sources available, and the number of agency approvals needed. Finally, the post-approval fund management process is more complex due to the requirements imposed by multiple agencies.

Funds distributed. Table III-8 shows the funds actually distributed by the Department of Economic Development over the last five state fiscal years. The data in the table reflect the growing use of the department as a source of financial assistance. The trend began with passage of the Manufacturing Assistance Act (P.A. 90-270) and the Defense Diversification Initiative (P.A. 91-340), which together significantly expanded the department's role as a provider of financial assistance.

TABLE III-8. SOURCE OF FUNDS COMMITTED BY THE DEPARTMENT OF ECONOMIC DEVELOPMENT (in millions)

SOURCE	FY 89	FY 90	FY 91	FY 92	FY 93
Manufacturing Assistance Act		$0.1	$8.5	32.8	$37.6
Defense Diversification Initiative				$6.8	$8.2
Naugatuck Valley Revolving Loan (1)	$0.2	$0.4	$0.2	0	0
Urban Action Grants	$1.3	$0.1	$3.8	$1.9	$2.4
Historic Asset Grants	$1.9	0	0	$0.5	0
Regional Economic Planning Grants					$0.5
Energy Conservation Loan Program					$3.4
Inner City Cultural Grants	$3.3	$5.1	$2.4	$1.2	0
Specified Appropriations	$0.2	$0.3		$0.4	$0.4
TOTAL	$6.9	$6.0	$14.9	$43.6	$52.5

(1) CDA assumed responsibility for administration of the program in FY 92.
Source of Data: DED

CHAPTER IV
CONNECTICUT DEVELOPMENT AUTHORITY

Purpose

The objective of the Connecticut Development Authority is to stimulate industrial and commercial development within the state by providing financing to business and industry. To accomplish this, CDA provides three different types of financing -- direct loan, loan guarantee, and conduit financing (issuance of bonds).

Organization

By statute, CDA is governed by an 11-member board of directors. Among the statutorily mandated members are the commissioner of economic development, the state treasurer, the secretary of the Office of Policy and Management, and four gubernatorial and four legislative appointees. The appointees are to be experienced in the fields of financial lending or the development of commerce, trade, or business. The chairperson of the board is appointed by the governor with the advice and consent of the legislature. It is the responsibility of the board to set policy, approve loans, and oversee the finances and general operations of the authority.

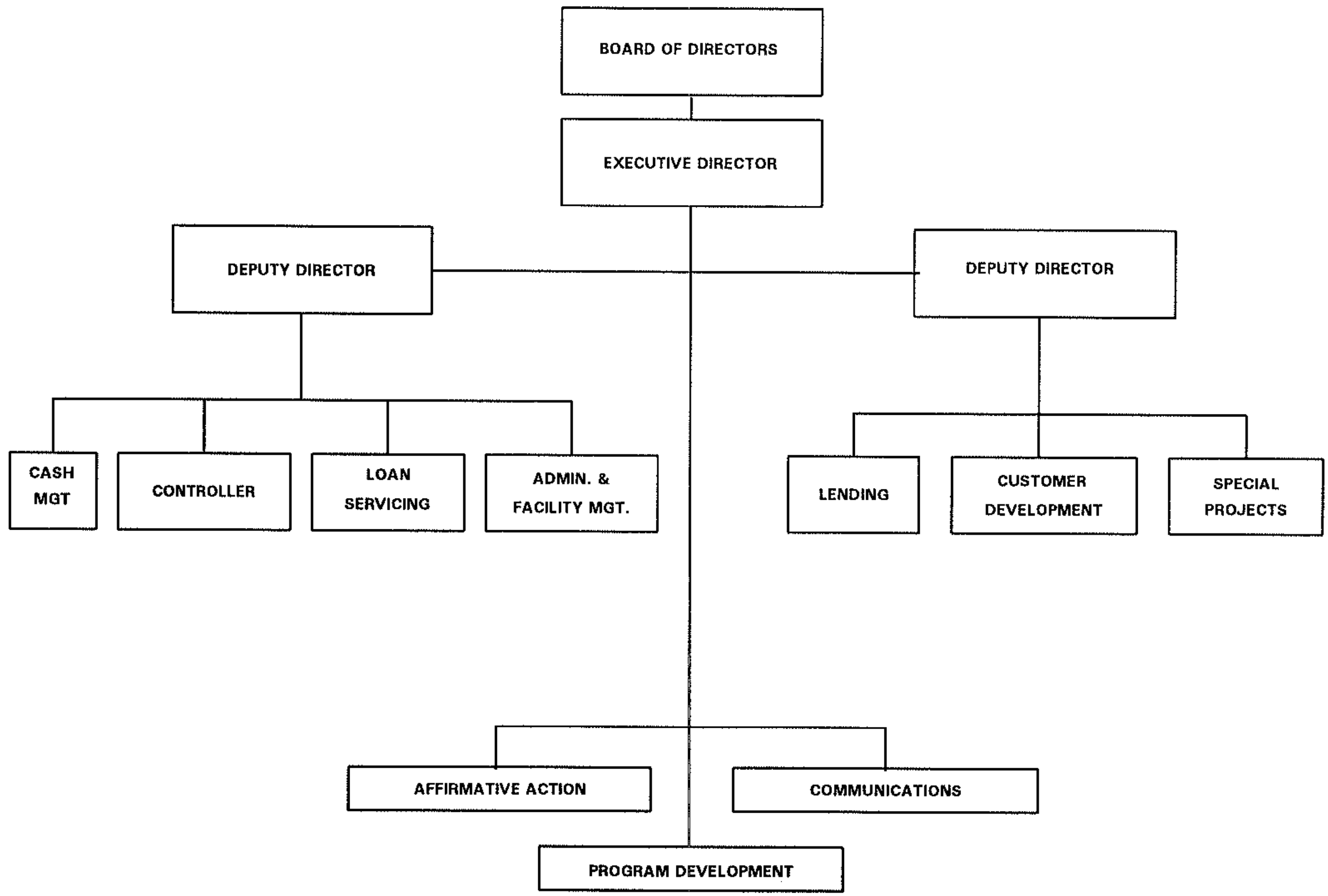
The board appoints the authority's executive director who manages the day-to-day administration of CDA. Recently the board approved changes in CDA's organizational structure. As Figure IV-1 illustrates, CDA's new organization is composed of an executive director and two deputy directors who manage two divisions -- operations and finance.

The units within the Operations Division include: customer development; lending; and special projects. The Finance Division consists of: cash management; loan servicing; administration and facilities management; and controller. The following is a brief description of each unit:

OPERATIONS DIVISION

- Customer Development - This unit responds to inquiries from potential clients, and oversees tracking and monitoring client loan applications.
- Lending - The lending unit processes applications for direct loans and loan guarantees.
- Special Projects - The special projects group currently consists of four managing directors. Three managing directors oversee major CDA client projects in the areas of biotechnology, major companies, and real estate. The fourth managing director coordinates CDA's planning and program development efforts.

FIG. IV-1 CDA ORGANIZATION



FINANCE DIVISION

- Loan Servicing - The loan servicing unit's major responsibilities include troubled loan workouts, job tracking, and market analysis.

- Controller - The controller unit handles all accounts payable, cash receipts, disbursements, and reporting requirements.

- Administration and Facilities Management - This unit manages the day-to-day business and office operations.

- Cash Managment - The cash management unit handles portfolio and asset management.

Additionally, the board has recently approved an internal audit function within the authority that would monitor compliance with established lending, credit, loan servicing, and other CDA policies.

Resources

Staff. Figure IV-2 illustrates the distribution of staff within CDA. As the figure shows, almost half (47 percent) of the authority staff positions are assigned to the Operations Division. Finance consumes 26 percent, followed by 21 percent in support staff. Management, consisting of the executive director and deputy director, account for 7 percent.

Operating costs. As a quasi-public agency, CDA is not subject to the state budgetary process. Its operating budget is prepared by its staff with the guidance of a subcommittee of the board. The board approves the budget and periodically receives financial reports on the authority's fund balances.

In FY 93, the authority's administrative costs totalled $4,139,774, with personnel accounting for approximately two-thirds ($2,803,599). The remaining $1,336,175 was consumed on things such as legal expenses, consulting fees, rent, utilities, maintenance, printing, and advertising.

Figure IV-3 shows the authority's administrative expenses in constant 1988 dollars for state fiscal years 1988 through 1993. As the figure illustrates, CDA administrative expenses remained relatively stable through FY 92. The dramatic increase in FY 93 was the result of the hiring of additional staff and a marked increase in the use of outside legal and consulting services. According to authority staff, this increase is due to growth in program activity.

FIG IV-2 STAFF RESOURCES CONNECTICUT DEVELOPMENT AUTHORITY

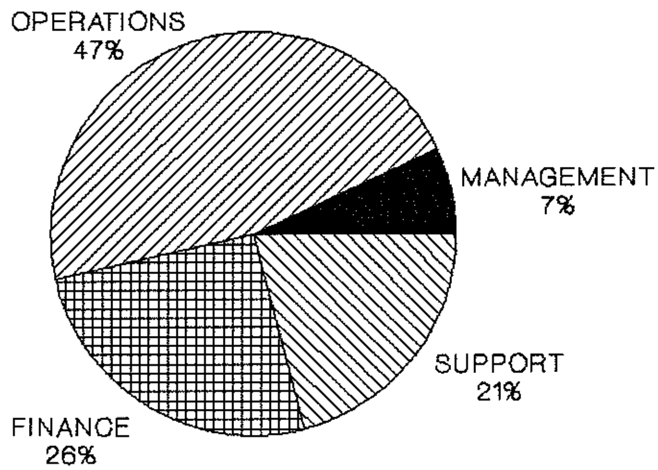
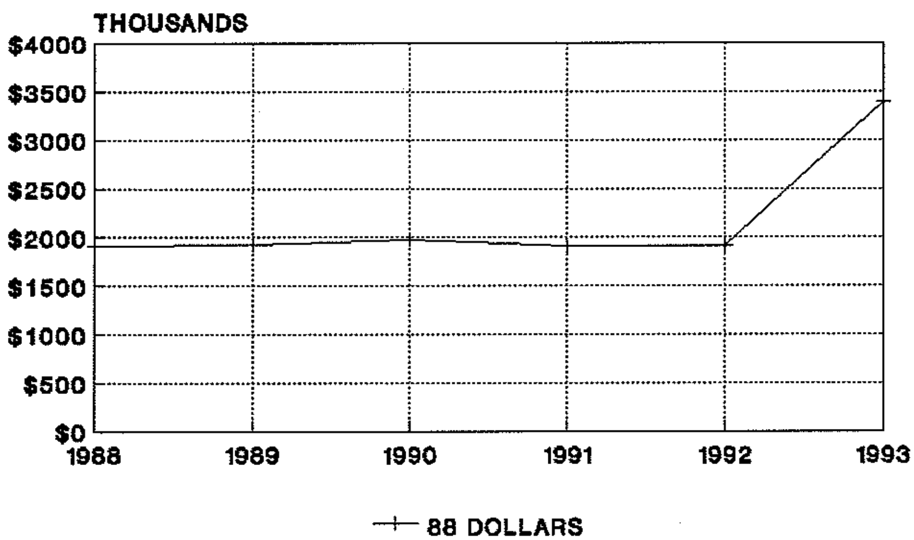


FIGURE IV-3
CDA ADMINISTRATIVE COSTS IN CONSTANT 1988 DOLLARS



Operations

The major function of CDA is to provide financial assistance for economic development projects that focus on job retention and creation. Assistance is available to any project that may create high quality jobs, develop new products or services, enable businesses to sell goods and services out of state, or generally increase employment. However, businesses obtaining CDA assistance typically have not been successful in obtaining conventional financing on reasonable terms.

Pre-application process. Referrals may come from banks, local economic boards and commissions, elected or appointed officials, and the Department of Economic Development, or through outreach efforts made by the authority. Inquiries are handled by the authority's customer development unit within the Operations Division. After establishing the type of financing a business is seeking, unit staff determine whether CDA can help the business or if another referral would be appropriate. For instance, CDA does not give grants, so, businesses seeking such assistance may be referred to the Department of Economic Development. In order to better leverage the authority's money, most businesses seeking assistance are initially directed to pursue conventional financing supported by a CDA loan guarantee. (The process for obtaining a loan guarantee is discussed below.)

If the customer development unit concludes that CDA may be able to provide assistance, it will send the potential client a pre-application form. The pre-application elicits basic information such as the nature of the business, number of jobs, gross sales, and amount of money requested. In addition, applicants must submit their business plan, financial statements, and financial projections for the next two years.

Once the completed packet is returned, the application is transferred to the lending unit where staff evaluates which, if any, CDA financing best fits the client's needs. Evaluations are based on the statutory requirements of each program. Once a program has been identified, a loan officer is assigned to the client.

Several statutorily established funds can be drawn upon by the authority to support each of the three financing methods it uses. Table IV-4 cross-references the funding sources and financing methods available to the authority. The multiple funding programs associated with each financing method are the result of targeting segments of the business community for special attention. For example, the Capital Access program was designed to assure money was available to provide loan guarantees for small businesses in urban areas.

The Connecticut Works and the Environmental Assistance funds are the only programs that give the authority discretion to use either a loan guarantee or direct loan approach to providing capital. In the subsequent sections, the basic program procedure followed under each approach will be described along with the related funding programs.

Table IV-4. Funding Source for CDA Financing.			
FUNDING SOURCES	Direct Loans	Loan Guarantees	Conduit Financing
Connecticut Works	√	√	
CT Works Guarantee		√	
Growth Fund	√		
Capital Access	√	√	
Regional Revolving		√	
Environment Clean-up	√		
Environmental Assistance	√	√	
Self-Sustaining			√
Umbrella			√
Mortgage & Loan Insurance			√

Loan guarantees. As mentioned previously, CDA directs all businesses interested in obtaining a loan guarantee to apply to a financial institution for conventional financing. After this initial contact, CDA deals directly with the lender in processing the loan guarantee.

The lender must send CDA a credit write-up, a conditional commitment letter, and an application form. Once these items are received, CDA staff reviews the lender's credit assessment to determine if a loan guarantee is warranted. If it is, the lending unit staff decides whether the amount of the loan to be guaranteed is reasonable. If the amount being sought is not acceptable, CDA staff attempt to negotiate any terms it feel are necessary. A standard 20 percent loan guarantee is available for loans up to $25 million. There is no minimum loan size. However, CDA's guidelines suggest that the state's commitment should be less than $20,000 per job. Depending on the risk involved and other special considerations, the loan guarantee range may extend up to 40 percent rather than the standard 20 percent. Special considerations include factors such as:

- creation of a large number of skilled jobs;
- enterprise zone or distressed urban area;
- minority or woman-owned firm;
- exports beyond state borders;
- new innovations in products or services; and
- out-of-state company locating or expanding in Connecticut.

Once the final terms are reached the staff prepares a written recommendation for the Loan Review Committee, a subcommittee of the authority's board of directors. The board of directors makes the final approval. The board may approve, reject, or amend any request for assistance. According to CDA, most reviews are completed within three weeks. However, processing time may vary according to size and complexity of project.

Connecticut Works Guarantee. The main source of funds for loan guarantees is the Connecticut Works Guarantee fund. Created in 1991, the program was designed to encourage more conventional lending by guaranteeing bank loans. To date, CDA has encouraged 27 financial institutions to actively participate in the loan guarantee program whereby banks pledge to bring eligible loans to the authority. However, as previously mentioned, loan applicants may use any bank in its request for a loan guarantee. Under the Connecticut Works program, CDA assumes first loss risk on loans made by the lender. A typical loan guarantee will cover up to 20 percent of the loan balance at default.

Eligible projects include most manufacturing related activities and any project that materially supports the economic base of the state through jobs, defense diversification, exporting, and the development of innovative products or services. In calendar year 1992, 64 businesses received approvals of guarantees totalling $84,644,966, which leveraged total loans of $210,124,030.

Capital Access. Through the Capital Access fund, CDA provides loan loss reserves to financial institutions that lend to small businesses in five Connecticut cities (Waterbury, Bridgeport, Hartford, Stamford, and New Haven) as well as in Windham and New London counties. Financial institutions interested in participating in this program must enter into an agreement with CDA to establish a loan loss reserve account. The authority owns and controls the account. Loans made from this fund must create or retain urban jobs. If the loan is less than $250,000 and does not involve refinancing, the loan may be closed by the bank without prior CDA approval. All other loans are approved by the authority similar to the loan guarantee program. During the first seven months of 1993, the Capital Access program provided $2,668,760 to 34 projects.

Direct loan programs. For those applicants not suitable for a loan guarantee, CDA may attempt to provide assistance in the form of a direct loan. To apply for a direct loan, businesses must submit a financial profile, business plan, and an application form. The form requires the applicant to provide information on the nature of the business, resume of management and ownership, the number of jobs existing and projected, any pending litigation, and a description of all other attempts made to obtain conventional financing. Lending unit staff review the information, visit the facility, provide consultation regarding management operations, and prepare a recommendation for the authority's loan review committee. The board of directors has the final vote. According to CDA, application processing time varies with the size and complexity of the loan. The following is a brief description of existing CDA direct loan programs.

Growth Fund. Created in 1988, the Growth fund provides financing to any business with sales of less than $25 million including affiliates. Applicants must demonstrate they cannot receive conventional financing for reasonable terms or amounts, or cannot remain in or relocate to Connecticut without state assistance. Loans made under this program cannot exceed $4 million. In calendar 1992, 64 businesses received approval totalling $32,783,090.

Within the Growth fund program, CDA has also developed a risk financing program. This investment financing is directed primarily to early stage high technology businesses and mature businesses with innovative products or services. Applicants must demonstrate market acceptance and inability to obtain conventional financing. In calendar 1992, 22 businesses seeking investment financing received approval totalling $9,925,000.

