STATE OF CONNECTICUT

PERFORMANCE AUDIT

PART 2 OF AUDITORS' EVALUATION OF THE REVISED DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT 2017 ANNUAL REPORT

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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ACRONYMS

Acronyms	Definition
APA	Auditors of Public Accounts
CBIA	Connecticut Business and Industry Association
CCAT	Connecticut Center for Advanced Technology
CDE	Community Development Entity
CERC	Connecticut Economic Resource Center
CRM	Client Relationship Management System
CTDOL	Connecticut Department of Labor
DECD	Department of Economic and Community Development
EIA	Economic Impact Analysis
EXP	Small Business Express Program
LOI	Letter of Intent
MAA	Economic and Manufacturing Assistance Act Program
MIF	Manufacturing Innovation Fund
MVP	Manufacturing Voucher Program
NAICS	North American Industry Classification System
OAG	Connecticut State Office of the Attorney General
OBD	Office of Business Development
OFR	Office of Financial Review and Compliance
PI	Tax Policy Insight
REMI	Regional Economic Models Inc.
URA	Urban and Industrial Site Reinvestment Tax Credit Program
UTC	United Technologies Corporation

PERFORMANCE AUDIT HIGHLIGHTS

Part 2 of Auditors' Evaluation of the Revised Department of Economic and Community Development 2017 Annual Report

Audit Objectives and Overview

Section 2-90c of the Connecticut General Statutes requires the Auditors of Public Accounts (APA) to evaluate annual reports of the Department of Economic and Community Development (DECD). In April and September 2018, our office released 2 reviews that assessed the accuracy of the DECD annual report data and whether it satisfied reporting requirements in section 32-1m(a) of the General Statutes.

Using surveys, this report evaluates management practices and operations regarding the ease or difficulty for taxpayers to comply with incentive program requirements. In addition, it recommends improvements to the administrative efficiency and effectiveness of the incentive programs through in-depth analyses of the Urban and Industrial Site Reinvestment Tax Credit (URA) and the Small Business Express (EXP) programs.

Key Findings

1. Although our office received mostly favorable responses to survey questions, we encountered relatively lower survey ratings from recipients of the Small Business Express Program (EXP) and Manufacturing Assistance Act Program (MAA) on issues of clarity of reporting requirements that could potentially create challenges for recipients.
2. DECD does not measure or document the length of time and reasons for the approval or denial of applications, making it difficult to determine whether DECD is administering these programs efficiently and effectively.
3. DECD did not efficiently or effectively administer areas of the Urban and Industrial Site Reinvestment Tax Credit Program (URA), including:
   - Not reporting companies that leave the URA program prematurely, and penalties or tax credit reductions, leading to a $70 million underestimate of URA tax credits for new projects
   - Issuing at least $2.49 million in URA tax credits early to 4 companies
   - Issuing URA tax credits late or multiple times in a single year
4. We found that DECD did not efficiently or effectively administer areas of the Small Business Express Program, including:
   - Not performing certain personal financial checks to better assess an applicant's loan risk
   - Having little recourse if EXP recipients, who are not delinquent in their loan payments, do not submit documentation that they spent funds according to an approved budget or met job creation or retention obligations

Key Recommendations

1. DECD should review the current reporting requirements for the EXP and the MAA programs to improve administrative efficiency and effectiveness and promote greater ease for recipients to meet program reporting requirements.
2. The DECD Letter of Intent Committee should document the rationale for its decisions to improve administrative efficiency and effectiveness. The committee should prepare and keep minutes of its meetings in case questions arise in the future.
3. To improve administrative efficiency or effectiveness for URA, DECD should:
   - Include information on companies that leave the URA program prematurely and statistics on revocations or other imposed penalties in the DECD annual report
   - Pursue an amendment to the General Statutes regarding the issuance of URA tax credits and develop a system to promote more timely submission of required information by businesses
4. To improve administrative efficiency or effectiveness for The Small Business Program, DECD should:
   - Better assess loan risk through additional financial checks
   - Consider increasing the interest rate of a loan if businesses do not submit budget or job audit documentation

STATE OF CONNECTICUT

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May 21, 2019

Section 32-1m of the Connecticut General Statutes provides that, not later than February 1st annually, the Commissioner of Economic and Community Development shall submit a report that includes information regarding the activities of the Department of Economic and Community Development (DECD) and business assistance or incentive programs not administered by the department, during the preceding fiscal year.