In July 1993, the Growth fund was expanded to include the Business Assistance fund. The Business Assistance program was initially established in 1988 to consolidate several financial assistance programs that helped businesses with special needs. The purpose of the Business Assistance program is to provide financial assistance to businesses impacted by economic emergencies and natural disasters, and those located in certain regions of the state and particular industry sectors. It also assists in the development of clean water facilities.

Specifically, loans under the Business Assistance program go to small contractors with sales of less than $3 million; private water companies with less than 10,000 customers; municipally owned water companies; owners of private or municipal dams in need of repairs and deemed to benefit the public; for-profit businesses in enterprise zones with revenues of less than $3 million; and businesses adversely affected by either a natural disaster or economic emergency. In 1992, 10 businesses received approval for loans totalling $4.9 million.

Connecticut Works. As mentioned above, the Connecticut Works program allows the authority to provide direct loans. Eligibility and conditions for direct loans are the same as for basic loan guarantees. When reviewing loan applications, CDA staff examine the economic feasibility of projects and the ability of applicant firms to repay the debt. The project's potential for creating jobs is also weighed. In 1992, 24 businesses employing 3,285 people received approval totalling $28,791,000.

Business Environment Clean-up. The objective of this program is to assist businesses with pollution clean-up financing needs. This program is limited to businesses established in Connecticut for at least one year that have fewer than 150 employees or annual sales of less than $3 million. In 1992, 5 businesses received approval totalling $622,000.

Environmental Assistance Revolving Fund. The Environmental Assistance program permits the Connecticut Development Authority to provide direct loans and loan guarantees for businesses seeking financial assistance for pollution prevention. To qualify, projects must also be approved by the Hazardous Waste Management Service. According to authority staff, there have been no requests for loan guarantees under this program.

Regional Revolving Loan Fund. Legislated in 1992, the Regional Revolving Loan program provides money to regional development corporations[1] that encourage business lending on a regional basis. To receive authority funds, the regional development corporation must have the capacity and expertise to make business loans. Preference must be given to business startups, projects that will create new jobs, and minority and women-owned businesses. Borrowers must be able to repay the loans and certify they will not discriminate against workers or job applicants.

Conduit Financing - Bonds

In addition to loan guarantees and direct loans, CDA also has the authority to sell bonds and use the proceeds to make loans and insure mortgages. This type of financing is done through the Self-Sustaining program.

Under the Self-Sustaining Revenue Bond Program, CDA uses tax-exempt bonds to finance a private company's acquisition of land, buildings, and equipment. In evaluating a potential client, CDA staff conducts a precursory review of the company to determine if it is legally eligible and creditworthy. Once the preliminary review is completed, the company may submit a formal application, which contains information on:

- company's line of business;
- proposed project;
- factors influencing inducement of the proposed project;
- total amount requested;
- project costs incurred to date;
- present and projected employment; and
- company's other operations in and out of state.

The application requires that the company submit historical information on the company, financial statements, and information about any pending litigation that may affect the ability of the company to operate at the project site. The authority's staff reviews the application and refers it to the Finance Committee, a subcommittee of the authority's board.

Prior to issuing bonds, the authority must determine whether a project complies with state laws and the federal tax code and is in the public interest. The Connecticut Development Authority's board of directors determines what constitutes public interest through resolution. For example, the board must weigh public interest when considering a chemical plant located in a densely populated area. Upon approval from the Finance Committee, a public notice is issued for 14 days. After 14 days the application is reviewed by the full board for an inducement resolution.

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[1] A corporation formed by three or more municipal development corporations or a regional economic development corporation.

Once the board finds a project has met the public purpose requirement, it is the responsibility of the company to secure an investor, obtain a commitment from an underwriter to purchase the bonds, and ensure all the necessary legal documents have met the approval of the authority and its bond counsel. Bond counsel reviews and ensures that all parties have agreed to the terms and the project is in compliance with tax laws. The entire packet goes to the Finance Committee for endorsement. The full board gives the final approval for closing.

To accommodate projects that are too small to qualify for the Self-Sustaining Revenue program the authority also operates the Umbrella Bond Program. This program provides small companies with low-interest loans of up to $800,000 each. The loans are financed by the proceeds of tax-exempt bonds issued by the authority. Due to changes in the federal tax code that restrict the use of such tax-exempt financing, activity in this program has decreased.

Mortgage and Loan Insurance. Under the Mortgage Insurance program, the authority insures mortgages for economic development projects made by other financial institutions. In addition, projects in the Umbrella Bond program are also insured. A project must be used for the acquisition of industrial land, buildings, machinery, and equipment located within the state. At the close of the 1992 fiscal year, loans totalling $101,440,315 were insured.

FINANCE

Once CDA's board of directors approves financing, the client is sent written notification of CDA's commitment and given 30 days to accept. If the client accepts, the project is sent to the Finance Division and processed for closing. The Finance Division prepares an amortization schedule and a summary of loan requirements for the client. The check is drawn from the appropriate fund and sent to the closing.

All loan servicing and tracking are performed in the Finance Division. Loans are tracked for repayments and any reporting requirements. Loans schedules that are past due are sent delinquent notices. After a 90-day notice, CDA may demand payment in full.

CHAPTER V
CONNECTICUT INNOVATIONS, INCORPORATED

Purpose

Connecticut Innovations, Incorporated was created to stimulate technological innovation and economic growth by helping entrepreneurs and manufacturers develop and market products, services, and processes. This is done through financial assistance and providing business advice. Financial assistance takes the form of grants, loans, royalty agreements, and risk capital investment.

Any individual, business, university, government entity, or any combination of these may receive CII assistance if it demonstrates that its research, development, or marketing of new technology products or services will result in new or retained jobs, increased state exports, or the development and use of technology in the state.

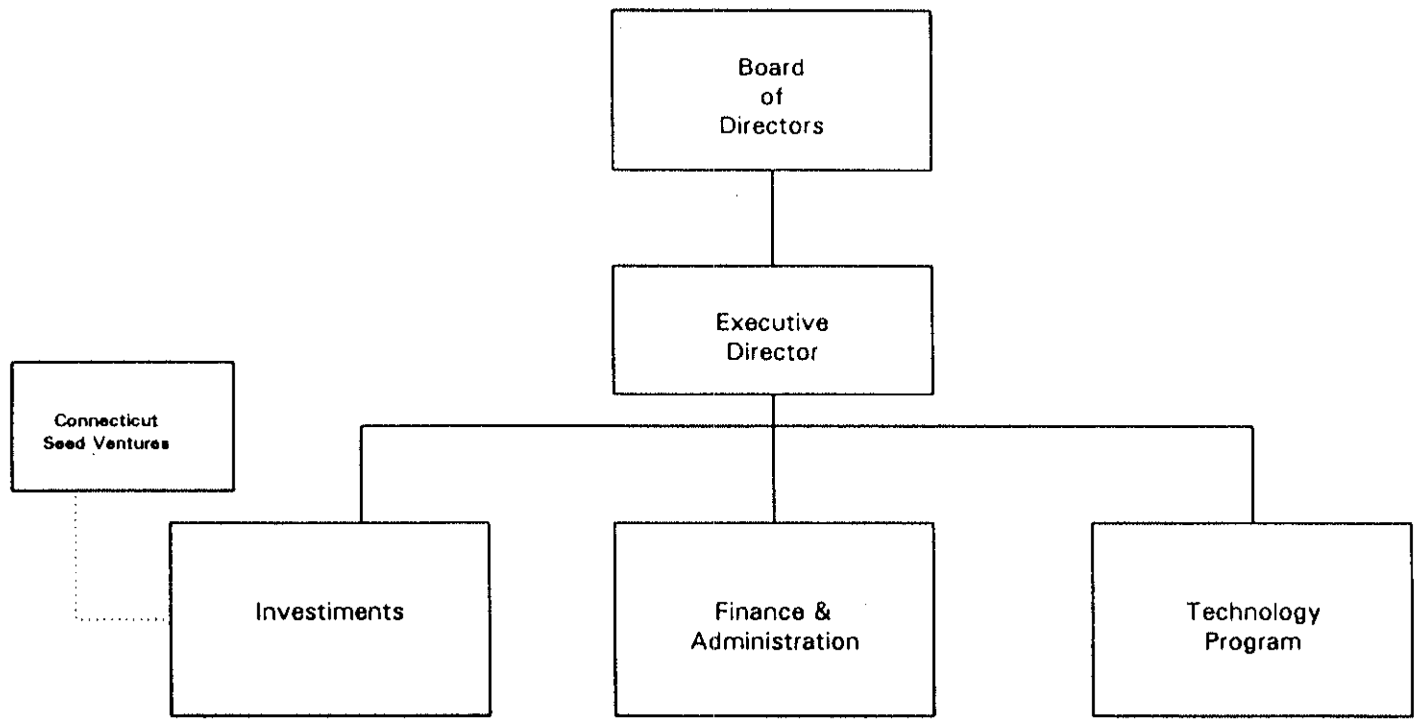
Organization

The current organizational structure for CII is presented in Figure V-1. As the figure shows, CII is headed by a board of directors and managed by an executive director. The board of directors consists of 15 members with 8 gubernatorial and 4 legislative appointments and 3 ex officio members. The commissioners of economic development and higher education and the secretary of policy and management are the ex officio members, with all the powers and privileges of board members. The board's chairperson is appointed by the governor with the advice and consent of the legislature.

The executive director, appointed by the board, manages all administrative affairs. Connecticut Innovations, Inc. has 14 staff members to carry out its programs. As the organizational chart illustrates, CII operations are divided into three major areas: Investments; Finance and Administration; and Technology Programs. The following is a brief description of each unit:

- Investments - This division's primary focus is to provide capital for invention and innovation when financial aid is not available from commercial sources.
- Finance and Administration - This division is responsible for disbursements, accounts payable, and all other administrative matters.
- Technology Programs - This area includes technical and informational assistance as well as grant programs for universities and small businesses.

Figure V-1. Connecticut Innovations, Inc.

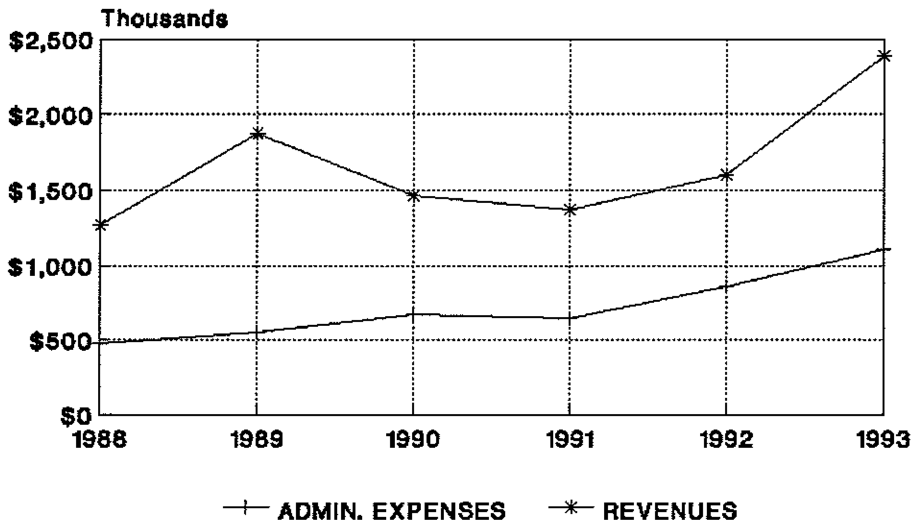


Resources

Similar to CDA, CII does not receive a state appropriation for administrative expenses. Administrative expenses are paid by revenues generated from royalties, interest paid to the corporation on loans, investment income from corporation funds, and application fees. An annual administrative budget is prepared by the Finance and Administration unit and adopted by the CII board. In FY 93, the total administrative costs for CII were $1,351,171 with personnel costs accounting for $975,761 and the remaining $375,410 spent on administrative costs such as outside professional services, consulting fees, rent, utilities, printing and advertising.

Figure V-2 illustrates CII administrative expenses and revenues in constant 1988 dollars over the last five fiscal years. As the figure shows, CII administrative expenses have steadily increased during the period. Similarily, CII's revenues for FYs 88-93 have generally increased over this time period. Most of the administrative expense increase occurred in the use of outside professional services, consulting/peer reviews, and the hiring of additional staff. As mentioned earlier, revenues, which are used to pay administrative expenses, are generated from royalties, interest paid to the corporation on loans, income from investment of corporation funds, and application fees.

FIG. V-2 CONNECTICUT INNOVATIONS INC.
ADMINISTRATIVE EXPENSES & REVENUES
IN CONSTANT 1988 DOLLARS



Operations

The principal goal of Connecticut Innovations, Inc. is to stimulate industrial and commercial activity. As such, CII focuses its operations on research and development of new products and technologies that generate new enterprises or can be transferred to existing ones. Generally, CII assistance is designed for companies that have difficulty financing and supporting new developments. Connecticut Innovations, Inc. provides financial support through investments and grants.

Investments. The two major areas of CII's investments involve product development and product marketing. Aid in these areas is primarily financial, but technical and informational assistance is also provided. The Connecticut Innovation, Inc. is especially interested in technology-based products related to such fields as aerospace, biotechnology, computer applications, energy and environmental systems, and telecommunications.

To finance the development of high technology products, CII provides risk capital ranging from $100,000 to $1,000,000. CII may finance up to 60 percent of development costs such as factory overhead, materials, labor, and legal expenses for patents and regulatory approval. CII does not cover costs already incurred.

Unlike a conventional loan, CII's return comes from royalties on newly developed products and/or from obtaining an equity position in the business. According to CII staff, financing terms are negotiable, but CII expects to recover a minimum of two and one-half times its investment.

In addition to product development, CII also provides assistance for product marketing. This type of financing may be used for inventory build-up, selling expenses, advertising, trade shows, or production improvements. Assistance is individually tailored to the applicant's situation. Funding is limited to 50 percent (not exceeding $1 million) of an applicant's needs.

Figure V-3 provides a flow chart of the CII investment process for product development and marketing. As the flow chart illustrates, the investment process begins with an initial inquiry by a company. Intake staff screens all inquiries. To pre-qualify for assistance, a company must:

- be one of CII's targeted industries (aerospace, biotechnology, robotics and process controls, advanced marine applications, applied optics and micro-electronics, computer applications, energy and environmental systems, telecommunications, medical products/instrumentation, or materials);
- have been involved with the project for at least one year;
- have a business plan;

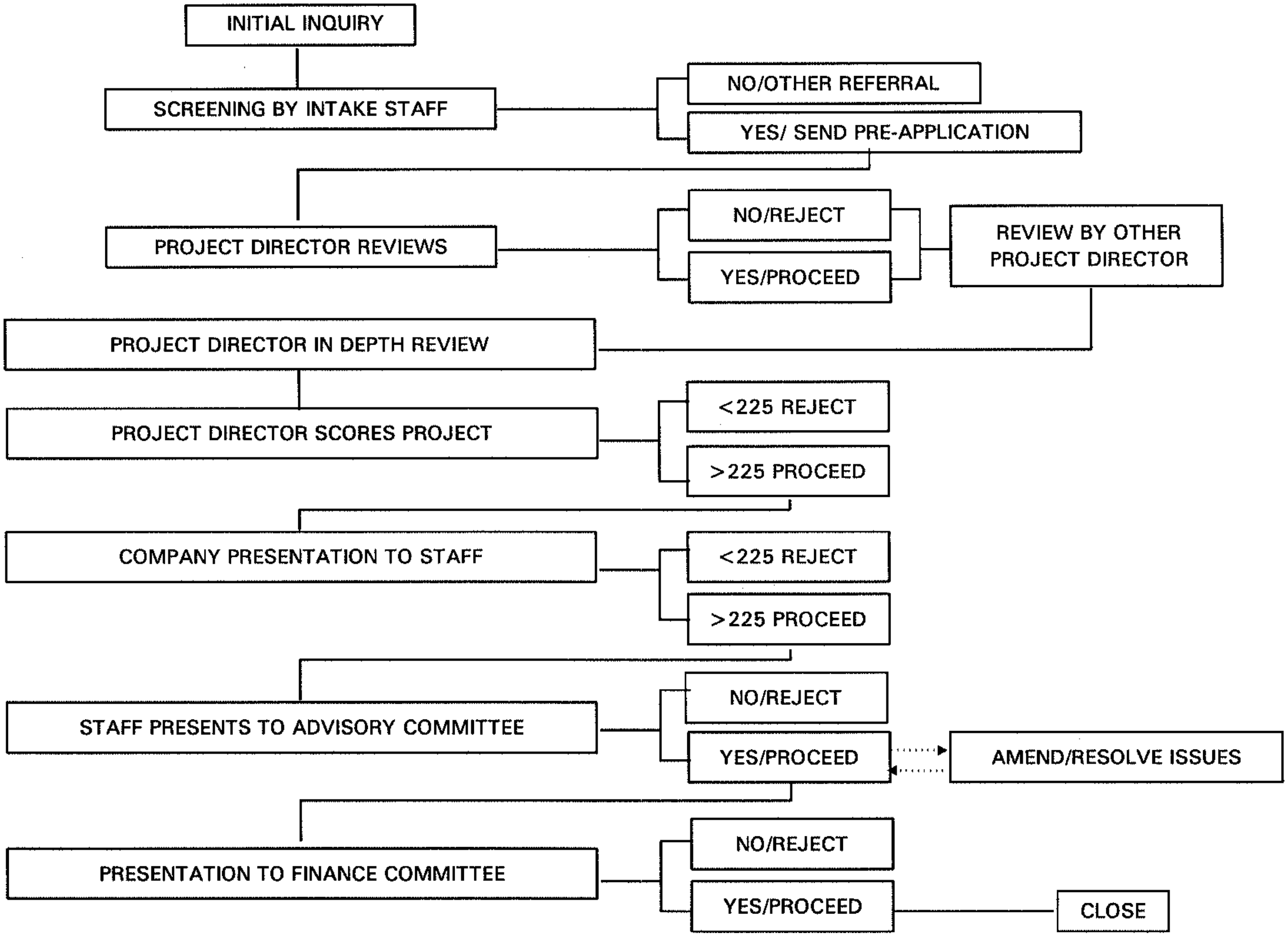
- be seeking between \$100,000 to \$1,000,000;
- have at least 40 percent of the project money or be able to obtain it from other sources;
- obtain the necessary protection with patents, trademarks, and copyrights;
- be manufacturing or assembling in Connecticut;
- have a majority of employees based in Connecticut; and
- have executive offices in Connecticut.