Section 2-90c of the General Statutes requires the Auditors of Public Accounts (APA) to evaluate DECD annual reports, including but not limited to:

1) A determination of whether evidence is available to support the accuracy of the data presented in such annual reports;

2) An evaluation of management practices and operations with respect to the ease or difficulty for taxpayers to comply with the requirements of the incentive programs;

3) Recommendations for improving the administrative efficiency or effectiveness of the incentive programs; and

4) An evaluation of whether such annual reports satisfy the reporting requirements under subsection (a) of section 32-1m of the General Statutes.

On April 24, 2018, our office issued a preliminary review of the DECD annual report for the fiscal year ended June 30, 2017. Our preliminary review focused on determining whether evidence was available to support the accuracy of the data presented in the annual report and an evaluation of whether the annual report satisfied the reporting requirements under subsection (a) of section 32-1m of the General Statutes. The preliminary review disclosed statutorily required items that were not included in the report, unsupported data, excluded programs, and issues with DECD's economic impact calculations. As a result of our review, DECD issued a revised report on May 31, 2018. Our evaluation of the revised DECD 2017 annual report was published on September 21, 2018.

This report focuses on the other 2 elements of 2-90c (c), which are evaluating management practices and operations with respect to the ease or difficulty for taxpayers to comply with the requirements of the incentive programs, and making recommendations for improving the administrative efficiency or effectiveness of the incentive programs. This report is based on the information DECD presented within the Revised DECD 2017 Annual Report. We used a survey to assess taxpayer ease or difficulty in complying with incentive program requirements. We selected representative tax credit and business assistance programs to assess the administrative efficiency and effectiveness of DECD incentive programs. We selected the Urban and Industrial Site Reinvestment Tax Credit Program because it receives the most funding ($684 million through June 30, 2017), and the Small Business Express Program because it has the greatest number of participating companies (1,621 companies through June 30, 2017).

Through this methodology, we obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our review of the Revised Department of Economic and Community Development 2017 Annual Report.

PART 2 RESULTS

EVALUATION OF MANAGEMENT PRACTICES AND OPERATIONS WITH RESPECT TO EASE OR DIFFICULTY FOR TAXPAYERS TO COMPLY WITH THE REQUIREMENTS OF THE INCENTIVE PROGRAMS

The Revised DECD 2017 Annual Report describes a wide array of the department's tax credits and business assistance programs. We chose to survey businesses that received assistance to assess the ease or difficulty of complying with the incentive program's application and reporting requirements. We selected 4 areas to query: (1) program publicity; (2) application process; (3) funding; and (4) reporting requirements.

To gauge the feasibility of surveying business owners who were denied assistance by DECD, we sent pilot surveys to unsuccessful applicants for the Small Business Express and Brownfield Remediation programs. The resulting low number of returned surveys led us to conclude that it would not be feasible to include this specified group in our analysis. We also excluded tax credits awarded through municipalities rather than directly to businesses (e.g., enterprise zones and certain Brownfield Remediation and Redevelopment Program recipients). We sent 2,529 surveys to taxpayers receiving tax credits and/or business assistance through the programs listed in **Exhibit 1** between September 7, 2018 and October 2, 2018.

Exhibit 1. Tax Credits and Business Assistance Programs Administered by DECD	
Tax Credits • Urban and Industrial Site Reinvestment Tax Credit • Film-related (Film and Digital Media Production, Film Production Infrastructure) Tax Credits • Second Insurance Reinvestment Fund Tax Credit • Digital Animation Tax Credit • Connecticut Aerospace Reinvestment Act	Business Assistance Programs • Small Business Express Program • Manufacturing Innovation Fund • Brownfield Remediation and Redevelopment Program (awarded to private citizens only) • Manufacturing Assistance Act (includes First Five Plus program)

The Digital Animation and Connecticut Aerospace Reinvestment Act tax credits were allocated to just 1 business each. Blue Skies received the Digital Animation Tax Credit and United Technologies Corporation (UTC) received the Connecticut Aerospace Reinvestment Act Tax Credit. We requested telephone interviews with these companies rather than surveys to obtain their feedback.