If all of the above criteria have been met, an application form is sent. The application requests information on the company's history, proposed project, and financial and market data. Once completed and returned, a project director reviews the application for revenue potential, growth possibilities, and ability to generate jobs. If the project director believes the application should be rejected, another project director must review the application to confirm the rejection decision. If project director concludes that the project has potential he or she will request a complete business plan and begin a thorough evaluation. This evaluation includes: a site visit; a review of operations, technology, financial analysis, and market strategy; and in-depth due diligence. As part of the technology review, investment staff may utilize paid experts to provide a written assessment. Experts are paid \$250-\$1,000 by Connecticut Innovations, Inc.

Based on analysis and findings, the project director scores the project on a scale from one to five using the following weighted factors -- management team (25); market (25); technology fit (15); proposed project (15); finance (15); and public purpose (5). For example, if the project director rates the management team a "two" then the total score for this factor would be 2 times 25 for a score of 50. To proceed, an applicant must achieve a minimum score of 225. If the company receives the minimum score, it will be asked to make a presentation to the investment staff. After the presentation, each project director scores the proposed project. The project must receive a minimum score of 225 from at least two other project directors.

For projects that the staff proposes be approved, the assigned project director prepares a summary of the project and recommended terms. This information is presented to an advisory committee established by the board of directors, called the Eli Whitney Investment Advisory Committee. The advisory committee hears staff proposals for funding, discusses the merits of the proposals, and makes recommendations to the Finance Committee. The Finance Committee is a board subcommittee responsible for acting on funding requests. If necessary, further negotiations are conducted. The final vote is made by the Finance Committee.

FIGURE V-3 CII INVESTMENT PROCESS



Connecticut Seed Venture. Another investment method used by Connecticut Innovation, Inc. involves its participation as a limited partner in the Connecticut Seed Venture (CSV), a private venture capital fund that provides early stage capital to high growth companies. Other investors in the fund are insurance companies, financial institutions, corporations, and universities. Connecticut Innovations, Inc. contributes the largest percentage of the capital with 46 percent. The other contributors provide less than 10 percent each.

As a limited partner Connecticut Innovations, Inc. does not play a role in selecting or approving projects. Projects are selected by CSV fund managers who seek companies that are unique, innovative, and serve uncrowded or new markets. In particular, Connecticut Seed Venture is interested in new applications of technology in manufacturing, medicine, software, telecommunications, materials, and micro-electronics. The Connecticut Seed Venture makes equity investments of $50,000 to $1 million. It can also provide the sponsorship necessary to attract other venture investors required for larger financing.

Technology programs. The Connecticut Innovation, Inc. technology programs include the Yankee Ingenuity Initiative, Small Business Innovation Research (SBIR), Advanced Technology Centers, and Technology Assistance Center. The following is a description of each.

Yankee Ingenuity Initiative. The Yankee Ingenuity Initiative was established to stimulate quality high technology education and research. The objective is to encourage cooperative ventures between Connecticut public and private higher education institutions and Connecticut businesses. Yankee Ingenuity Initiative is exclusively a grant program.

Applicants are academicians or high technology companies interested in sharing resources and expertise with peers in the business/academic world. There are currently two grant programs in the Yankee Ingenuity Initiative:

Charles Goodyear Grants - These grants are available to any public or private Connecticut college or university offering high technology courses. They must apply in partnership with a state firm. Business partners must match the grant with cash or in-kind contributions to the school. Research may be conducted at the educational or industrial site. Projects are funded for up to two years and $200,000.

Elias Howe Grants - This is a one-year grant with no funding limit. According to the program administrator, most grants are under $100,000. Grants may be used to purchase equipment, services, and supplies that improve technology education and research. Applicants must be a public state college or university with or without a business partner.

A third grant program, the Apollos Kinsley Grant, was not funded at the start of FY 94. This grant program had been established to encourage partnerships between Connecticut public and private colleges and universities. When operational, the program offered grants of up to $100,000 for one year.

Grants are awarded annually. Each grant proposal receives a technical review by at least two out-of-state experts who judge the proposal's scientific merit and feasibility. Once a proposal has undergone a technical review, it is evaluated for potential impact on technology development in the state, scientific merit, and researchers' qualifications by a six-member panel composed of four academicians and two business representatives selected by the executive director. Each proposal is rated and voted. The executive director gives final approval. Table V-4 provides a summary of the 1993 awards.

Table V-4. Summary of 1993 Yankee Ingenuity Grants.

Grant Program	No. Submitted	No. Awarded
Goodyear	50	9
Howe	30	17
Kinsley	30	11
TOTAL	110	37

Small Business Innovation Research Program. The Connecticut Small Business Innovation Research was established initially to provide bridge grants to applicants caught between two phases of the federal small business innovation research program.

Under the federal program, the first phase covers feasibility research and the second covers product development. Connecticut's SBIR augments federal grants with awards of up to $50,000 initially to enable a company to continue work while waiting for phase two funds. However, according to the program administrator, the program will be shifting from bridge grants to focusing assistance on marketing efforts once the product development phase or phase two is completed.

Previously, awards were made on a first come, first served basis; however, they are now made on a competitive basis. An SBIR advisory committee composed of two CII staff members and three non-CII members review and score each application. In its evaluation, the panel considers financial need, potential contribution to the state's economy, and involvement with Connecticut's educational institutions. In addition, special consideration is given to companies that are minority, female, or handicapped owned and operated. Applicants for SBIR grants must:

- be located in Connecticut;
- be conducting research in Connecticut;
- be independently owned and operated; and

- employ 500 or fewer people.

Applications receiving a favorable recommendation are passed along to CII's Finance Committee for a final vote. Table V-5 lists the number of SBIR awards made during FY 1990-93.

Table V-5. Summary of Small Business Innovation Research Grants in FYs 90-93.

	FY 90	FY 91	FY 92	FY 93
Number of Awards	14	15	11	11
Total Amount	$419,716	$374,929	$219,761	$219,742
SOURCE: CII ANNUAL REPORTS				

In addition to providing financial assistance, CII also holds conferences and seminars on the federal small business research program and provides interested parties with copies of current federal small business research solicitations, pre-solicitations, abstracts, proposal writing guides, and samples of winning proposals.

Advanced Technology Centers. The concept behind the Advanced Technology Centers (ATCs) is to bring together state, private, and university resources for cooperative research and development initiatives. The advanced technology centers encourage technology transfer through direct involvement of industry on individual research projects, as well as through seminars, conferences, short courses, and other outreach programs.

Currently, there are two advanced technology centers in the state -- the Precision Manufacturing Center at the University of Connecticut and the Center for Theoretical and Applied Neuroscience at Yale University. Connecticut Innovations, Inc. has provided seed funding in the form of grants for five years to initiate these collaborative efforts. It is expected that at the end of five years, the program will be self-sustaining.

Technology Assistance Center. As mentioned earlier, CII also offers informational and technical assistance. This assistance is offered through the technology assistance center. The assistance center, a unit within CII, serves as a clearinghouse offering free information and referrals on technical, financial, research and educational services, programs, and other state resources. The center coordinates with the Department of Economic Development, the Connecticut Development Authority, and other state and private agencies to maintain a comprehensive listing of information regarding academic research, business plans, CII program details, federal and state SBIR grants, high-tech companies in Connecticut, financing, seminars, and conferences.

Finance and administration. The Finance and Administration Division handles all the administrative operations of CII and performs the financial accounting for all its investments. It is the responsibility of this division to process documentation for disbursements and develop amortization schedules monitoring loan and royalty payments and reports. This division also prepares monthly updates of client payments and delinquencies.

Once an account is 90 days delinquent, the finance division will notify the project director who will meet with the company to determine the appropriate course of action. This may include a workout or restructuring plan or the transfer of technology assets to Connecticut Innovations, Inc. The project director must review the course of action with the finance division. The agreed upon plan is presented to the executive director and the Finance Committee for approval.

CHAPTER VI
ANALYSIS

Policy Formulation

The committee found that no one agency has a statutory mandate to formulate and regularly revise a comprehensive economic development strategy for the state. Although DED shows some signs of leadership in developing policy, its role has been limited to an informal process involving regular interaction between the commissioner and senior DED staff, the heads of CDA and CII and their directors, the governor and key members of his staff, members of the governor's economic cabinet, business leaders, economists, and state legislators.

In the absence of a body with a clear leadership mandate, state economic development policy is often formulated through the establishment of task forces and commissions, such as the Commission on Business Opportunity, Defense Diversification, and Industrial Policy, which are charged with looking at a specific problem. The work of such groups generally results in a set of recommendations for various administrative and legislative initiatives aimed at dealing with the issue under study. Over time the effect of this approach to policy making has resulted in an indiscriminate allocation of resources supporting in excess of 54 service and financial assistance programs, many of which are narrowly targeted.

The committee concluded that the lack of a formal process for regularly examining and revising the state's development policies has led to policies that are not well articulated. As a result, the state's policies and associated implementation strategies are not regularly debated and, therefore, nothing approaching a consensus has emerged. In the absence of a consensus and in an environment where there has been a proliferation of programs, individual agencies have pursued their own policies.

Economic Development Models

A review of the literature provided information about basic economic development models pursued by states. A detailed review of states frequently referenced in the development literature was undertaken as a part of the study. A summary of the approaches followed by these states, which include Pennsylvania, Virginia, Massachusetts, and New York, is presented in Appendix B.

All states are faced with three primary economic development objectives: 1) attract out-of-state firms; 2) retain and strengthen existing state firms; and 3) encourage growth of new firms. States work to achieve these objectives by employing, to varying degrees, three basic strategies.

One strategy is to focus on the costs of doing business. This may include pursuing policies that keep taxes down and the cost of equipment, labor, and regulatory compliance low. A second strategy stresses the state's role in increasing the availability of business inputs. Under this approach, policies are followed that increase the availability of capital, skilled labor through government supported training, and other production inputs including technical expertise, power, and transportation. The third strategy, emerging as the next wave for states to follow, deals with the economic development process itself. Under this approach a state directs its efforts into understanding the development process, identifying deficiencies, and initiating programs aimed at correcting deficiencies in the development process as opposed to directly aiding individual firms. Such efforts might include providing information on foreign and domestic markets, facilitating the transfer of technology, or encouraging university based research and development efforts.

The matrix presented in Table VI-1 has been designed to facilitate a description of the basic economic development models formed by the interaction of the objectives and strategies. The column headings distinguish the primary objectives and the rows divide the strategies. Where the rows and columns intersect an economic development model is defined.

TABLE VI-1	DEVELOPMENT MODEL MATRIX		
OBJECTIVE STRATEGY	Attract Out- of-State Firms	Retain & Strengthen State Firms	Growth of New Firms
Cost	MODEL I	MODEL II	MODEL III
Inputs	MODEL IV	MODEL V	MODEL VI
Process	MODEL VII	MODEL VIII	MODEL IX

Some models formed in this manner are easily recognizable and widely adhered to by states, others are not. For example, Model I is found where the cost strategy intersects with the first objective, to attract out-of-state firms. This model has long been used by southern states and is often referred to as "smokestack chasing." It involves recruiting manufacturing firms by promoting an inexpensive labor force, cheap land, and a business friendly regulatory climate. It is not difficult to comprehend Models II and III, formed by the intersection of the cost strategy and the other two objectives in the matrix. State activities under these models differ little from Model I.

The intersection of the input strategy and the second objective, to retain and strengthen existing firms, defines a model that has dominated economic development in Connecticut and other northern industrial states (Model V). This model is centered around programs that provide low cost capital to businesses. Model IV is typified by programs that provide loans and grants to out-of-state firms willing to relocate. Examples of programs that characterize Model VI are those offering start-up companies state supported venture capital financing or incubator facilities that provide below market rate office services and lab space.

Examples involving the intersection of the development process strategy and any of the three objectives are hard to clearly identify (Models VII, VIII, and IX). The major problem is the development process is complex and affects all three objectives in a similar fashion. For example, under a process strategy a key element of all models would be state programs to collect, analyze, and disseminate data on the state's economic strengths and weaknesses and the effectiveness of the development policies pursued by public and private interests. This along with programs aimed at aiding development in specific industry clusters would form the core of Model VII. However, such efforts would also be key to Model VIII. Programs that establish or support industry specific centers or academic related institutes aimed at advancing knowledge and solving problems for existing state businesses would, at least in their early stage, be identified as unique to Model VIII. State supported research and development projects at academic institutions and among business collaboratives that are aimed at developing new products and processes to be manufactured or marketed by spin off enterprises are examples of Model IX. Programs to facilitate the transfer of technology to businesses or advance the knowledge and skills of either the entire state's labor force or whole industry segments of it.

Classification of Connecticut programs. The committee identified a total of 54 programs, 40 financial and 14 service, operated by DED, CDA, and CII. Additional programs initiated by 1993 legislative acts, but not yet operational, were not categorized by the committee. An overview of the 54 programs is presented in Appendix A.

Using the matrix shown in Table VI-1 as a framework, committee staff reviewed all of the state development programs listed in Appendix A and categorized each according to the characteristics of the models identified in the matrix. Of course, the method was subjective and other reviewers probably would obtain slightly different results. However, when viewed broadly the outcome shown in the Table VI-2 provides insight about the underlying economic development model shaping the state's current programs.

Table VI-2 shows retaining and strengthening existing firms is the primary objective of the programs offered by DED, CDA, and CII. The table indicates that slightly more emphasis is placed on the input strategy than the process method, with attention given to the cost of business approach. The dominance of the input strategy would be greater except for the fact that most of the service programs such as the Connecticut Economic Information System, Defense Information Services Network, One-stop Business Licensing Center, and the Economic Resource Center, fall under the process strategy. However, these service programs, many of which are new, coupled with a number of initiatives required by P.A. 93-382, may indicate that Connecticut is moving toward a process based development strategy, a direction the economic literature refers to as the next wave of economic development activities.

One caution -- the table represents only the distribution of programs, and does not reflect the value attached or the resources devoted to the program. For example, a multimillion dollar financial aid program aimed at attracting out-of-state firms (input strategy) may be valued more highly by policy makers and, therefore, garner more resources than a technology deployment program (process strategy) aimed at advancing all firms in a particular industrial sector.

TABLE VI-2.	ECONOMIC DEVELOPMENT MODEL MATRIX[2]			
OBJECTIVE / STRATEGY	Attract Out of State Firms	Retain & Strengthen State Firms	Growth of New Firms	TOTAL
Cost	MODEL I (0)	MODEL II (5)	MODEL III (0)	5
Inputs	MODEL IV (0)	MODEL V (22)	MODEL IV (8)	30
Process	MODEL VII (5)	MODEL VIII (15)	MODEL IX (5)	25
TOTAL	5	42	13	

Business Community Response

The Department of Economic Development commissioned the Institute of Social Inquiry at the University of Connecticut to conduct a series of public opinion surveys of state businesses during 1993. Each survey involved between 400 and 428 businesses and covered topic areas such as the likelihood of moving out-of-state, factors influencing decisions, confidence in the economy, and perception of the performance of state government in general and the department in particular. Data from the January, March, June, and September surveys were provided to the program review committee.

The polling results for selected questions are presented below. It should be noted that larger firms were over represented in the sample, and the results have a "margin of error" of plus or minus 5 percent.

One of the 63 questions in the poll dealt with the perception of the influence state government has on the business climate. Another question asked if the state's treatment of the business community had improved. The response to the first question indicated that a majority of the business community, about 54 percent, believed that the state has considerable influence on the business climate. About 12 percent, expressed an opinion that the state had little or no influence. With respect to the second question, about 60 percent indicated that there had been little or no real improvement in how state government treats business.

Of course, the two questions cited dealt with all state government activities, not just the actions of DED, CDA, and CII. As the responses to the following questions indicate, nearly

[2] Some programs were classified under more than one model.

60 percent of the businesses polled were either familiar or very familiar with DED, and 22 percent had sought assistance from at least one of the agencies.

HOW MUCH DIFFERENCE DO YOU THINK CONNECTICUT STATE GOVERNMENT CAN MAKE TO THE OVERALL BUSINESS CLIMATE?

RESPONSE CATEGORY	Jan. '93 n=428	March '93 n=401	June '93 n=400	Sept. '93 n=402	Weighted Average
A lot	54%	56%	52%	51%	54%
Some	33%	33%	36%	35%	34%
Only a little	10%	9%	8%	10%	9%
None at all	2%	2%	3%	3%	3%
No answer	1%	1%	1%	2%	1%

BEYOND IMAGE, HOW MUCH REAL IMPROVEMENT IF ANY DO YOU THINK THERE HAS BEEN IN THE WAY STATE GOVERNMENT TREATS BUSINESS ?

RESPONSE CATEGORY	Jan. '93 n=428	March '93 n=401	June '93 n=400	Sept. '93 n=402	Weighted Average
A lot	2%	1%	2%	2%	2%
Some	30%	32%	31%	35%	33%
Only a little	32%	37%	40%	39%	38%
None at all	32%	26%	23%	19%	22%
No answer	3%	3%	4%	5%	4%

HOW FAMILIAR ARE YOU WITH THE DEPARTMENT OF ECONOMIC DEVELOPMENT?

RESPONSE CATEGORY	Jan. '93 n=428	March '93 n=401	June '93 n=400	Sept. '93 n=402	Weighted Average
Very familiar	9%	11%	10%	9%	10%
Somewhat familiar	48%	47%	52%	45%	49%
Not familiar at all	43%	42%	38%	46%	43%
No answer	--	--	--	--	--

HAVE YOU EVER GONE TO THE DEPARTMENT OF ECONOMIC DEVELOPMENT FOR HELP FOR YOUR BUSINESS?

RESPONSE CATEGORY	Jan. '93 n=428	March '93 n=401	June '93 n=400	Sept. '93 n=402	Weighted Average
Yes	25%	19%	23%	21%	22%
No	74%	77%	76%	78%	76%
No answer	2%	5%	1%	1%	2%

In terms of a favorability rating, businesses that dealt with the state development agencies seemed about evenly divided. As shown in the responses to the following question a weighted average of 47 percent rated the service received from the state agencies as good to excellent, while 45 percent indicated the service was fair to poor.

(FOR THOSE SEEKING HELP) HOW WOULD YOU RATE THE SERVICE YOU RECEIVED?

RESPONSE CATEGORY	Jan. '93 n=107	March '93 n=78	June '93 n=92	Sept. '93 n=86	Weighted Average
Excellent	8%	15%	22%	14%	14%
Good	32%	31%	39%	33%	33%
Fair	32%	21%	18%	23%	24%
Poor	20%	26%	18%	19%	21%
Other	4%	--	2%	5%	3%
No answer	4%	5%	2%	9%	5%

The program review committee conducted its own survey of companies who had contact with DED, CDA, and CII. The survey consisted of randomly selected businesses that dealt with the three agencies between July 1, 1992 and December 31, 1992. It addressed the customer's experience and expectations, and overall satisfaction. Unfortunately, of the 561 surveys mailed, only 148 were returned, a response rate of 26 percent. The low response rate requires that great caution be used in interpreting the results. A copy of the survey, with tabulated responses and percentages is included in Appendix C.

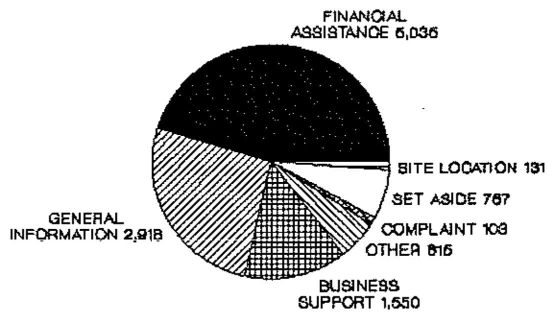
Seventy-five percent of all respondents rated staff courtesy as "good" or "excellent". However, when asked about the staff's capacity to understand company needs, 51 percent rated it as "fair" or "poor", and nearly 40 percent indicated the staff's knowledge of programs was "fair" or "poor".

When asked to rate the quality, timeliness, and fairness of the help provided, the majority of respondents also rated the three agencies collectively as "fair" to "poor". The area most criticized by companies appears to be the amount of time elapsed between the initial inquiry and the notification of approval and denial. More than 60 percent of all respondents felt the assistance process was too long. An exception, however, was 64 percent of CII clients felt that the amount of time involved was reasonable.

More than half of the 148 companies responding (53 percent) indicated that they were unsatisfied with the financial assistance provided, while 38 percent felt satisfied. In terms of overall satisfaction with non-financial assistance, 45 percent of the respondents gave a positive rating and 44 percent were unsatisfied. Again, the exception was 50 percent of CII clients reported that they were satisfied with the assistance received. In response to whether the respondents would recommend other companies seek assistance from the agency, 53 percent said they would, while 47 percent said no.

Most businesses seeking assistance from DED, CDA, or CII initially contact the Business Response Center, which was designed to field such requests. During FY 93, the center handled 10,526 inquires. Figure VI-3 illustrates the distribution of the requests by type of inquiry. As the graphic shows, financial assistance led all requests, accounting for nearly half of all inquires. A total of 2,754 of the 10,526 inquires were referred to DED staff for further action. Typically a referral is assigned to one of the department's regional development agents who works with clients to identify their needs and broker services.

FIGURE 3. DISTRIBUTION BY TYPE OF INQUIRY TO THE BUSINESS RESPONSE CENTER DURING FY 93



Source of Data: DED

Financial Assistance

Sources of assistance. The committee found that most of financial assistance programs are funded with general obligation bonds, and there are at least 22 separate bond authorizations related to the financial assistance programs. Generally, the act initiating the program, the bond authorization, or both targets the specific types of businesses that can be assisted, such as small and medium-sized firms, defense firms, women- or minority-owned businesses, firms located in targeted investment communities or enterprise zones, and those developing and commercializing innovative products.

Even programs that appear broad based on the surface may actually be nothing more than a combination of narrowly focused objectives. For example, the Connecticut Growth Fund has been divided into smaller subparts to meet a variety of legislative objectives. Specifically, the fund provides direct loans for:

- small businesses with annual sales less than $25,000,000;
- businesses in designated distressed communities;
- environmental clean-up;
- high tech companies that are beyond the scope of CII; and
- special purpose financing, which includes small contractors, minority businesses, water companies, or businesses in enterprise zones.

The committee reviewed data on 625 financial assistance projects approved by DED, CDA, or CII between January 1, 1991, and June 30, 1993. Included among the projects were 94 grants, 331 loans, 57 investments, and 143 loan guarantees. A total of 324 of the 625 projects reached closure during the 30-month period. The closings involved 262 separate businesses and governmental agencies.

Table VI-4 shows the number and value of projects approved and closed by DED, CDA, and CII. The value was calculated by totaling the money provided through grants, loans, and investments, and the portion of bank loans guaranteed under the loan guarantee program. It is important to note that although grants, loans, and investments are an initial outflow of state funds, most loans are repaid and investments produce returns. Also, the state will only have to expend money on loan guarantees if there is a default. Thus, over the long run the actual amount of money expended by the state is a fraction of the amount shown in Table VI-4.

Table VI-4 shows CDA significantly exceeded DED and CII as a provider of financial assistance. The authority accounted for nearly three-quarters of all the projects closed during the period and almost 90 percent of the funds. The table also reveals that only slightly more than half of the approved projects closed before June 30, 1993. CII had the highest closure rate at 80 percent, DED at 25 percent had the lowest rate.

Table VI-5 displays the source of funds for the projects approved and closed between January 1, 1991 and June 30, 1993. The table shows the major sources of financial assistance were the Connecticut Growth Fund, Connecticut Works Fund, Self-Sustaining Bond Program, and Manufacturing Assistance Act Fund. The first three are controlled by CDA, and the fourth is operated by DED. Inclusion of the self-sustaining program is misleading because under it, CDA's role is limited to serving as a conduit through which private organizations enter the tax-exempt bond market. Thus, state funds are neither distributed nor risked.

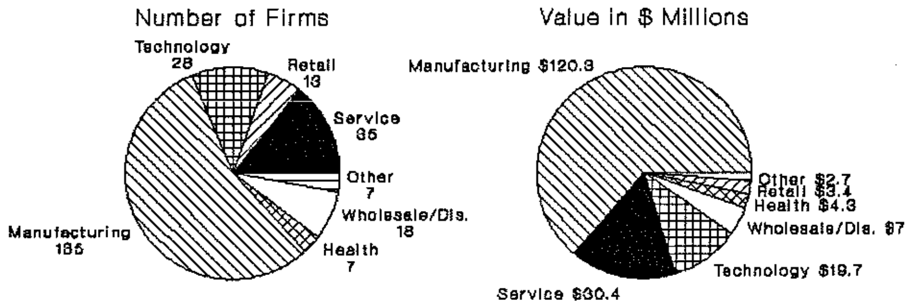
TABLE VI-4. PROJECTS APPROVED AND CLOSED BETWEEN JANUARY 1, 1991 AND JUNE 30, 1993 BY AGENCY.				
AGENCY	NUMBER OF PROJECTS APPROVED	VALUE OF APPROVED (in millions)	NUMBER OF PROJECTS CLOSED	VALUE OF CLOSED (in millions)
DED	166	$ 92.7	42	$ 30.4
CDA	402	$670.0	236	$347.0
CII	57	$ 21.1	46	$ 16.0
TOTAL	625	$783.8	324	$393.4

TABLE VI-5. PROJECTS APPROVED AND CLOSED BETWEEN JANUARY 1, 1991 AND JUNE 30, 1993 BY SOURCE OF FUNDS.				
SOURCE OF FUNDS	NUMBER OF PROJECTS APPROVED	VALUE OF APPROVED (in millions)	NUMBER OF PROJECTS CLOSED	VALUE OF CLOSED (in millions)
Bus. Assist.	26	$ 6.7	13	$ 5.2
Growth Fund	167	$72.3	97	$ 40.6
CT Works Fund	153	$165.1	86	$ 98.4
CII	57	$ 21.1	46	$ 16.0
Defense Diversification	10	$ 10.8	4	$ 6.5
Manufacturing Assistance	156	$ 81.9	38	$ 23.9
Urbank	25	$ .7	21	$ .5
Self Sustaining Bond	18	$420.5	10	$198.2
Other	13	$ 14.8	9	$ 4.0
TOTAL	625	$783.8	324	$393.3

An analysis of the financial transactions involving 242 firms receiving assistance between January 1, 1991 and June 30, 1993, found that 21 companies obtained money from more than one of the agencies, and another 20 firms secured multiple loans or grants from a single agency. Overall, about 11 percent of the firms provided financial assistance by CDA also received money from DED or CII, nearly 13 percent of the firms involved with CII also obtained financing from DED or CDA, and slightly more than 35 percent of the firms receiving grants or loans from DED received money from CDA or CII. Overlapping was also present among the sources of funds authorized for use in providing financial assistance. In 34 instances, about 11 percent of all transactions, more than one source of funds was used to support a single firm.

Financial assistance strategy. The committee analyzed the closed-project database to gain an understanding of the basic financial assistance strategy pursued by the three development agencies. An overview of the distribution of financial assistance among various industry sectors is presented in Figure VI-6. As the graphs show, the manufacturing group leads all others in the number of firms assisted and the value of the assistance provided. Manufacturing's share of the financial resources was approximately four times larger than the service industry and six times the amount given to the high tech group. The manufacturing group also led in average value of financial assistance received. Firms in this group averaged $865,000, compared to $740,000 for service companies, and $700,000 for high tech firms.

FIGURE VI-6. DISTRIBUTION BY SECTOR OF PROJECTS CLOSED BETWEEN JANUARY 1, 1991 AND JUNE 30, 1993



Source of Data: DED

Table VI-7 shows the majority of firms receiving aid (70.7 percent) employed less than 50 individuals. This focus on small firms was consistent across all industry groups. However, as Table VI-8 shows the distribution of financial assistance was skewed toward larger firms. For example, although firms employing less than 20 individuals accounted for 45.5 percent of the closed projects, they received only 16.1 percent of the money. Similarly, a third of the money distributed went to businesses in the 100 to 249 employee category despite the fact that companies in this group represented a mere 12 percent of the firms given financial aid.

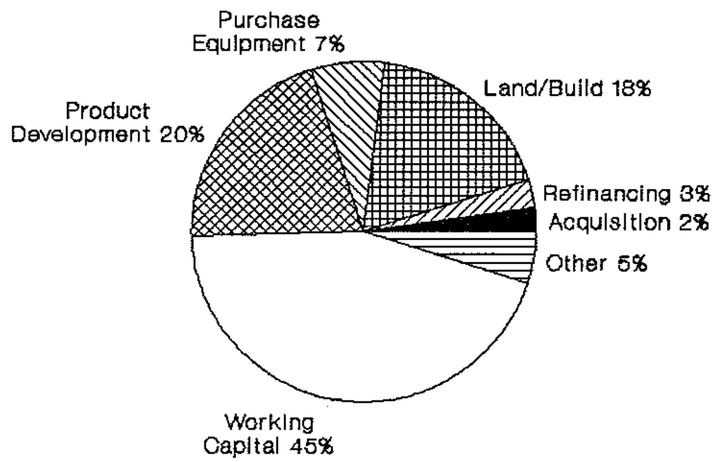
TABLE VI-7. NUMBER OF FIRMS BY INDUSTRY GROUP AND EMPLOYMENT SIZE FOR PROJECTS CLOSED BETWEEN JANUARY 1991 AND JUNE 1993.						
INDUSTRY	< 20	20-49	50-99	100-249	250-499	500+
Health Care	3	2	0	1	0	0
High Tech	20	7	1	0	0	0
Manufacturing	50	35	20	19	7	4
Retail	8	3	0	0	2	0
Service	17	7	4	6	1	0
Wholesale/Distrib	9	4	3	2	0	0
Other	3	3	0	1	0	0
Total	110	61	28	29	10	4

TABLE VI-8. FINANCIAL VALUE BY INDUSTRY GROUP AND EMPLOYMENT SIZE FOR PROJECTS CLOSED BETWEEN JANUARY 1991 AND JUNE 1993 (in millions).						
INDUSTRY	< 20	20-49	50-99	100-249	250-499	500+
Health Care	$ 1.6	$ .4	$ 0	$ 1.4	$ 0	$ 0
High Tech	$11.2	$ 7.8	$ .7	$ 0	$ 0	$ 0
Manufacturing	$13.6	$13.0	$ 13.7	$34.8	$14.9	$27.2
Retail	$ .8	$ .7	$ 0	$ 0	$ 1.9	$ 0
Service	$ 1.2	$ 4.9	$ 1.3	$ 19.7	$ 1.4	$ 0
Wholesale/Distrib	$ .9	$ 1.7	$ 3.0	$ 2.2	$ 0	$ 0
Other	$ .2	$ 2.4	$ 0	$ .1	$ 0	$ 0
Total	$29.5	$30.9	$18.7	$58.2	$18.2	$27.2

Based on its analysis of the data, the committee concluded the financial assistance strategy pursued by the state's three primary development agencies follows two tracks that are not completely parallel. One supports firms engaged in manufacturing. The other emphasizes assisting small firms regardless of their industry sector. The result is that 70 percent of the firms assisted employ less than 50 individuals and slightly more than half of these firms were not engaged in manufacturing.

As shown in Figure VI-9, nearly half (45 percent) of the funds provided by the agencies were used by the businesses for working capital. This reflects lending policies that the agencies acknowledge were influenced by the credit crunch confronting state businesses.

FIGURE VI-9. USE OF FUNDS



Nonperforming Loan Rates. An analysis of the combined portfolios of the three agencies found that approximately 11 percent of the loans and investments were classified as nonperforming (delinquent or in default) on December 31, 1993. CDA had the lowest rate at 10.6 percent of its $180.7 million portfolio. The CII nonperforming rate was 12 percent of its $25 million portfolio. Seventeen and a half percent of DED's $20.7 million loan portfolio was classified as nonperforming. If loans with deferred payment schedules were excluded from the DED's portfolio, the nonperforming rate jumps to 24.1 percent. It is worth noting that seven of DED's nonperforming loan recipients ($1.5 million) never made a single payment.

Employment

DED, CDA, and CII frequently cite job retention and creation as a major goal. Indeed, "jobs are our first order of business" is a slogan regularly associated with the three agencies. In an attempt to measure their performance in the job area, the committee analyzed employment data supplied by DED.

It is crucial to note that employment data have several limitations as a performance measure. First, and most important, it is extremely difficult to determine in a dynamic economic environment how many jobs would exist in any given firm if the state had not intervened. Second, for most intervention strategies, job creation is a long-term effect and cannot be definitively measured in the short run. Third, the effects of job creation and retention strategies involving the provision of nonfinancial services are extremely difficult to isolate and, therefore, their contribution to employment is almost impossible to measure. Lastly, simple job numbers do not relate to job quality, which is an important economic development issue.

In conducting the analysis, the committee relied on data provided to the state by the firms receiving financial assistance from DED, CDA, and CII. The initial data set included all projects involving state grants, loans, investments, and loan guarantees that were closed between January 1, 1991, and June 30, 1993. This provided a pool of 262 unique recipients of financial assistance.

Eliminated from this group, for analytical purposes, were all recipients found to be government agencies (6) and those with missing job data (4). Also dropped from the pool were firms supported under CDA's Self-Sustaining Bond Program (10), because it does not provide any direct financial assistance. The result was a data set that included 242 unique firms.

The committee found the 242 firms employed 16,294 individuals at the time each closed on its initial financial assistance package. The state's latest job survey, conducted in the fall of 1993, revealed employment among the 242 firms had declined to 16,204. Overall, 89 firms reported a net loss of jobs, 123 reported net gains, and 30 indicated no change.

The net loss of 90 jobs represents a reduction of slightly more than one-half of one percent. In comparison, during roughly the same time period, the state experienced an overall employment decline of 2.9 percent.

Two key questions for the short-run analysis are how many of the existing 16,204 jobs are attributable to the state's intervention and what was the cost. Unfortunately, there is no definitive answer to the first question. On the cost side, the committee calculated the value of the closed loans, grants, investments, and loan guarantees to be $181.8 million. This included $92.3 million in loans, $14.6 million in grants, $14.5 million in investments, and $60.4 million in loan guarantees.

Assuming all 16,204 current jobs would have been lost without intervention, then the state risked an average of approximately $11,200 per job saved. The term "risked" is used because, as previously noted, most loans will be repaid, many investments will yield positive returns, and the state will only expend money for a loan guarantee if there is a default. To estimate the state's actual cost, the committee made the following two assumptions: (1) the return on paid loans will exactly offset losses on loans and loan guarantees; and (2) net return on investments will be zero.

Table VI-10 illustrates four job-retained scenarios and their associated risk value and estimated actual cost. The job-retained estimates represent 100, 25, 33, and 10 percent of the total current jobs (16,204). The table shows that if financial intervention by the state is assumed to be responsible for saving 25 percent of the current jobs, then on a per-job basis the amount of money risked by the state was $44,488 and the estimated actual cost per job was $3,612.

It should be remembered the job numbers are based on short-run data and are likely to change over time. Of course any changes in the number of jobs will result in an inverse change in both the risk value and real cost attributable to the state's assistance.

In addition to aggregating and analyzing employment data on projects financed by DED, CDA, and CII, the committee analyzed the short-run job performance of each agency. In order to isolate the effects of each agency, all projects financed by more than one agency (46) and those involving a loan guarantee (68) were eliminated from the analysis.