Number of Businesses Surveyed

Exhibit 2 shows the number of surveys our office sent to taxpayers requesting that they assess the ease or difficulty for businesses to apply for assistance and comply with requirements for DECD programs. Due to differences among the business assistance programs, we modified the surveys slightly to fit the particular assistance program. We developed 8 surveys, distributed them electronically to the relevant taxpayers, and asked the businesses to complete the survey within 2 weeks of receipt. Approximately 2 weeks after the initial email, we sent reminders to non-respondents. **Exhibit 2** shows an overall response rate of approximately 30%. This response rate compares favorably to the 4.9% to 11.4% response rate of the annual mailed and emailed Connecticut Business and Industry Association (CBIA) surveys of Connecticut businesses during the past 3 years. In addition to these survey results, we conducted telephone interviews with Blue Skies (Digital Animation Tax Credit), United Technologies Corporation (Connecticut Aerospace Reinvestment Act Tax Credit), and the 4 funds participating in the Second Insurance Reinvestment Fund Tax Credit.

Exhibit 2. APA Survey Response Rate

Incentive	Number of surveys emailed	Number of surveys completed	Response rate
Business Assistance Program			
Small Business Express Program	1,393	439	31.5%
Manufacturing Innovation Fund (MIF) – Apprentice Program	117	31	26.5%
Manufacturing Innovation Fund (MIF) – Incumbent Worker Training Program	286	64	22.4%
Manufacturing Innovation Fund (MIF) – Manufacturing Voucher Program	358	145	40.5%
Brownfield Remediation and Redevelopment Program – awarded directly to businesses	29	9	31.0%
Manufacturing Assistance Act	193	35	18.1%
Tax Credit Program			
Urban and Industrial Site Reinvestment	36	9	25.0%
Film and Digital Media Production, Film Production Infrastructure	117	26	22.2%
Survey Total	**2,529**	**758**	**30.0%**

Publicizing of DECD Incentive Programs

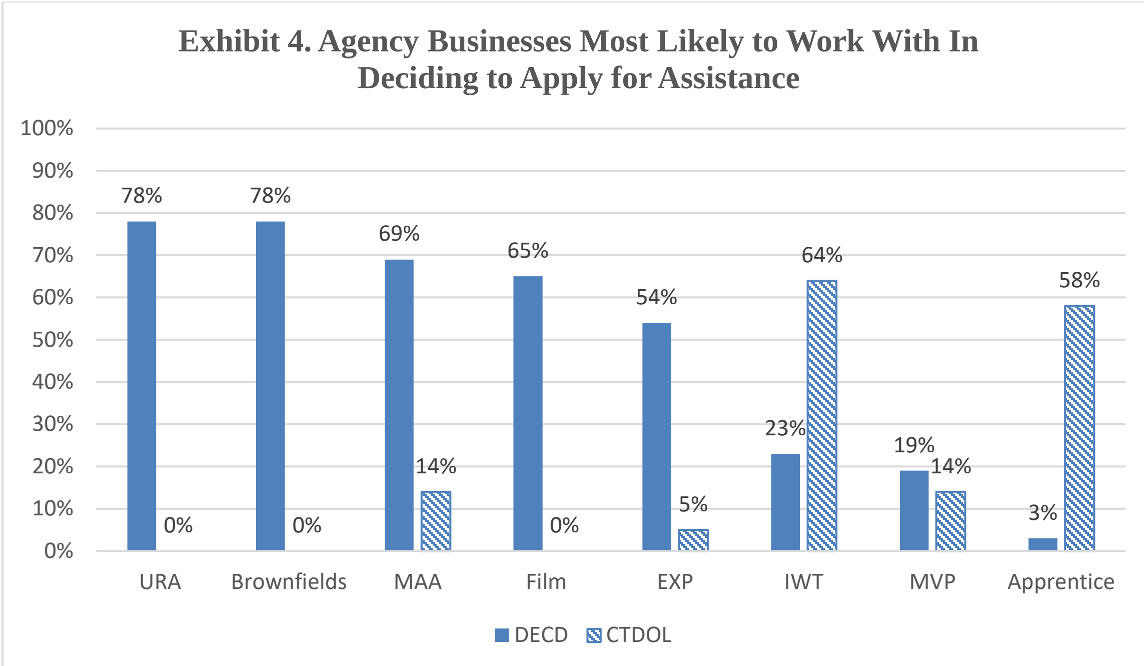
We asked survey recipients to choose from a list of a dozen possibilities (e.g., flyer or brochure, media or newspaper, bank) as to how they had heard about their DECD program. We found that the top 3 ways businesses heard about the various DECD incentive programs were through word of mouth/another business owner, the DECD website, or by attending an event **(Exhibit 3)**. Note: Respondents could select more than one choice.

There were differences in how businesses heard about some of the particular incentive programs. As would be expected, the 2 assistance programs administered by the Connecticut Department of Labor (CTDOL), the Manufacturing Innovation Fund (MIF) Apprentice Program and MIF Incumbent Worker Training Program, were most likely communicated to prospective recipients through CTDOL. Also, Urban and Industrial Site Reinvestment Tax Credit (URA) Program recipients responding to the survey most likely heard about the tax credit from a project manager or ambassador.