TABLE VI-10. SHORT-RUN COSTS FOR SELECTED JOB RETAINED ESTIMATES.		
ASSUMED NUMBER OF JOBS SAVED	MONEY RISKED PER JOB	ESTIMATED COST PER JOB
16,204 = (100%)	$ 11,220	$ 903
5,347 = (33%)	$ 33,438	$2,737
4,051 = (25%)	$ 44,488	$3,612
1,620 = (10%)	$111,222	$9,032

The results presented in Table VI-11 are consistent with the lending and investing practices of each agency. DED, which had the poorest net job performance (-327), is considered the financing agent of last resort and would be expected to underperform the other two agencies, especially in the short-run. A closer examination of DED's job numbers revealed the job losses experienced by 3 firms (-562) overwhelmed other modest gains. The small job numbers associated with CII are in line with the agency's approach of generally dealing with small high tech start-up companies.

A separate analysis of firms receiving assistance from more than one agency showed negative job gains. Nineteen firms fell into this group and were provided the equivalent of $14 million in financial assistance over the period. Collectively the 19 firms receiving multi-agency support lost 149 jobs.

TABLE VI-11. SHORT-RUN EMPLOYMENT RESULTS BY AGENCY.					
AGENCY	# FIRMS	# INITIAL JOBS	# CURRENT JOBS	NET JOBS	$ VALUE OF ASSISTANCE (IN MILLIONS)
DED	17	2,949	2,622	(327)	$17.3
CDA	94	3,203	3,338	135	$45.4
CII	35	615	679	64	$12.4

The committee also performed an analysis of the employment data associated with each method of providing financial assistance. To isolate the effects of each method, firms financed through more than one approach were excluded (16). The results can be seen in Table VI-12. The best short-term results were achieved under the loan guarantee program; the poorest were associated with the loan program. The 457 net jobs gained under the loan guarantee program reflect the initial strength of the participating companies. Indeed, a bank must have deemed a firm at least partially credit worthy for it be eligible for the guarantee program.

TABLE VI-12. SHORT-RUN EMPLOYMENT RESULTS BY FINANCIAL METHOD.

TYPE OF ASSISTANCE	FIRMS	INITIAL JOBS	CURRENT JOBS	NET JOBS	$ VALUE OF ASSISTANCE (IN MILLIONS)
GRANT	12	2,208	2,158	(50)	$11.5
LOAN	112	6,383	5,860	(523)	$76.8
INVEST.	34	609	649	40	$11.4
LOAN GUARANTEE	68	6,170	6,627	457	$46.3

CHAPTER VII
FINDINGS AND RECOMMENDATIONS

The basic conclusion drawn from the committee's study is that the state is operating under an economic development strategy that emphasizes the provision of financial support to individual firms seeking assistance. The projects given financial assistance by the state appear to be opportunity driven. It is the committee's belief that a major factor contributing to this approach is the absence of a comprehensive plan that provides a focus to guide the efforts of DED, CDA, and CII. In this environment, the agencies pursue their own agendas using a plethora of enabling statutes and funding authorizations to meet almost any purpose.

In the committee's view, the state is pursuing an economic development paradigm closely resembling the input model, which was popular in industrial states in the 1980s. Under this approach a state concentrates on providing low cost capital directly to firms to strengthen or induce the business to remain or expand in the state.

This is a strategy that may have worked in the healthy state economies of the 1980s, when relatively few firms were experiencing problems. Under those circumstances, a state could concentrate its limited resources on distressed firms or those growing so rapidly that they lacked the credit history necessary to obtain private financing. However, in difficult times, particularly when the underlying problem is heavily related to structural changes occurring in a state's economy, such an approach has little chance of reaching a scale large enough to assist all the distressed companies.

Although providing $393 million in direct financial assistance during a 30-month period may seem like a lot of money, it is almost insignificant in a state with an annual gross state product estimated to be in excess of $86 billion. Indeed, the 242 firms aided represent less than 1 percent of the state's businesses and account for less 1 percent of the state's employment.

The committee concluded the state's economic development efforts need greater focus and a shift in emphasis away from financial support of individual firms toward promoting activities that help all businesses in selected industry groups. Under the committee's proposals, DED would assume responsibility for formulating a comprehensive economic development strategic plan. The plan would identify areas where the state's limited resources could be concentrated and outline strategies to be followed by agencies to meet the plan's goals. DED would be given the broad authority to assure other agencies comply with the plan. The committee proposes that DED's ability to provide financial assistance be limited to grants and its lending authority be transferred to CDA, which would be merged with CII to form a single financial institution.

The recommendations also institutionalize recent legislative initiatives and try to build on these efforts, including the broad based service programs emerging at DED and the provisions of P.A. 93-382, which target assistance to university based research and development centers, university and business partnerships, and support for a process to deliver comprehensive regional economic development plans and initiatives. The committee's recommendations follow.

1. The Department of Economic Development shall be responsible for planning, adopting, articulating, and overseeing a comprehensive strategy that identifies the service and information needs of all state businesses, proposes actions to meet those needs, and focuses the state's financial resources on achieving growth or maintaining viability in six to eight selected industry clusters.

    A. Sections 4, 6, and 7 of P.A. 93-382 should be modified to require DED, beginning February 1, 1995, and every two years thereafter, to submit to the legislative committee having cognizance over matters pertaining to economic development a report:

        1. identifying the technical assistance and informational needs of state businesses and the strategies that should be pursued by DED and other state entities to meet those needs;

        2. identifying the six to eight existing or emerging industry clusters toward which the state should direct its financial resources;

        3. analyzing the performance of the six to eight identified industry clusters on the Competitiveness Index required by P.A. 93-210; and

        4. proposing actions to be taken by DED and other state entities to remedy problems reflected in the competitiveness index, including:

            a. the policy and statutory changes;

            b. service programs; and

            c. financial assistance programs.

Comment. *This recommendation is designed to fix responsibility and authority for formulating and overseeing economic development policy within one agency. Specifically, DED will be responsible for producing a comprehensive economic development strategic plan. The plan will be subject to review by the legislature.*

The recommendation builds on a process begun by DED and the Economic Conference Board to identify and focus economic development efforts on six to eight industry clusters. Its adoption would ensure the steps taken by DED and the Economic Conference Board are institutionalized. Most importantly, it links development of a strategic economic development plan to the Competitiveness Index established in P.A. 93-210.

DED's role as the lead agency is enhanced by its authority to define roles and necessary steps required by other agencies to implement the strategic plan. This should provide a more focused approach to the state's economic development activities.

2. DED shall be the lead executive branch agency for analyzing the state's economic activity and disseminating information on the state's economy. Its responsibilities shall include the following:

    A. establish and staff a Bureau of Economic Research and Statistics. The bureau shall be responsible for:

        1. conducting, stimulating, financially supporting, and publishing studies related to the state's economy;

        2. continuing the development and operation of the Connecticut Economic Information System required by C.G.S. Sec. 32-6i;

        3. continuing the development and publication of the Competitiveness Index required by P.A. 93-210; and

        4. providing directly, or through grants and contracts, staff support for the Economic Conference Board established in C.G.S. Sec. 4-70d;

    B. in cooperation with the University of Connecticut fund a center for economic analysis at the university. The center shall assist DED in meeting its responsibilities to provide an annual analysis of the state's current and forecasted economic activity as outlined in P.A. 93-382.

Comment. *This recommendation is designed to stimulate analysis of the state's economy and assure dissemination of the results. The committee envisions establishment of a small (three or four person) unit within DED, responsible for developing and maintaining economic databases, conducting limited analysis, and encouraging and coordinating research by outside experts. The recommendation calls for ongoing financial support -- (something on the order of $50,000 to $100,000 annually) -- for the Economic Analysis Center at the University of Connecticut. The committee believes this is the most cost-effective means of obtaining first-rate analytical assistance.*

3. DED's authority to provide direct financial assistance shall be limited to three types of grants:

   A. Grants to municipalities; regional agencies as defined in C.G.S. Sections 4-124i to 4-124p, 7-136, and 7-137, and Chapter 50; institutions of higher education; and business and research consortiums as defined in Section 32 of P.A. 93-382. The purpose of the grants shall be:

      1. improving the state's technological and physical infrastructure;

      2. planning municipal, regional, or statewide economic development projects;

      3. implementing municipal, regional, or statewide projects approved by the DED commissioner in accordance with existing state statutes; and

      4. encouraging research and development and disseminating such knowledge to the private sector;

   B. Grants to induce businesses to locate or remain in Connecticut; and

   C. Grants to CDA to finance the authority's lending and investment activities.

4. Transfer responsibility for the Advanced Technology Centers and Technology Assistance Centers from CII to DED and consolidate responsibility for development and delivery of state-supported business services in DED, which shall have the authority to:

   A. establish the Business Response Center as the official point of initial contact for all clients seeking assistance from the state;

   B. create and operate a single system for tracking clients receiving financial and nonfinancial services from DED and such other entities as shall be identified or supported by DED;

   C. deliver services directly and through grants to private and public sector entities, and state institutions of higher education; and

D. continue to operate a system of development agents with responsibility and authority to broker financial and nonfinancial business services for clients.

Comment. *Recommendations 3 and 4 are part of an overall restructuring of DED. In addition to the policy and planning role outlined for DED in the first recommendation, the committee believes the department should concentrate its financial resources on supporting the development process and identifying and meeting the service and information needs of state businesses.*

Recommendation 3 spells out the purposes for which DED can provide financing. It removes DED's authority to lend money to private firms. The department does retain the ability to make grants to private firms operating in selected industry clusters, if the purpose is induce the firms to locate or remain in the state. The committee believes DED should direct more money toward institutions of higher education for research and development projects that will directly benefit whole industries and shift its efforts away from direct lending.

Recommendation 4 is designed to center responsibility for meeting the nonfinancial service needs of state businesses in one organization. Services needed vary and can range from providing assistance in developing a business plan, to helping a company identify market opportunities, to arranging for the provision of technical expertise to solve a complex manufacturing process problem. In the committee's opinion, the department has the expertise in place to do an outstanding job. This has been demonstrated through the department's ability to recognize the service needs of state businesses and develop programs to meet those needs.

5. DED shall review all existing financial assistance programs and prepare a report detailing how the purposes of each could be met if bond authorizations were restricted to four categories - grants, loans, investments, and loan guarantees.

Comment. *The intent of this recommendation is to consolidate the sources of funds into bond authorization categories that correspond to the four methods currently used to provide financial assistance. Through the authorization process the legislature would continue to control the purposes for which the funds could be used. Also, the legislature would have greater control over the method of financing projects.*

6. Consolidate all direct business lending and investment operations of DED and CII in the Connecticut Development Authority.

A. Transfer DED's business financing authority and related staff including funds management personnel to CDA; and

B. Eliminate CII's board of directors, and by statute establish a High Technology Investment Division within CDA that incorporates the staff and statutory responsibilities of CII.

7. Establish an organizational and advisory structure for CDA as follows:

A. Eleven-member board of directors chaired by the commissioner of the Department of Economic Development and consisting of the secretary of the Office of Policy and Management, the state treasurer, four members appointed by the governor, and four members appointed by legislative leaders.

- Two of the gubernatorial appointments shall be experienced in the field of financial lending or the development of commerce, trade, and business, and two shall be knowledgeable and have experience in the development of innovative technology and technological processes.

- All of the legislative appointees shall be experienced in the field of financial lending or the development of commerce, trade, and business.

- All other terms and conditions of appointment shall be the same as those applying to the current CDA board.

1. The board of directors shall have the following responsibilities:

a. implementing the business finance policies established in DED's strategic plan;

b. approving all loans and investments made by the authority;

c. appointing and removing senior officers of authority (CEO and the head of each major division); and

d. all other responsibilities given to the current CDA and CII boards.

B. The board shall appoint a seven-member Loan Review Committee. The commissioner of DED shall serve as the committee's chair. Two board members with experience in financial lending or the development of commerce, trade, and business shall also serve on the Loan Review Committee. In addition, the board shall appoint to the committee four individuals not on the board, who have experience in financial lending or development of commerce, trade, and business.

1. The Loan Review Committee shall have the following responsibilities:

    a. assuring adherence to the lending policies of the board; and

    b. making recommendations to the board on all loan applications advanced by the authority's staff.

C. The board shall establish a seven-member High Technology Investment Advisory Committee. The committee shall be chaired by the commissioner of DED, and shall include the two board members experienced in the development of innovative technology and technological processes. In addition, the board shall appoint to the committee four outside members, who shall have one or more of the following qualifications:

- knowledge and experience in the development of innovative technology and technological processes; or

- expertise in academic research, technology transfer and application, the development of technological invention, and new enterprise development.

1. The Investment Advisory Committee shall have the following responsibilities:

    a. making recommendations related to high-technology development policies and strategies to DED and the CDA board;

b. assuring adherence to the investment policies of the board; and

c. making recommendations to the board on all high technology investments advanced by the authority's staff.

D. CDA shall be comprised of at least the following operating divisions: lending, investments, and funds management.

1. The Lending Division shall have the following responsibilities:

    a. processing applications for loans and loan guarantees;

    b. evaluating the credit-worthiness of applicants; and

    c. making recommendations to the Loan Review Committee.

2. The Investment Division shall have the following responsibilities:

    a. identifying investment opportunities in targeted high technology industries;

    b. processing applications for investments; and

    c. making recommendations to the investment advisory committee.

3. The Funds Management Division shall have the following responsibilities:

    a. account for and audit funds of the authority, including all accounts payable, cash receipts, and disbursements;

    b. incorporate all existing funds management responsibilities of DED, CDA and CII; and

c. provide loan serving and troubled loan workouts.

Comment. *Recommendation 6 creates a single agency through which the state can lend to and invest in private businesses. These activities are currently spread among three agencies. As a result, about 10 percent of the private firms receiving state assistance were clients of more than one of the agencies. The consolidation would expand expertise and create efficiencies by merging three administrative and funds management operations into one. Indeed, a recent state audit called on the state to explore ways in which such efficiencies could be achieved.*

Recommendation 7 details the organizational structure of the new financing agency. In crafting the recommendation, the intent of the committee was to insure an oversight role for DED while preserving the operating integrity of CII. The former was addressed by requiring the financing agency to be guided by the strategic plan developed by DED and putting the DED commissioner in a key position on all policy and decision-making bodies within new agency.

The recommendation preserves CII by establishing it as a statutorily defined division within the new authority. All CII's existing powers are transferred to the division. An investment advisory board similar to one currently operating is created in statute. At least two members of the authority's board of directors are required to have expertise similar to that required of the current CII board.

8. Direct financial assistance provided by CDA shall be limited to the three types listed below:

   A. Loans to:

      1. university based research and development projects that benefit whole industry clusters rather than individual firms;

      2. public and joint public/private partnerships dedicated to:

         a. improving the state's technological and physical infrastructure;

         b. facilitating the transfer of technology to private sector firms;

c. facilitating the growth of firms in selected clusters through such models as incubators, specialized industrial parks, etc.; and

d. planning and implementing regional economic development projects as specified in Sections 23 through 28 of P.A. 93-382.

B. Loans and loan guarantees made directly to firms, which must meet at least one of the following purposes:

1. retention, expansion, creation, or attraction of firms in the selected industry clusters; or

2. clearly defined statutory priorities such as:

   a. locating in enterprise zones;

   b. being minority-owned and operated; or

   c. achieving any other statutorily defined requirement.

C. Investments, which must meet at least one of the following purposes:

1. provide financial aid for research, development, and application of specific technologies, products, procedures, services, and techniques to be developed and produced in the state;

2. provide financial aid for the marketing of the new and innovative services based on the use of a specific technology, product, device, technique, service, or process;

3. provide financial aid, which shall be used to make investments of seed venture capital which shall foster additional capital, investment;

4. provide financial aid for the establishment, maintenance, and operation of incubator facilities; or

5. meet clearly defined statutory priorities, such as:

   a. promoting and supporting defense conversion technologies;

b. locating in enterprise zones; or

c. achieving any other statutorily defined requirement.

Comment. *The intent of this recommendation is to shift the state's focus from providing financial assistance to individual firms operating in a broad range of industry sectors to firms in selected industry clusters. It is designed to encourage research and development and other activaties that will help all firms in selected clusters not just individual businesses. The recommendation does not preclude providing support to individual companies, but such firms must operate in the specified industry clusters or meet a specific, legislatively designated purpose.*

9. Create a program compliance and performance monitoring section within DED with the responsibility and authority to:

   A. annually review and report to the commissioner of DED on the department's and CDA's compliance with statutory mandates;

   B. quarterly review and report to the commissioner of DED on CDA's implementation of and compliance with the department's strategic plan;

   C. quarterly review and report to the commissioner of DED on the compliance with the terms and conditions of financial assistance of selected recipients of aid from DED and CDA; and

   D. annually report to the commissioner of DED and the General Assembly on the job tracking information required by Sections 1(4), 2(4), and 3(4) of P.A. 93-382.

Comment. *This recommendation creates an internal audit unit within DED. The committee believes its adoption will significantly enhance DED's ability and authority to insure other agencies are complying with the state's strategic development plan. If adopted, the recommendation would put in place a mechanism to assure performance measurement data will be generated for use by executive and legislative branch policy makers. In the committee's opinion, to be successful this unit must be staffed by two to three individuals who are solely responsible for meeting the unit's objectives.*

APPENDICES

APPENDIX A

SUMMARY OF PROGRAMS

PROGRAM/DESCRIPTION	Eligible Businesses	SOURCE OF FUNDS	AGENCY
SERVICE			
One-stop Business Licensing Center (CGS Sec.§32-6h)--Information regarding registration, licenses, and regulations.	New businesses	General Funds	DED
Small Business Set-Aside Program (CGS Sec.§32-9e)--Assists small, minority, and women-owned businesses obtain state contracts.	Small businesses	State contracts	DED
Economic Resource Center--Recruiting and information center to market products and services offered by Connecticut firms; assists firms both in and out of state interested in moving within or locating to Connecticut, or learning about state business assistance programs.	Businesses	Utility companies	DED
Business Response Center (CGS Sec.§32-1c(19))--Assists individuals or firms find information about programs and services offered by DED, CII, and CDA.	Businesses and individuals		DED
International Trade/Investment (CGS Sec.§32-9ss)--Fosters cooperation between state and overseas firms to establish joint ventures and export Connecticut products; encourages foreign investment in Connecticut; retains consultants in Europe, Japan, and Mexico.	Small and medium-sized businesses	General Funds	DED
Real Estate Database--Comprehensive database comprised of sites and buildings available for locating a business.	Businesses		DED
Business Outreach Centers (CGS Sec.§32-9qq)--Nonprofit or government regional centers that coordinate marketing, management, financial, and planning services to create individualized assistance packages for small and minority-owned businesses.	Small and minority-owned business		DED

PROGRAM/DESCRIPTION	Eligible Businesses	SOURCE OF FUNDS	AGENCY
Connecticut Manufacturing Program for Energy Technology (COMPETE) (CGS Sec.§16-19hh)--Encourages energy efficient and alternative energy technologies and assists firms in reducing energy costs and obtaining reduced rates; promotes business development in the alternative fuel vehicle industry; source of information for state firms, government agencies, and nonprofit organizations regarding federal programs and legislation pertaining to energy and environmental industries.	Businesses	Utility companies	DED
Defense Information and Services Network (CGS Sec.§32-56)--Assists small and medium-sized defense-related firms diversify their products and services through seminars and workshops, bi-monthly newsletters, and Defense Sub- and Small Contractors and Prime Contractors work groups which meet monthly with the economic development commissioner.	Small and medium-sized defense-related firms		DED
Clean Air Act Compliance Program--Maintains and increases communication between DED and the departments of Environmental Protection and Transportation and the Office of Policy and Management; monitors proposed legislation; assists firms in understanding the terms of the Clean Air Act and provides technical assistance for implementing necessary changes.	State firms		DED
Connecticut Economic Information System (CGS Sec.§32-6i)--Database accessible to public and private organizations containing demographic, economic, and occupational information at the state, regional, and national level.	Public and private organizations		DED
Naugatuck Valley Fund--DED makes state loans from federal funds up to $200,000 for businesses located in Naugatuck Valley and certain other towns. Bank or equity funding required on a 2:1 match.	Businesses located in Naugatuck Valley and other specified towns	Federally funded	CDA
Connecticut Business Development Corporation--Administers the federal SBA 504 Program that provides loans up to $1,000,000 for the purchase of buildings and equipment to established Connecticut businesses with sales less than $6 million and net income less than $2 million.	Businesses with sales less than $6 million and net income less than $2 million	Federal SBA program	CDA

PROGRAM/DESCRIPTION	Eligible Businesses	SOURCE OF FUNDS	AGENCY
Technology Assistance Center (CGS Sec.§32-39(22)--Clearinghouse of technical, financial, educational, and research services, programs, and other resources to assist firms and individuals interested in starting or growing technology-driven enterprises and helping them turn innovative ideas into viable products.	Businesses and individuals	Royalties and investment returns	CII
FINANCIAL			
Property Tax Exemptions for Machinery and Equipment (CGS Sec.§12-81 & PA 92-193)--Tax exemptions new or newly acquired machinery and equipment acquired as part of upgrading technology and the manufacturing process.	Manufacturers	General Funds	DED
Corporate Tax Credits for New Manufacturing Equipment or Economic Development Activities (C.G.S.§12-217m)-Maximum seven-year, 25% credit based on the size of new facilities and the number of new jobs created.	Manufacturers & other economic base businesses	N/A	DED
Manufacturing Assistance Act (CGS Sec.§32-220)--Grants, loans, loan guarantees, and lines of credit up to 90% project costs in "targeted investment communities" and 50% in other towns.	Municipal nonprofit corps, manufacturers, & other firms creating jobs	General Obligation Bonds	DED
Flexible Manufacturing Networks (CGS Sec.§32-240)--Grants to form networks among businesses to collaborate on activities including, training, production technology, and marketing.	Manufactures, unions, towns, nonprofit, and trade associations	General Obligation Bonds	DED
Urban Jobs and Job Incentive Grant Program (CGS Sec.§32-9i)--Provides tax abatements to 11 targeted investment communities for activities that will create or retain jobs, induce investment in manufacturing, and encourage research and development; grants to businesses in designated municipalities with high-unemployment.	Targeted investment communities, businesses in enterprise zones	General Funds	DED

PROGRAM/DESCRIPTION	Eligible Businesses	SOURCE OF FUNDS	AGENCY
Business Outreach Center Challenge Grant Program (CGS Sec.§32-9qq)--Grants to establish Business Outreach Centers to assist small and minority business enterprises.	Regional economic development commissions or corporations, planning agencies, councils of elected officials to prepare regional economic development plans	General Obligation Bonds	DED
Urban Action Program (CGS Sec.§4-66c)--Grants to municipalities with urgent economic needs including improving sites, repairing and constructing roads, and rehabilitating or constructing mixed-use buildings.	Distressed municipalities	General Obligation Bonds	DED
Self-Employment Demonstrated Program (PA 92-236)--Grants to organizations training low- income people in starting businesses.	Nonprofit & for profit organizations that work with government agencies	General Obligation Bonds	DED
Defense Diversification Program (CGS Sec.§32-222a)--Earmarks Manufacturing Assistance Act funds exclusively for defense companies to buy land, buildings, or machinery, develop and market new products, or prepare plans and hire consultants.	Defense firms, towns, nonprofit developers, regional planning agencies	General Obligation Bonds	DED
Job Incentive Grants and Corporation Tax Credits (CGS Sec.§32-9k, 32-9r, 12-217e) --Provides $1,500 grants and 50% corporation tax credit to firms in enterprize zones creating jobs through expansion, firms outside zones but in town that qualify at the discretion of the economic development commissioner.	Manufactures & service firms	General Funds	DED
Enterprise Zones (CGS Secs.§32-71(e), 32-9r, 32-9s, 32-9i, 12-81(59), 12-81(60)--Provides assistance to designated distressed neighborhoods within 11 targeted investment communities through tax abatements on real and personal property, corporate tax credits, grants for newly created jobs, and conveyance tax exemptions.	Targeted investment communities and enterprise zones		DED

PROGRAM/DESCRIPTION	Eligible Businesses	SOURCE OF FUNDS	AGENCY
Public Investment Communities (PA 92-213)--Provides formula-based grants to municipalities to fund job training, economic development activities, manufacturer's tax rebates, and regional loan funds.	Top 43 ranked municipalities based on income, taxation, employment, and AFDC population	General Funds	DED
Industrial Parks (CGS Sec.§7-137b) Grants to eligible municipalities and interested persons that established industrial parks on or before July 6, 1967.	Municipalities, the state, and other interested persons		DED
Energy Conservation Loan Fund (CGS Sec.§32-316)--Loans to owners of one to four-unit residential or mixed-use buildings which may be used to purchase and install heating system replacements, conversion from electric heating, and other alternative energy saving devices.	Owners of small residential buildings	Bonds	DED
Connecticut Capital Access Fund: Urbank Small Business Reserve Fund (CGS Sec.§32-265)--Loan loss reserves to encourage banks to make loans to small businesses in Bridgeport, Hartford, New Haven, Stamford, and Waterbury, for the purpose of creating or retaining jobs.	Banks	General ObligationB onds	CDA
Connecticut Capital Access Fund: Connecticut Small Business Reserve Fund (CGS Sec.§32-265)--Loan loss reserves to encourage banks to make loans to small businesses in New London and Windham counties.	Banks	General Obligation Bonds	CDA
Tax Increment Financing (CGS Sec.§32-285)--Provides incremental increases in state tax revenue to support projects that create new jobs or have strong impact on the regional economy.	Large-scale economic development projects	Sales, admission, cabaret, and dues tax revenues a project generates to repay state bonds sold to finance it	CDA
Regional Corporation Revolving Loan Fund (PA 92-236 amended by PA 93-217)-- Grants to regional development corporations to establish revolving loan funds for economic development projects in conjunction with banks and other resources.	Municipal, community, or regional development corporations	General Obligation Bonds	CDA

PROGRAM/DESCRIPTION	Eligible Businesses	SOURCE OF FUNDS	AGENCY
Connecticut Works Fund (Fund A) (PA 91-319, amended by PA 91-3, June Special Session, and PA 93-360)--Provides up to $25 million in equity of debt financing (including mortgage insurance) for large, mainly industrial projects; guaranteed leverage allowed on Guarantee Subfund created: 4 to 1.	Businesses related to manufacturing or Connecticut's economic base, and nonprofit and government agencies	General Obligation Bonds	CDA
Environmental Assistance Revolving Loan Fund (CGS Sec.§32-23qq)--Direct state loans or loan guarantees up to $250,000 for projects approved by the Hazardous Waste Management Service for the purpose of reducing the use of hazardous and toxic substances in the manufacturing process; guaranteed leverage allowed on Guarantee Subfund created: 4 to 1.	Projects approved by the Hazardous Waste Management Service	General Obligation Bonds	CDA
Environmental Clean-Up Fund (CGS Sec.§32-23z, amended by PA 93-199)--Direct fixed-rate state loans up to $200,000 annually to businesses property owners that are unable to obtain clean-up financing from conventional sources or that are using alternative energy sources.	Businesses with gross revenues >$3 million for the most recent fiscal year or >150 employees	General Obligation Bonds	CDA
Entrepreneurial Assistance Loan Pools (C.G.S. Sec. §32-290)--Interest-free loans up to $25,000 to organizations operating a loan pool for small entrepreneurs.	Municipal economic development commissions, regional business outreach centers	Financed by CDA through the Business Assistance Fund	CDA
Connecticut Growth Fund (CGS Sec. §32-23v)--State loans up to $4 million to small businesses for creating and retaining high-quality jobs, facilitating the export of goods and services, involving new products or services for significant future contribution to the state's economy, or supporting or enhancing existing activities important to the state's economic base.	Small businesses	General Obligation Bonds	CDA
Line of Credit (CGS Sec.§32-263)--Loan guarantees and short-term working loans to small and medium-sized firms.	Small and medium-sized firms	General Obligation Bonds	CDA

PROGRAM/DESCRIPTION	Eligible Businesses	SOURCE OF FUNDS	AGENCY
Connecticut Growth Fund: Urbank (CGS Sec. §32-23v)--Provides direct loans up to $150,000 to small businesses in Bridgeport, Hartford, New Haven, Stamford, and Waterbury, until Urbank II legislation is implemented.	Small businesses in designated cities	General Obligation Bonds	CDA
Connecticut Growth Fund: Investment Finance (CGS Sec.§32-23v)--Loans up to $500,000 and seven years to high-technology companies involved with export activities, high value-added products or services, and production of innovative products that have achieved market penetration.	High-technology businesses engaged in export, innovative activities, high growth and profitability potential	General Obligation Bonds	CDA
Connecticut Growth Fund: Special Purposes Financing (PA 93-360) (formerly Business Assistance Fund (CGS Sec.§32-23x))--Up to $250,000 to small contractors and minority businesses to cover labor costs; up to $250,000 to enterprise zone business for land, buildings, or machinery and equipment; up to $500,000 for impacted businesses (may be raised to $1 million in cases of natural disasters or economic emergencies); and up to $250,000 for certain water companies.	Small contractors, minority business enterprises, target businesses, water facilities, and impacted businesses	General Obligation Bonds	CDA
Self-Sustaining Bond Program (CGS Sec.§32-23f)--Corporate access to long-term, low-interest borrowing up to $10 million with 40 year terms mainly for industrial projects, including research facilities and warehouses.	Business, community foundations, public utilities, private water companies, and retail firms in distressed areas	Tax-exempt bonds	CDA
Umbrella Bond Program (CGS Sec. §32-23f)--Long-term, low-interest loans for small industrial projects involving offices, tax abatements, energy conservation, and warehouse and distribution facilities; real estate loans up to $800,000 with 20 year terms, machinery and equipment loans up to $500,000 with seven-year terms, and energy, pollution, and control loans up to $800,000 with 10-year terms.	Businesses engaged in small industrial projects	Tax-exempt bonds	CDA

PROGRAM/DESCRIPTION	Eligible Businesses	SOURCE OF FUNDS	AGENCY
Mortgage and Loan Insurance Fund (PA 93-360) (formerly Industrial Building Mortgage Insurance Fund (CGS Sec.§32-14))--Insures first mortgages on approved industrial projects involving facilities (up to $10 million with 25-year terms) or machinery (up to $5 million with 10-year terms); working capital loans insured up to $10 million; fund leverage allowed: 4 to 1.	Businesses, community foundations, and private developers	General Obligation Bonds	CDA
Small Business Assistance Program (PA 93-382)--Provides up to $200,000 in loans, loan guarantees, and equity equivalent capital to businesses unable to obtain conventional financing.	Small businesses <100 employees	Capital Access Fund	CDA
Connecticut Works Guarantee Fund (Fund B) (PA 93-393) (formerly Loan Guarantee Program (PA 92-236))--Loan guarantees that assume first-risk loss up to 40% of loans made by participating financial institutions.	Most businesses including women-owned businesses and minority business enterprises; excludes commercial or passive ownership real estate projects	General Obligation Bonds (liability limited to fund only)	CDA
Product Development Financing (CGS Sec. §32--41b)--Provides risk capital to leverage development of a new product, process or service, and provides risk capital investments to fully develop innovative high-technology ideas into products.	Firms developing high-technology products	General Obligation Bonds	CII
Product Marketing Financing (CGS Sec. §32-41b)--Provides risk capital and working loans to launch and market new products already developed; helps bring newly-developed high-technology products to market or to expand markets.	Firms marketing high-technology products	General Obligation Bonds	CII
Small Business Innovation Research (SBIR) (CGS Sec. §32-176 amended by PA 93-382)--Competitive funding program up to $50,000 for firms that have potential commercial applications and have received Phase I and II funding for the federal SBIR program (fund may be required to be repaid; assists businesses in obtaining the federal grants.	Small businesses (<500 employees) that have received federal SBIR funding	General Obligation Bonds	CII

PROGRAM/DESCRIPTION	Eligible Businesses	SOURCE OF FUNDS	AGENCY
University-Business Collaboration Grants (CGS Sec. §10a-25g)--CII administers the Yankee Ingenuity grant programs for high-technology ventures between businesses and public and private higher education institutions.	Public and private colleges and universities in Connecticut	General Obligation Bonds	CII
Advanced Technology Centers (CGS Sec. §32-40a)--Grant program involving cooperative centers devoted to research in a specific field to promote technological innovation and technology transfer.	University of Connecticut, Yale University	General Obligation Bonds	CII
Connecticut Seed Venture (CGS Sec. §32-39(17))--CII is a partner in this limited partnership set up by the state and the private sector to provide early-stage financing for companies with high potential for success.	Businesses with high potential for success	General Obligation Bonds	CII

APPENDIX B
ECONOMIC DEVELOPMENT IN OTHER STATES

VIRGINIA

In Virginia, the economic development strategy is to enhance the economic climate of the state by increasing the number of jobs available to Virginians. Among the most significant state activities and programs related to economic development are:

- the development of a domestic marketing program to attract visitors to Virginia from the United States and Canada;
- the industrial training assistance provided to industries that request services;
- the industrial development marketing program to ensure consideration of Virginia when manufacturing and other basic industries decide to relocate or expand;
- the community certification program designed to assist localities in developing the infrastructure necessary to support manufacturing industry;
- the industrial call program which periodically call and visit manufacturers within the state of Virginia with the purpose of retaining industry in the state.

Recently, the Virginia General Assembly gave the state Department of Economic Development the responsibility for establishing and overseeing small business development centers in the state. The centers provide management and technical assistance to small businesses and to individuals interested in starting a business. Small businesses may also turn to the Virginia small business financing authority. The authority provides low interest financing to qualifying firms in the form of Industrial Revenue bonds, umbrella industrial development bonds, and loan guarantee programs. In addition, Virginia also operates the Economic Development Revolving Loan Fund which provide low interest loans to qualifying firms for fixed asset development. The maximum loan amount is $700,000 for any single project. The period of borrowing is the life of the asset or 30 years, whichever is the lesser of the two.

Virginia also promotes economic development through the designation of enterprise zones. Designated by the governor, enterprise zones provide three special state tax incentives offered to encourage new and/or expanding businesses. The state incentives include: 1) a five year decreasing general credit against the state corporate income tax; 2) a five year decreasing credit against the state corporate income tax equal to the amount of state unemployment tax liability; and 3) a five year exemption from the state sales and use tax on items purchased for the conduct of business within a zone. Communities may also offer additional incentives to qualified businesses locating in a zone as long as these incentives conform to the requirements of the state and US constitutions.

PENNSYLVANIA

Renowned as an exemplary program, the Ben Franklin Partnership in Pennsylvania is a leading state economic development program. The program's purpose is designed to create a more entrepreneurial economy, principally by stimulating the commercialization of academic research. This is done through the use of grants and a small business incubator model. The state offers the entrepreneur space in the incubator which offer labs and offices at less than half the market rate and money to get under way. The incubator provides a free conference room, free computer and computer aided design facilities, shared secretarial services, a Xerox machine and access to free legal, accounting, financial, marketing, and insurance services. This allows the company to progress quicker than if on their own and allows for faster investment from private sources because affiliation with a state program is very convincing to bankers, accountants, and professors that they had a serious endeavor.

Unlike many state technology programs, which pour money into new buildings and institutes, the Ben Franklin is essentially a matching grant program. The heart of the program offers challenge grants to university based projects which are primarily applied research projects funded by businesses. The idea being to provide a carrot that unites industry and academia to work together that might result in a marketable or improved product or process. Although the majority of the research projects involve young entrepreneurial companies, many efforts are also made to help fund older firms adopt new technologies in order to remain competitive.