Exhibit 3. Ways Businesses Heard About DECD Incentive Programs

	Word of mouth	DECD website	Event attended	CTDOL	Other
Business Assistance Program					
Small Business Express	#1	#2	#3		
MIF-Apprentice Program	#2			#1	#3-Local/regional Association
MIF – Incumbent Worker Training Program	#3		#2	#1	
MIF – Manufacturing Voucher Program	#1	#3			#2-CCAT
Brownfield Remediation and Redevelopment	#1		#1		#3-CERC or Media/Newspaper
Manufacturing Assistance Act	#1	#1			#3-Local/regional Association
Tax Credit Program					
Urban and Industrial Site Reinvestment	#2	#2			#1-DECD Project Manager #2-Internet
Film Digital Media Production, Film Production Infrastructure	#1	#2			#3-Internet or Media/Newspaper
TOTAL (N=758)	**268 (35%)**	**174 (23%)**	**98 (13%)**	**74 (10%)**	

We asked businesses which agencies or associations they were most likely to work with when deciding to apply for an incentive program or assistance. The agency most frequently selected was DECD (44%), followed by the CTDOL (14%). **Exhibit 4** shows at least three-quarters of URA tax credits and Brownfield Remediation and Redevelopment Program recipients, and two-thirds of Manufacturing Assistance Act and Film Digital Medial Production/Infrastructure tax credit recipients said they were most likely to work with DECD. In contrast, over half of the Manufacturing Innovation Fund’s Apprentice and Incumbent Worker Training program recipients said they were most likely to work with CTDOL. Thirty-four percent of the Manufacturing Innovation Fund’s Manufacturing Voucher Program recipients said they were most likely to work with the Connecticut Center for Advanced Technology (CCAT).



Finding 1: Businesses we surveyed provided ideas to better publicize the DECD-administered Small Business Express and the CCAT-administered MIF-Manufacturing Voucher programs to increase the awareness of businesses in need of assistance.

Businesses we surveyed provided over 30 suggestions to better publicize the Small Business Express and Manufacturing Innovation Fund's Manufacturing Voucher programs. **Exhibit 5** shows the more frequently mentioned suggestions for the 2 programs. While some of the suggestions may already have been implemented by these programs, others may be more innovative and worthy of consideration by DECD.

Exhibit 5. Recipients' Most Frequently Suggested Ways to Better Publicize the EXP and MIF-MVP Programs	
Small Business Express Program (DECD)	• Email/mail blasts to all (small) businesses in CT • Contact CPA firms, organizations • Use Facebook/social media • Publicize success stories • Chamber of Commerce events/meetings • Publicize in business journals
Manufacturer Innovation	• CBIA

Fund-Manufacturing Voucher Program (CCAT)	• Post cards/direct mail • Manufacturing associations/industry groups • Email blasts

Recommendation: The Department of Economic and Community Development should consider and adopt suggestions made by program recipients to improve administrative efficiency and inform other businesses about the Small Business Express and Manufacturing Innovation Fund's Manufacturing Voucher programs. **(See Recommendation 1.)**

Agency Response: "DECD believes that its programs are communicated widely and on a regular basis. In particular the Small Business Express (EXP) and the Manufacturing Innovation Fund's Manufacturing Voucher Program (MVP) programs are promoted in the agency's online presence and other communications. Additionally, these programs are also actively being promoted through relationships with various public and private partners such as the DOL, local and regional chambers and trade associations, local economic development agencies (EDOs), and other private partners such as CONNSTEP, CERC, CCAT, CI, CBIA, DECD Lending Partners, and the Association of CT Accountants (IMA). Management of those organizations meet with DECD regularly, they invite DECD staff to speak at their events, or they have links on their website to DECD's programs. Success stories are publicized on a regular basis via email and social media to thousands of businesses in the State (DECD has over 3,200 followers on LinkedIn). For example, in 2017 DECD did a direct mailing campaign that went to thousands of CT companies and included the mentioning of DECD's website. Promotion of DECD programs also takes place during interviews on the radio (e.g. Pulse of the Nation, NPR, etc.). We believe that a real testimony to the promotional activities are the almost 2,000 small business that have been funded by DECD since 2012."

Auditors' Concluding Comment: While DECD may have implemented some of the suggestions, others (e.g., use of postcards and communications with CPA firms) may be more innovative and worthy of consideration by DECD and CCAT.

The Application Process

Finding 2: Businesses rated the overall application process favorably, with the exception of time required to complete the application, which is a potential area for improvement.

On a scale from 1 (most negative) to 6 (most positive), we asked businesses to rate their level of agreement on 5 statements about the application process. Statements pertained to:

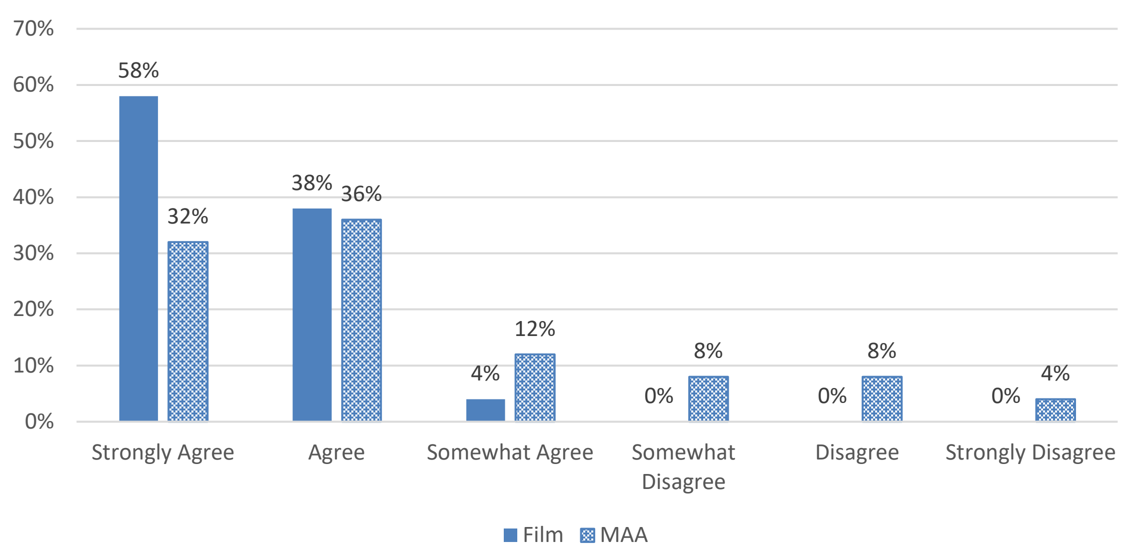
- Knowledge of who to contact with questions about completing the application
- Clarity and timeliness of answers to their application-related questions
- Clarity of the application form
- Time needed to complete the application process

Depending on the assistance program, businesses contacted 3 agencies for questions about completing the application process: DECD (for Small Business Express Program, Urban and Industrial Site Reinvestment Tax Credit, Manufacturing Assistance Act Program, Film Digital Media Production/Infrastructure Tax Credit, and Brownfield Remediation and Redevelopment Program); CTDOL (for MIF-Apprentice and MIF-Incumbent Worker Training programs); and CCAT (for MIF-Manufacturing Voucher Program).

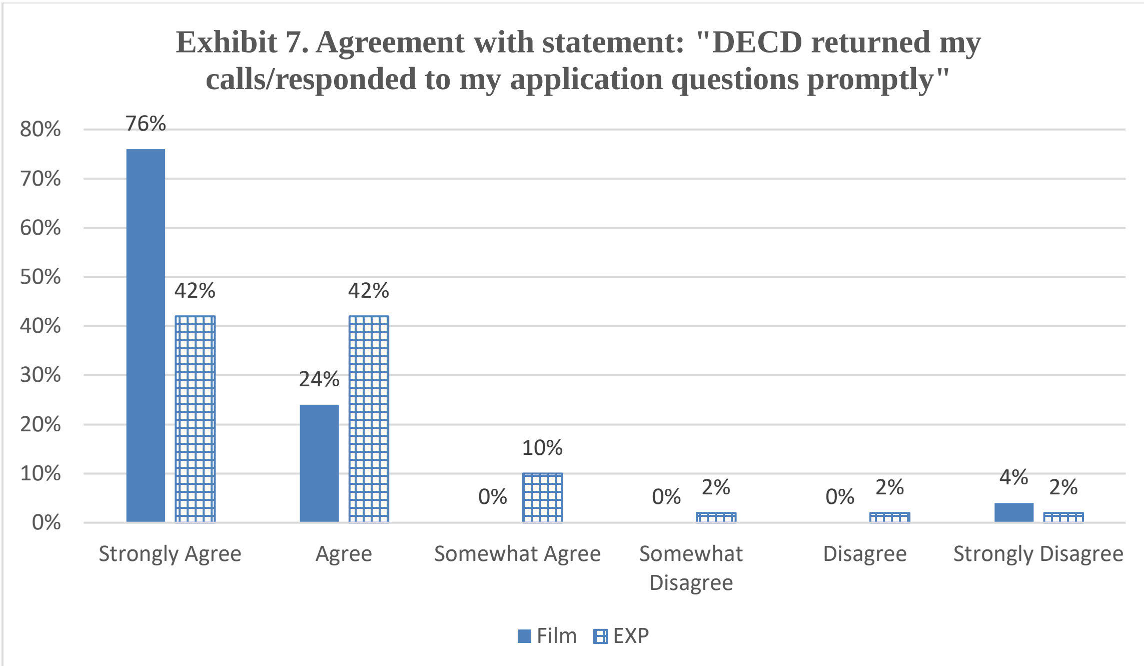
Results for Department of Economic and Community Development