In addition to research, the partnership also awards challenge grants for education and training programs and for entrepreneurial development activities, again requiring a private sector match. These programs are operated through four Advanced Technology Centers (ATC) each in a different region of the state. Each center is affiliated with a major university or universities, but every higher education institution in a region is eligible for grants. Each center focuses on two to four technology areas depending upon the economic strengths of local universities and the region.

A board made up of regional leaders from academia, business, government, and economic development organizations oversees a staff of 10 to 20 at each center. To force the centers to focus on projects of value to business, the board decided to make them compete with one another for funding, based on the commercial potential of their projects. To make sure that even the smallest companies could take advantage of the programs, the state set up a separate fund to make loans and grants to those small business creating incubators. To increase the amount of money available, state offered money to private venture capitalists who could get the money if they came up with their own money and use the total to create a seed venture fund which would make small investments in young firms that were not yet ready to go to market.

Pennsylvania also created the Pennsylvania Capital Loan Fund to offer low-interest loans of up to $50,000 for businesses with 50 or fewer employees to help small manufacturers. The basic idea is to create a source of gap financing money that could be tapped when traditional bank loans, SBA guaranteed loans, and state loans were not quite enough to make a deal go. The fund money was divided among the local districts in part based on their performance. It also encouraged them to create revolving loan funds of their own, using local government funds and federal block grant money.

Pennsylvania also has a program geared for enterprise zones which provides tax breaks to induce companies to locate in poor communities. Under the program, communities applying for designation as enterprise zones must put together Enterprise Zone Coordinating Committees, with public and private sector involvement and local funding for proposed projects. During the planning stages which is usually about two years the projects receive $50,000 planning grants. Once their plan is in operation they receive annual $250,000 development grants. The state then gives the zones priority in a series of other programs, from loans to infrastructure grants to highway funds. It also allows tax-exempt bonds to finance commercial and retail projects like shopping malls only in enterprise zones. Each year new communities compete for designation. They are judged according to the quality of their local committees, proposals, and matching funds.

MASSACHUSETTS

In 1993, a Massachusetts taskforce on economic development prepared a long-term economic vision for the state. The taskforce report concluded that the central economic goal is to create an economy in which Massachusetts firms have the technology, product and service quality, and efficiency to meet the nation's and the world's best rivals. According to the taskforce report, the economic vision must be led by the private sector and not by government. Government's role is not to intervene directly in competition or to favor some sectors or industries at the expense of others, but to create an environment in which any firm with the will to compete can win.

The taskforce found that government must first improve the quality and availability of the basic inputs that firms draw upon, such a human resources, technological infrastructure, physical infrastructure that applies to many industries as well as provide capital. Secondly, government must create rules, regulations, and incentives that encourage innovations and upgrading. Third, government must build on and reinforce the formation of local clusters - both established and emerging. This would leverage the investments of government and other institutions in building skills, research capabilities and infrastructure, because they feed whole groups of firms and industries. Finally, government leaders must use their platform to challenge industries to advance and provide a supportive climate for innovation rather that set policies which allow industry to avoid the need to do so.

In particular, the taskforce recommended:

- Massachusetts must support policies that strengthen their already strong nationally ranked universities;

- upgrade their local state colleges and universities;
- tighten the link between research infrastructure and industry; and
- speed the process of technology transfer.

According to the taskforce, the state should support efforts that are focused on cross cutting technologies and research which affect and benefit the upgrading of industry. The taskforce concluded that competitive advantage grows out of specialized applied technologies linked to particular industries. Government programs should encourage public and private universities to specialize and develop centers of excellence linked to local industrial needs.

The taskforce also recommended an investment in a skilled work force. This is done through early childhood education by requiring basic skills in reading, math, computers, and science for graduation. The state must maintain high standards in public education system while providing remedial programs for those having difficulty. The work force must have specialized industry specific skills public programs must be in place which help better train and retrain local workforce. The university system must better support the needs of local industry. The state must encourage companies to invest in continuing education for their employees. Infrastructures for transportation and communication systems must be built and strengthen and ample laboratory facilities must be available.

The state must create and maintain a climate which supports aggressive and sustained investment. Programs must support policies that encourage productive investment and direct capital to new companies. Currently, the Technology Development Corporation provides venture capital financing to early-stage, high-risk, technology-based companies in the state. Capital investments are usually in the form of debt and equity that are matched with investment from outside sources of capital such as financial institutions, venture capital firms, private individuals, and government source. The corporation also provides direct financing, management assistance, and technical assistance including advice on incorporation, market research, management and product services, suppliers, matching with suitable partners, and financial planning and assistance. The corporation makes investments in amounts up to $500,000. The size of the corporation's initial investment is determined by the capital needs of the company and the investment of the co-investor. The typical initial investment is in the range of $100,000 to $250,000.

In addition, the Community Development Finance Corporation (CDFC) also provides a source of public venture capital. It invests funds in conjunction with locally based community development corporations which act in a partnership relationship with companies seeking to expand or locate in the community represented by the community development corporation. Funds may be invested as both debt and equity. New or existing businesses, either privately owned or controlled by a local community development corporation, are selected through a review of business plans and community impact evaluations. To qualify, these businesses must:

- increase full-time employment

- show that they are unable to meet capital needs because of unavailability or high interest rates from traditional sources; and

- have a reasonable expectation of being successful.

Eligible projects for these businesses include purchase or construction of fixed business assets (land, plant, equipment) and working capital.

NEW YORK

In New York, the principal economic development agencies are the Science and Technology Foundation (STF) and the Urban Development Corporation (UDC). The major economic development activities for both these organizations are university based. The foundation administers financial and technical assistance programs designed to stimulate job creation by transferring technology from the laboratory to commercial application. This is done primarily through Centers for Advanced Technology (CAT) at universities around the state. These centers are applied research endeavors which encourage: 1) new and high technology product and service development through research and development, 2) technology transfer between the academic sphere and industry; and 3) links education and training for the workforce.

The foundation also funds several other programs including:

- Regional Technology Development Organizations which act as local economic development agencies for technology firms;

- the Corporation for Innovation Development (CID) program which provides debt and equity capital to technology based startups and young growing business ventures in New York;

- a supercomputer at Cornell University;

- a small business incubator for technology based companies; and

- matching grants for federal Small Business Innovation Research grants awards.

The Urban Development Corporation (UDC) administers the Targeted Investment Program. The purpose of the program is to facilitate commercial and industrial development projects in high risk areas such as economically distressed areas marked by high unemployment and physical blight. The program provides low-cost financing, technical assistance, and overall project coordination to support local entrepreneurs, refurbish deteriorated facilities, and create jobs.

New York also has an Industrial Effectiveness Program which provides 1) technical assistance to manufacturing firms; 2) financing to help them restructure and install new production technologies; and 3) grants to help them retrain their workers.

In addition, New York has established an Industrial Cooperation Council (ICC) which is a committee of labor, business, and academic representatives. The council launched a program called the Center for Employee Ownership and Participation. This program is designed to help workers perform prefeasibility studies of potential buyouts. It provides technical assistance and helps secure financing for worker buyouts from the state's Job Development Authority. The center is also trying to catalyze the formation of Local Ownership Development Corporations that would do similar work in their own regions.

The council is also conducting in depth studies of five New York industries: financial services, telecommunications, food processing, steel, and garment and textile industry. It will then create demonstration projects, which will bring labor and management from dozens of firms together to revitalize their sector of the industry by improving marketing techniques, productions technologies, work force skills, and other sector wide weaknesses.

To meet their financing needs, New York has the Business Development Corporation. This is a quasi-public agency which responds to the needs of small business and the banking community through financing programs available to enterprises within the state, providing short and long term loans with varied collateral and flexibility as a compliment to or in participation with conventional lenders.

One successful economic development effort was not the product of state intervention but rather created by the Port Authority of New York and New Jersey. XPORT was set up to help small and medium sized businesses with little or no export experience get over the initial hurdles and develop enough experience to go out on their own. This focus on small new to the market exporters allows the port authority to expand the universe of exports from New York and New Jersey without taking existing business away from private export trading companies.

After identifying a company that might benefit from their services and suggesting product modifications the company needs to make for export markets, the XPORT industry representative signs a three year contract with the company. For a small fee, normally about 10 percent of sales, XPORT handles all aspects of the export business. It makes sales or finds distributors for products overseas, takes care of all substantial documentation and paper work necessary provide the export license, and secures insurance.

LEGISLATIVE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE SURVEY OF CONNECTICUT BUSINESSES

1. What or who prompted you to contact the Department of Economic Development, the Connecticut Development Authority, or the Connecticut Innovations, Inc. for assistance?

   13 (a) Elected official
   7 (b) Personnel from one of the three agencies above
   30 (c) Your bank, attorney, accountant, or other professional advisor
   60 (d) Brochure or other advertisement
   38 (e) Other (Please specify)____________________

2. Which of the following agencies did you initially contact?

   64 (a) Department of Economic Development (DED)
   49 (b) Connecticut Development Authority (CDA)
   14 (c) Connecticut Innovations Inc. (CII)

3. Please rate the performance of the agency person who initially handled your inquiry in terms of each aspect listed below: (Circle the one that best describes your opinion.)

	Excellent	Good	Fair	Poor	No Opinion
(A) Courtesy	1 60	2 51	3 24	4 11	5 2
(B) Understanding of Your Needs	1 30	2 40	3 26	4 48	5 4
(C) Knowledge of Programs	1 40	2 45	3 29	4 26	5 8

4. For each type of follow-up response listed below, please indicate what your company expected and received, based on your initial inquiry.

	Follow-up Expected		Follow-up Received	
(A) Informational Mailing	Yes 114	No 18	Yes 88	No 40
(B) Phone Call From Staff	Yes 114	No 22	Yes 77	No 58
(C) Personal Contact From Staff	Yes 92	No 35	Yes 63	No 63
(D) Other Specify ______	Yes 16	No 10	Yes 8	No 17

5. What type of service or assistance did you request?

14 (a) Non-financial
76 (b) Financial
39 (c) Both
13 (d) Did not request assistance
(If you did not request assistance please go to question 10.)

6. What is the current status of the request? (Circle the appropriate response.)

	Received	Pending	Denied
(A) Nonfinancial Service	1 21	2 10	3 13
(B) Financial Assistance	1 22	2 32	3 35

7. If you received a non-financial service how would you characterize the following:

	Excellent	Good	Fair	Poor	No Opinion
(A) Quality of Assistance	1 14	2 12	3 6	4 14	5 9
(B) Timeliness of Assistance	1 10	2 10	3 6	4 20	5 7

8. If you requested financial assistance how would you assess the process in terms of:

	Excellent	Good	Fair	Poor	No Opinion
(A) Quality of the help provided by agency staff	1 21	2 28	3 14	4 42	5 5
(B) Timeliness of the help provided by agency staff	1 15	2 22	3 18	4 49	5 6
(C) Fairness in considering the request	1 20	2 20	3 11	4 43	5 14

9. If you requested financial assistance what is your opinion of the elapsed time between your initial inquiry and the: (Circle all that apply)

	Reasonable	Too Long	No Opinion
(A) Notification of approval/denial	1 28	2 48	3 19
(B) Actual receipt of money	1 13	2 18	3 25

10. Based on your experience, would you recommend other companies to seek assistance from the agency you dealt with? Yes 71 No 60

11. Overall, how satisfied were you with the assistance that was provided?

	Very Satisfied	Satisfied	Unsatisfied	Very Unsatisfied	No Opinion
(A) Non-financial Service	1 18	2 23	3 10	4 29	5 9
(B) Financial Assistance	1 18	2 29	3 17	4 47	5 11

Please include any other comments below or call George McKee at (203) 240-0300.

APPENDIX D

State of Connecticut
Department of Economic Development
865 Brook Street
Rocky Hill, CT 06067-3405

Joseph J. McGee
Commissioner

MEMORANDUM

TO: George W. McKee
Legislative Program Review and Investigations Committee

FROM: Commissioner Joseph J. McGee

DATE: April 11, 1994

RE: Response to Final Report of Legislative Program Review and Investigations Committee

Enclosed is a copy of the agency response to the Legislative Program Review and Investigations Committee report which was prepared in March. Our comments remain unchanged in response to the final report.

I would like to reiterate that this report reflects a fundamental misunderstanding of the economic development programs of the State of Connecticut. Proposed changes based on this report will severely damage the State's capacity to implement effective economic development programs. In particular, the fragmentation of financing programs and the dissolution of technology programs are especially detrimental.

Finally, the final report differs significantly from the legislation which has been introduced by the Legislative Program Review and Investigations Committee. While the legislation is still severely flawed, positive changes were made to reinstate the vital technology development programs of Connecticut Innovations, Inc. It is extremely important that these programs be maintained.

I request that the agency response be published with the report. I will also provide any other information that might be necessary. Please contact my office if you should have any additional questions.

The Department of Economic Development submitted a 22 page response to the committee's report. The first 11 pages presented an overview of the purpose, organization, and programs of the department, CDA, and CII. These pages, which do not reference or contradict any specific portions of the committee's report have been eliminated in the interest of brevity. The last 11 pages of the department's comments, which respond to the committee's recommendations, have been included as submitted.

Response to Recommendations

Several of the recommendations presented in the report are positive. Some are already being implemented among the three agencies in a form that will meet customer needs, insure accountability of state investment, and reflect state-of-the-art program methodology. The preliminary staff report actually described many of these efforts, yet they were omitted from the final report.

There are numerous recommendations presented by the staff that are problematic in that they are based on a misunderstanding of current programs and agency operations. These recommendations, if implemented, threaten to reverse many of the program improvements which Connecticut has worked so hard to achieve.

The report looks at a narrow range of agency activity - the provision of financial assistance to business, yet presents this as the entire scope of economic development programs. The report then concludes that economic development programs are too narrowly focused.

Further, the time period of this report does not reflect most of the recent gains that have been made in economic development. Many of the proposed recommendations are already being realized as a result of recent programmatic and administrative changes, and should be allowed to mature before wholesale change is made.

The report does not review comparative program models and best practices for economic development. Connecticut has developed many of its programs based on national, state-of-the-art models. An examination of these would show that many of the recommendations have already been proven to be ineffective in many other cases.

Finally, many of the recommendations are not based on a full understanding of the scope and complexity of economic development programs in Connecticut. The proposed changes would dismantle existing programs without providing working alternatives based on the economic development needs of the State.

Recommendation 1: *Making the Department of Economic Development responsible for economic research, strategic planning and policy.*

The lead policy role is a desirable one for the Department of Economic Development. . One agency must have leadership in the development of policies and programs, and in the management of major projects particularly where many development projects and programs require a collaborative process. Fragmentation of policy leadership and program management makes it difficult to insure coordination, accountability and the availability of proper expertise in the process of due diligence.

It should be noted, however, that granting the responsibility for policy development without the sufficient connection to the resources required to implement programs and complete projects, does not benefit the agency, or the State. Recommendations in the report which transfer most of the financial tools of the Department to CDA seem contrary to the stated goal of linking policy development more closely to program implementation.

The use of cluster theory to develop economic policy is another stated goal of this recommendation. The identification of industry clusters is a useful analytical and diagnostic tool, but they should not be used as the exclusive basis for state investment. Industry clusters are identified based on the current conditions. They are also chosen based on their density within the economy. The clusters only account for a portion of the economy, leaving out a large number of small or specialized businesses that are not related to a particular industry cluster. These clusters are not necessarily the best investments for the future. The process of setting public policy must take into account, not only the current diagnostic assessment, but the broader view of Connecticut's economy. While there may be reasons to invest in clusters, there may also be reasons, such as urban development objectives that may require more flexibility in investments.

Agency Recommendation:

The Department has already adopted the goal of planning and implementing a comprehensive strategy for economic development in the State and has made substantial progress in the direction over the past two years. The initial plan, Connecticut Works, is being followed up with a second phase of more specific strategic planning and implementation. This second phase coordinates a variety of legislative mandates, including the development of a competitiveness index, the identification of industry clusters, and the work of the Progress Council and the Connecticut Economic Conference Board.
The Department would welcome budget support for policy development within the agency. Currently, the Department has engaged in its own fund-raising outside the General Fund to pay for the development of the second-phase strategic planning. Additional support for these activities would be vital.

Recommendation 2: *Designating the Department of Economic Development as the lead agency for economic analysis.*

This recommendation is one which the agency has been working toward over the past two years. The obstacle to full implementation has been the lack of commitment of state funds. The Department has a small research unit and has requested funds to support many of the activities recommended. The agency welcomes this recommendation to provide additional staff and budget support for these critical research activities. Among the priority research projects are the following:

- The **Connecticut Economic Information System (CEIS)** is an important project for economic development. The Department of Economic Development became the lead agency and began development of the system, following the passage of Public Act 92-4 which established the direction for CEIS. Due to budget constraints, the funding for this project has been severely limited, and the implementation schedule has been slowed as a result. This project can potentially provide important information for business development and for policy development as well. Further investment is important.

- The **Connecticut State Data Center** has been dismantled at the Office of Policy and Management, leaving a gap in the management and dissemination of economic and demographic data. This center should be re-established at the Department of Economic Development with the transfer of necessary resources.

- The State is in need of a comprehensive system for the collection, analysis and dissemination of **foreign trade data**. To inform policy and assist individual companies in increasing the important export sector of the Connecticut economy.

- Continued support will be needed to update the **competitiveness index** and the strategic planning started by the Connecticut Economic Conference Board.

- Continued data support will be needed to operate the **One-Stop Business Registry** established in 1993.

The recommended alliance with the University of Connecticut is a good one and already exists. However, it is unwise to make this an exclusive relationship, as there may be a variety of institutions who may offer expertise in economic analysis.

Recommendation 3: *Limiting DED to providing only grants in three categories: municipalities and regional agencies, business inducements, and grants to CDA (to include CII).*

Program Review staff have recommended reorganizing agency functions according to a deceptively simple rule: put the same kinds of financing tools in the same place. Accordingly, they have recommended that CDA do all the loans and that DED do all the grants, with the complex functions of CII split up across CDA and DED. The assumption is that within the same general category, all loans, grants, guarantees or investments are the same despite their programmatic purpose. This is not the case. As in private business, there are different financial products for different purposes. For example a car loan is different from a mortgage, despite them both being loans. Likewise, commercial and residential mortgages differ, despite their similarity as mortgages. As a result, most banks issue these through separate parts of their organizations.