Four out of 5 (80%) strongly agreed or agreed that they knew who to contact at DECD for questions about completing the application. Within the 5 types of business assistance programs interacting with DECD, the Film Digital Media Production/Infrastructure Program recipients gave DECD significantly higher ratings **(Exhibit 6).**

Exhibit 6. Agreement with statement "I know who to contact for questions about completing the application"



Four out of 5 strongly agreed or agreed that DECD answered their application process questions clearly and promptly. Within the 5 types of assistance interacting with DECD, Film and Digital Media Production/Infrastructure Tax Credit recipients gave DECD significantly higher ratings than Small Business Express Program recipients **(Exhibit 7)**.



Two-thirds (66%) strongly agreed or agreed that the application form was clear. This rating was similar across all 5 types of assistance. However, the majority (60%) believed the process was not time-consuming. This rating was similar across all 5 types of assistance.

Results for Connecticut Department of Labor (CTDOL)

Approximately 9 out of 10 (88%) Manufacturing Innovation Fund's Apprentice Program and Incumbent Worker Training Program recipients strongly agreed or agreed that they knew who to contact at CTDOL for questions about completing the application, and their questions were answered clearly.

Nearly all (96%) strongly agreed or agreed that CTDOL returned their calls and responded to their questions about the application promptly, although those in the Incumbent Worker Training Program gave CTDOL a significantly higher rating (average = 5.7) than those in the Apprentice Program (average = 5.3). Four in 5 (80%) strongly agreed or agreed that the application form was clear, and unlike those who dealt with DECD on the application process, there was a greater percentage (73% vs. 60% with DECD) who strongly agreed or agreed that the application process was not time-consuming.

Results for Connecticut Center for Advanced Technology (CCAT)

Approximately 4 out of 5 (81%) Manufacturing Innovation Fund Manufacturing Voucher Program recipients strongly agreed or agreed that they knew who to contact at CCAT for questions about completing the application. Over 9 in 10 (92%) strongly agreed or agreed that CCAT answered their application process questions clearly and responded to them promptly (94%). Four out of 5 (80%) strongly agreed or agreed that the application form was clear, and 70% strongly agreed or agreed that the application process was not time-consuming.

Recommendation: The Department of Economic and Community Development should continue to develop ways to reduce the time needed to process applications to improve administrative efficiency and address the lower ratings businesses gave in regards to the time required to complete the application. **(See Recommendation 2.)**

Agency Response: "A significant improvement in the Small Business Express program process was made earlier this year, when we changed our process to require an applicant to speak to a DECD project manager prior to applying for the program. Originally, companies were allowed to submit an application without a conversation. The department found that many applicants turned out not to meet eligibility criteria or further in the process found they were not able to meet certain expectations (e.g. collateral requirements). The initial conversation with a DECD project manager has helped determine up front which projects are likely to succeed once the application is submitted and allowed the project manager to suggest exploring other forms of assistance if the eligibility or other criteria for the EXP program were questionable.

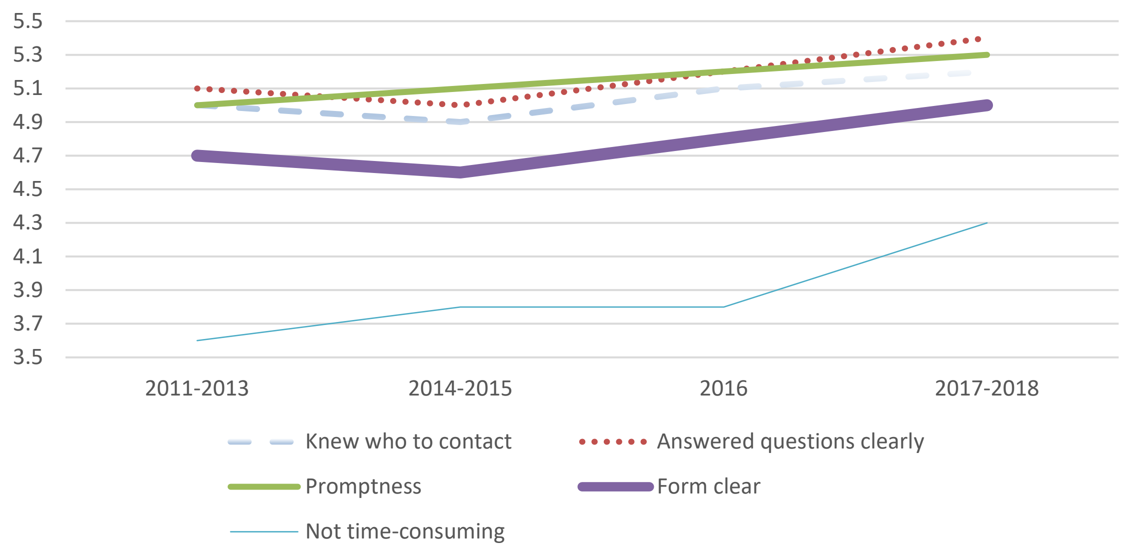
Also, improvements are being made in the documentation for the URA program further clarifying the parameters as outlined in the statute. This will likely reduce the amount of back-and-forth discussions with applicants going forward."

Auditors' Concluding Comment: While the change described by DECD will help screen out inappropriate applications, it does not address the concern raised by our survey of current recipients who told us the application process takes too long.

In all instances, we found that the CTDOL or CCAT administered assistance programs received the same or higher ratings than the DECD-administered assistance programs. Thus, even though DECD does not have direct oversight for the administration of these programs, the application process is handled effectively by CTDOL or CCAT.

We found that recipients of DECD business assistance programs administered by DECD gave increasingly favorable ratings over time, coinciding with changes DECD made from 2011-2018 **(Exhibit 8)**.

Exhibit 8. Improvement in Application-Related Ratings from 2011-2018



Finding 3: Some Small Business Express Program recipients found the application's financial information requirements and accompanying instructions unclear, which is a potential barrier in the application process.

We found that some 2011-2013 Small Business Express Program recipients had negative comments about the length of time the application process took:

- "This took from December until the following October to fund even though approval occurred in February."
- "Took over a year."
- "I was under the impression that I would receive the funds within a few weeks of applying. It ended up taking almost six months before I received the funds."

In comparison, 2016 Small Business Express Program recipients rarely mentioned concern about the time it took DECD to process applications.

Some 2016 Small Business Express Program recipients made suggestions related to the required financial information:

- "Clearer financial form"
- "Instructions for the completing the Project Financing Plan and Budget would be beneficial."
- "The Project Financing plan and Budget worksheet was difficult to manage."

Recommendation: The Department of Economic and Community Development should clarify the Small Business Express Program financial requirements and accompanying instructions to improve administrative efficiency and speed up the application process. **(See Recommendation 3.)**

Agency Response: "A significant improvement in the Small Business Express program process was made earlier this year, when we changed the process to require to speak to a DECD project manager prior to applying for the program. Originally, companies were allowed to submit an application without a conversation. The department found that many applicants turned out not to meet eligibility criteria or further in the process found they were not able to meet certain expectations (e.g. collateral requirements). The initial conversation with a DECD project manager has helped determine up front which projects are likely to succeed once the application is submitted and allowed the project manager to suggest exploring other forms of assistance if the eligibility or other criteria for the EXP program were questionable. In addition, DECD project managers will review the financial requirements of the applicants up front.

The DECD website is continuously updated and provides information on the requirements of the program (see also Procedures and Guidelines and FAQ documents on DECD.org)."

Auditors' Concluding Comment: By reviewing and making the financial requirements and instructions as clear as possible, small businesses and DECD personnel may save time.

Funding

Businesses rated 3 areas of funding "Excellent," "Good," "Fair," or "Poor." They rated these funding areas: time it took to be informed whether their application was approved; funding decision method of notification; and funding amount received.