The Department of Economic Development, the Connecticut Development Authority and Connecticut Innovations, Inc. share the common mission to support and promote the economic development of the State. However, to fulfill this shared mission, each of the three agencies has a distinct purpose and programs designed to meet specific customer needs. The agencies, therefore, have unique programs and financial tools.

The current organizational structure of economic development programs follows from customer/client needs and the related programmatic goals and functions. A variety of tools must be available in order to guarantee that the State has the flexibility to meet client needs and to insure that the most cost-effective method is being used for state investment. For example, if a loan will meet the need as well as a grant, it is a preferable option because the State will receive repayment. Restricting financial tools to particular agencies without recognizing the programmatic goal, sets up a rigid structure which makes it virtually impossible to provide comprehensive, client-centered service.

The simplistic approach of segregating grants, loans and other financial tools misunderstands the relationship of financing to economic development and ignores the complexity of services and approaches provided and coordinated by the three agencies. The function and nature of the three agencies differ.

CDA represents a traditional financing approach to business development within the overall mission of economic development. Many states have had similar lending authorities for many, many years. CDA has been very successful in carrying out its focused mission - lending and guaranteeing loans to business while keeping its risk at a minimum. But Connecticut recognized early on that the CDA approach alone did not meet all of the economic development needs. Rather than dilute the focus of CDA and weaken the value of its portfolio, the State created a separate entity to engage in more high risk investment strategy. CII was the outgrowth of that approach. By targeting its efforts to high technology support, CII has become a national model for other states that want to create a strong environment for high tech companies.

The Department of Economic Development has a variety of economic development finance programs complemented by services. This financial assistance to businesses, including loans and grants to individual companies, was created to augment CDA (particularly when financial risk was beyond that which CDA traditionally accepted). In many cases, the Department has become the lender of last resort, working with companies that show potential for turn-around and growth, but that will not qualify for assistance under CDA's rather strict lending standards. The Department also provides loan and grant packages to induce companies to relocate to Connecticut; CDA does not provide this kind of assistance.

Agency Recommendation:

DED should provide grants for business, community and infrastructure development. However, it is essential that the agency have the flexibility to apply a variety of financing tools to accomplish the goals of its programs. DED, CDA, and CII have been jointly working to develop a system that will streamline the packaging of financial resources in a way that will improve customer service, but also insure that the most appropriate and cost-effective financial tool is being applied in each case. Rather than destroying programmatic specializations, the agencies propose to strengthen linkages among specialties through joint screening, packaging and administration of loans, grants, guarantees and investments.

Recommendation 4: *Transferring responsibility for all business services to DED, inclusive of the Advanced Technology Centers and the Technology Assistance Centers.*

Both CII and DED provide services as part of a comprehensive program. However, the services are specifically linked to financing in order to guide and support the financing and to implement state policy. The linkage of the financing and the policy are what give them significance. In fact, this is the preferred model nationally.

CII combines business investment with business and technology development services in a way that enhances the ability of the company to succeed, marketing new technology and prospering financially. CII also provides appropriate support to institutions of higher education in a variety of forms, and to leverage research and development in the academic sector to promote high technology and business development.

In the report of staff findings and recommendations it is being proposed that services be consolidated within DED without consideration to the needs of the customer base for which each program has been developed. This contrasts with that most of today's successful business and government ventures which base service structures on client satisfaction rather than organizational convenience. The proposed change would wipe out improvements made in recent years to make business assistance programs user friendly.

Separating business services from financing would eliminate the opportunity to enhance the investment and build the long-term infrastructure. CII would become precisely what the report so clearly criticizes. CII would be narrowly focused on individual company investments rather than on building the overall economy.

Agency Recommendation:

The recommendations made on DED services appear to miss the significance of the efforts which have been made to date. The report seems to recommend development of services and programs currently in place today, such as the Business Response Center which provides information, counselling and referral services to business and residents through a toll- free number. The Program Review staff have made recommendations concerning the Business Response Center and Client Tracking, implying new directions in these areas. On the contrary, these operations are already fully implemented. DED, CII, and, CDA all use the CT Economic Resource Center as the primary point of entry for new clients. Client information is maintained in a central database that is managed and used by all three groups. The three agencies are also implementing a single loan tracking system.

Economic development services must be maintained organizationally as close as possible to the financial assistance. Currently, services are packaged with financing at DED and CII. It is proposed that services be incorporated into the packaging of financial assistance at CDA as well, utilizing and interagency loan/business assistance committee.

Recommendation 5: *Requiring a report to be prepared by DED detailing how it purposes could be met if bond authorizations were restricted to four categories - grants, loans, investments, and loan guarantees.*

The intent of this recommendation is unclear, but it seems to reflect the same focus on financial tools rather than programmatic goals. While this type of consolidation may be simpler for government agencies and the State Bond commission, it would make it extremely difficult for clients to access state programs.

Recommendation 6: *Consolidate all direct business lending and investment operations of DED and CII in the Connecticut Development Authority.*

There are several problems with this recommendation, some of which have already been discussed. First, it focuses only on business lending and investment. There is also a need for development finance which has different goals and often seeks a different type of return which extends beyond immediate financial return. This is within the purview of DED, yet they will be restricted to grants. This means that grants will now be used were loans are now used, costing the State considerably more for the same result.

This recommendation destroys the clear focus of CII on technology investment supported by services and infrastructure. CII has developed considerable expertise in technology investment, and has been used a model for other states in establishing technology investment programs. The trend across the country is to specialize and target resources for technology development and investment in one, unique organization.

Finally as a financing agency, the CDA does not employ the comprehensive economic development strategy which has made CII so successful. CDA has the staff expertise and board perspective to support a traditional business financing activities aimed at marginal companies needing only credit. They do not provide technical assistance, nor the business services which are needed by a wider range of companies. The CDA operates under policies and procedures that have built up over decades of operation, and the area of focus for the agency is appropriately narrow.

In fact, the creation of CII and the MAA at DED were intended to complement CDA's business finance focus, providing strong expertise in three distinct financial operations, while giving state businesses access to a full range of financial services. Putting all financial assistance, except some grants, into CDA destroys the State's ability to maintain a clear focus on what are distinctively different ways of helping companies.

The type of lending which CII does has a high level of risk. This runs counter to the objective of CDA which emphasizes risk minimization. The danger in combining the financing is that few high risk investments would actually be made despite the statutory authority to do so.

Agency Recommendation:

As in the response to Recommendation 3, the agencies are proposing the alternative of maintaining specialized programs with varied financial tools. These programs will be linked with a series of cooperative processes for screening, packaging and administration of business assistance.

Recommendation 7: *Redesigning the organizational and advisory structure of CDA.*

The consolidation of CII under CDA would also weaken the board of CII. Currently, CII's board has impressive expertise in science, technology and business. They play a vital role in insuring the quality of investments. Changing this board to an advisory committee weakens it.

The CII loan review committee under CDA would have to include representative who understands venture capital investment as well as standard risk business lending of CDA.

The recommendation that the CDA's board be responsible for implementing state economic development policy in conjunction with approved state strategic economic development plan developed with DED will strengthen the integration of economic activities.

Recommendation 8: *Restricting the types of direct financial assistance provided by CDA to loans (for business and infrastructure), loan guarantees, and investments.*

This recommendation establishes a problematic duplication of the State's economic development infrastructure program. CDA does not have expertise for infrastructure, would have to add it in order to assess loans. DED would have to continue to maintain this expertise in order to assess grants. This duplication is far more expensive and wasteful than having two different types of loans in two agencies. Furthermore, the entire field of economic development has shifted away from categorical financing to programmatic financing.

Additionally, CDA would have difficulty making infrastructure loans within their structure, as these do not normally have the direct financial return required by CDA. This would essentially eliminate the State's ability to do such loans, leaving only grants, which are much more costly to the State.

Finally, as explained earlier, physical infrastructure is only one aspect of infrastructure development. The other aspects of technology, economy, labor force, information and organization are equally as important.

Recommendation 9: *Creating a program compliance and monitoring section within DED.*

Program Review staff did not investigate the fund management function, with one exception, that being the fund management role in closing MAA loans. This role probably accounts for less than 10% of the total activity in the Fund Management group.

Fund Management oversees all Bond Commission activity for the Department. This includes Urban Act grants ($38.5M authorized to date), Inner City Cultural grants ($21M authorized to date), the new Regional Economic Development fund ($60M authorized to date), MAA and Defense Diversification ($197.5M authorized to date), and numerous other smaller programs and special act grants. Fund Management in the Department oversees the development of applications, the processing of requests for funding, provision of information for the Bond Commission, needed communication with OPM and the Attorney General, processing of payments, monitoring of accounts, and review of audits. Fund Management also oversees the Energy Conservation Loan Program and the Naugatuck Valley Revolving Loan Fund. Fund Management monitors business assistance agreements to determine compliance with terms and conditions of grant and loan assistance. It develops appropriate security agreements for grants and loans. It is the unit in the Department responsible for collecting, analyzing, and reporting data on job retention and creation.

Program Review staff have suggested to the Department that it can contract with CDA for all these services currently provided in the Department, related to on-going Department programs. This would seem to increase administrative costs, rather than providing any streamlining, since CDA would pay the costs for the staff currently located in the DED Fund Management group, and then DED would have to pay CDA for Fund Management services. This is unnecessarily bureaucratic and duplicative.

The program compliance and performance monitoring section that is recommended for DED covers many of the responsibilities that fall to the existing Fund Management group. DED has requested approval for additional monitoring and evaluation personnel to augment staff who are already performing these functions. Currently, Fund Management staff monitor compliance with terms and conditions of financial assistance, and collect, analyze, and report job tracking data. They provide assistance to troubled companies. They secure the State's investment in at-risk projects. With the additional staff recommended, the Fund Management group could also monitor compliance with statutory mandates across the three agencies and move to review progress in implementing the strategic plan.

The additional function of program evaluation would assist the department and related agencies in monitoring the effectiveness of programs beyond individual projects. New resources will be needed to fully implement interagency client-tracking, loan tracking and performance reporting in order to provided the necessary information for monitoring and evaluation. Additional resources for staff will also be needed.

Agency Recommendation:

The fund management function is one that could be done cooperatively among the three agencies. The agencies are proposing a coordinated fund management system that links information, monitoring and work-out functions for all financial assistance. The model being used is one that enables the continuation of specialized monitoring and work-out procedures to parallel the specific nature of the financing, but links together the common needs for information and administration. New procedures will have to be developed to insure that fund management standards reflect unique programmatic goals.

Conclusion

In closing, the Department of Economic Development, along with the Connecticut Development Authority and Connecticut Innovations, Inc., recognize the need to emphasized accountability, efficiency and customer service in the delivery of economic development services in Connecticut. Over the past three years, these agencies, with the support of the General Assembly, have made extraordinary efforts in improving in all of these areas.

The current state economic development program is not simply a business assistance program. It is truly a comprehensive development program which addresses the many complex facets of Connecticut's economy - its people and communities.

The challenges of today's economy do require change. However, such changes must be made in an informed and objective way. It is critical that as we change our programs and institutions that we are making clear demonstrable improvements. The recommendations embodied in the Program Review and Investigations report threaten to reverse the gains of the past three years, without replacing them with any new, more effective mechanisms.

The alternative proposal to maintain agency specialities and strengthen linkages, preserves the strengths of the agencies, while addresses several needs for improvements. Cooperative systems for economic development policy, client service, client tracking, loan review and packaging, and loan administration will unify economic development operations without sacrificing the integrity of the existing expertise and resources.

APPENDIX E

Testimony

Raised Bill No. 5647
AN ACT IMPLEMENTING THE RECOMMENDATIONS OF THE LEGISLATIVE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE CONCERNING ECONOMIC DEVELOPMENT

By David C. Driver
President & Executive Director
Connecticut Innovations, Inc. (CII)

March 7, 1994

Senator Freedman, Representative Hyslop, members of the Legislative Program Review and Investigations Committee . . .

I would like to thank you for the opportunity to address you today concerning Raised Bill No. 5647. I wish to make a very clear and fundamental point:

Technology development -- the process of turning science and technology research into high value-added products, companies, and jobs -- is the linchpin of economic development of the nineties and beyond. **TO MERGE CONNECTICUT INNOVATIONS -- THE TECHNOLOGY DEVELOPMENT AGENCY YOU CREATED BARELY FIVE YEARS AGO -- INTO THE CONNECTICUT DEVELOPMENT AUTHORITY AND THE DEPARTMENT OF ECONOMIC DEVELOPMENT WOULD BE A GRAVE MISTAKE. SUCH ACTION WOULD SET CONNECTICUT'S ECONOMIC STRATEGY BACK AT LEAST TEN YEARS AND STALL A MOMENTUM THAT IS JUST BEGINNING TO TAKE HOLD.**

Converting technology into economic development requires a special agency with

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special skills and culture. You cannot duplicate that by adding it to rows of desks in larger, more traditional economic development agencies. Program Review staff itself reiterates several times in its findings and recommendations how valuable it is to have a state organization with the mission and dedication to innovation and the conversion of technological research into economic development. In fact, staff suggests that it is important to (1) preserve the operating integrity of Connecticut Innovations; and (2) to embrace the notion that all economic development programs should be modeled after the Connecticut Innovations approach. While such kudos are flattering, it is important to recognize that all economic development programs **cannot** use the CII approach which nurtures early stage ideas and technology to the point where they become economic contributors and eligible for later stage programs available from other state agencies and resources. You need a specialty agency such as CII for that "seed-stage" function, a notion shared by over 30 states in the country which have found that it is more effective to spin out their technology development than to make it a division within their commerce or economic development agencies.

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It is noted that when the Legislative Program Review and Investigations Committee voted on House Bill 5647, committee members decided to remove Connecticut Innovations, Incorporated from the proposed consolidation and, instead, preserve the quasi-public corporation as an independent technology development agency chaired by the Commissioner of the Department of Econnomic Development.

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You created **Connecticut Innovations** five years ago so that Connecticut public policy could make amends for sitting on its hands while states in even worse economic straits had made technology development the centerpiece of their economic strategies.

It was a long-overdue initiative to accelerate our state's passage from the Industrial Age to the Information Age. And, it was coming none too soon. Our neighbors were growing biotech and computer companies while we were still tasting the dust of our departing textile, brass and rubber industries. States such as Massachusetts and Ohio were making their research universities cornerstones of job production while we had yet to peek behind the Ivy Curtain which hid discoveries and inventions from our economy. And, while the Federal government was pouring billions of dollars into manufacturing competitiveness issues, we continued to chase only weapons contracts.

The creation of **CII** was a survival move. It was a declaration that only by harnessing the brainpower and imagination of our highly-educated population could we hope to master the enormous socio-political economic changes that lurked around the corner. And, it was a recognition that in order to find and nurture small, fast-moving, risk-taking entrepreneurs, you would need a small, entrepreneurial, fast-moving, risk-taking state organization with specialties far beyond the conventional real estate and factory relocation and bail-out tasks so often associated with economic development. Giant pharmaceutical companies have succeeded similarly by fast-tracking drug development through emerging biotechnology entrepreneurs.

We at CII took your expectations five years ago very seriously. We began in 1989 by aligning ourselves with the policies and strategies of the Department of Economic

Development and agreed to take on the difficult task of bringing to the surface a critical but untapped and unrecognized segment of our economy -- inventors, entrepreneurs, university and industrial scientists, and venture capitalists. As chairman of the CII Board of Directors, Economic Development Commissioner Joe McGee has held to a longterm vision that Connecticut's brains, innovative spirit and technological prowess will be the engine of its economic success in the next century. During these past five years, we have transformed a bare-bones technology development program that consisted of 4 employees and $4 million in annual product development grants to a broad-based initiative utilizing 21 investment and technology specialists who deploy some $27 million annually into inventor assistance, university research, Federal grant procurement, small business scientific research, and emerging companies ranging from vaccine developers to semiconductor manufacturers. For example, virtually every biotechnology company in Connecticut has received assistance from CII. And, for the first time in state history, CII is directing economic development funds to be used for basic research at our universities in critical technologies -- photonics, envirotech, super materials, etc. -- which hold the greatest promise for future job development in Connecticut.

We negotiate with the country's most hard-nosed private venture capitalists when we make investments into emerging companies that are designed to not only stimulate job creation, but to also provide the state with a financial return commensurate with the risks we are taking. We've moved DNA fingerprinting pioneers to Connecticut; an i.v. needle inventor in whom we saw promise will soon be part of a public company; a Pennsylvania engineer who found us when he stopped to browse through brochures at the airport now has a company and 100 employees in Connecticut; our research support had a hand in the recruitment of the University of Connecticut's new world-class laser physicist; and the world's next generation of robots may actually acquire "eyesight" through research being done at our neurotechnology center at Yale University.

We nurture entrepreneurs who want to escape corporate culture, yet we help other entrepreneurs find major corporations as partners. We introduce businesses to the mysterious labs of academic research, yet we entice professors out into the world of economic development. And, because we are driven by the public purpose, we devote our energies and programs to diversifying defense industries, empowering women and minority entrepreneurs, and rebuilding our urban areas.

What we have done in moving technology development to the forefront of Connecticut's economic agenda has not been done by ourselves or in a vaccuum. The due diligence and mission of CII's trained staff is augmented by the guidance of highly regarded advisors and members of the CII Board of Directors. Fifteen members, including pharmaceutical executives, industrialists, patent and legal experts, academic and corporate engineers, labor leaders, accountants, bankers, and key public officials all serve as representatives of the Executive and of the Legislative branches of government to protect the interests of and capitalize on the opportunities for our state and our citizens.

Again, thank you for the opportunity to testify, and I will be happy to answer any questions that you may have.

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