As was the case with the application process, there were 3 agencies that businesses were in contact with regarding funding: (1) DECD (Small Business Express Program, Urban and Industrial Site Reinvestment Tax Credit, Manufacturing Assistance Act Program, Film Digital Media Production/Infrastructure Tax Credit, and Brownfield Remediation and Redevelopment Program); (2) CTDOL (MIF-Apprentice and MIF-Incumbent Worker Training programs); and (3) CCAT

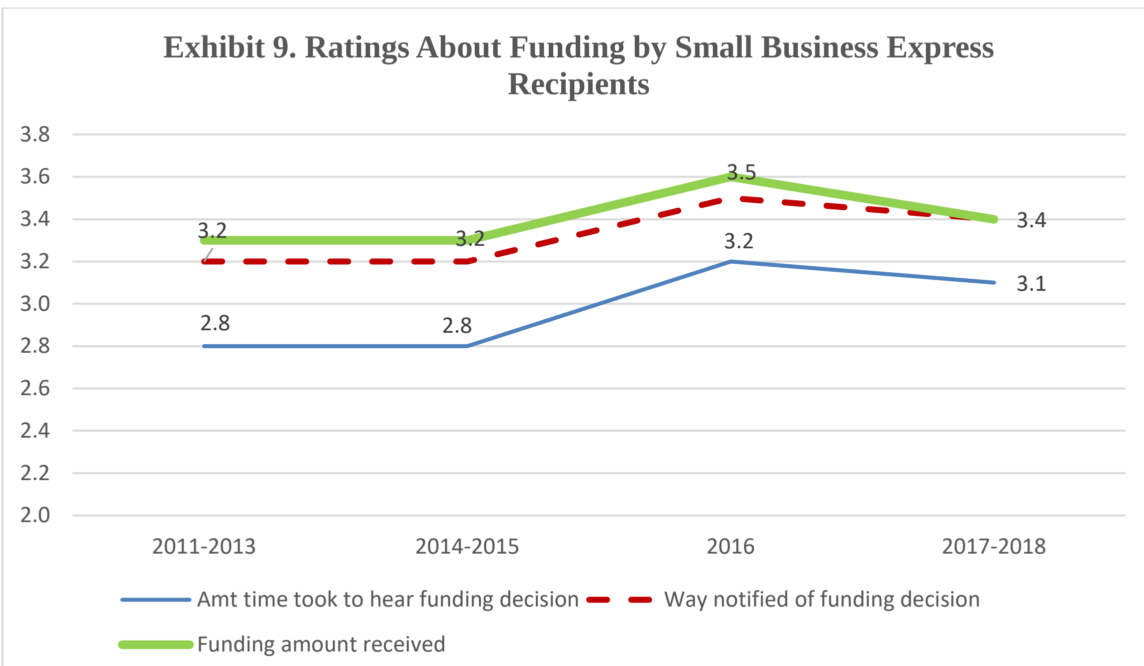
(MIF-Manufacturing Voucher Program). We performed separate analyses for these 3 agencies and calculated averages using the scale 1=Poor, 2=Fair, 3=Good, and 4=Excellent.

Results for Department of Economic and Community Development

We found that approximately 7 in 10 (72%) gave an Excellent or Good rating regarding the length of time it took for DECD to inform them whether their application was approved, and 9 in 10 (89%) gave DECD an Excellent or Good rating for the way it notified them of the funding decision.

Respondents also gave favorable ratings to the amount of funding they received from DECD (87% gave an Excellent or Good rating). Within the 5 types of assistance, Small Business Express Program recipients gave a significantly higher rating (88% Excellent or Good) compared with businesses in the Manufacturing Assistance Act program (76% Excellent or Good).

Exhibit 9 shows a significant improvement in Small Business Express Program recipient funding-related ratings from 2011-2013 and 2016.



Results for Connecticut Department of Labor

Approximately 9 out of 10 (88%) Manufacturing Innovation Fund's Apprentice and Incumbent Worker Training program recipients gave CTDOL an Excellent or Good rating for the length of time it took for CTDOL to inform them whether their application was approved, and for the amount they received (91%). Nearly all gave a favorable rating to the way CTDOL notified them of the funding decision (96% Excellent or Good rating).

Results for Connecticut Center for Advanced Technology

Nine out of 10 (90%) Manufacturing Innovation Fund Manufacturing Voucher Program recipients gave an Excellent or Good rating for the amount of time it took for CCAT to inform them whether their application was approved. Nearly all (96%) gave an Excellent or Good rating for both the way CCAT notified them of the funding decision and the amount they received.

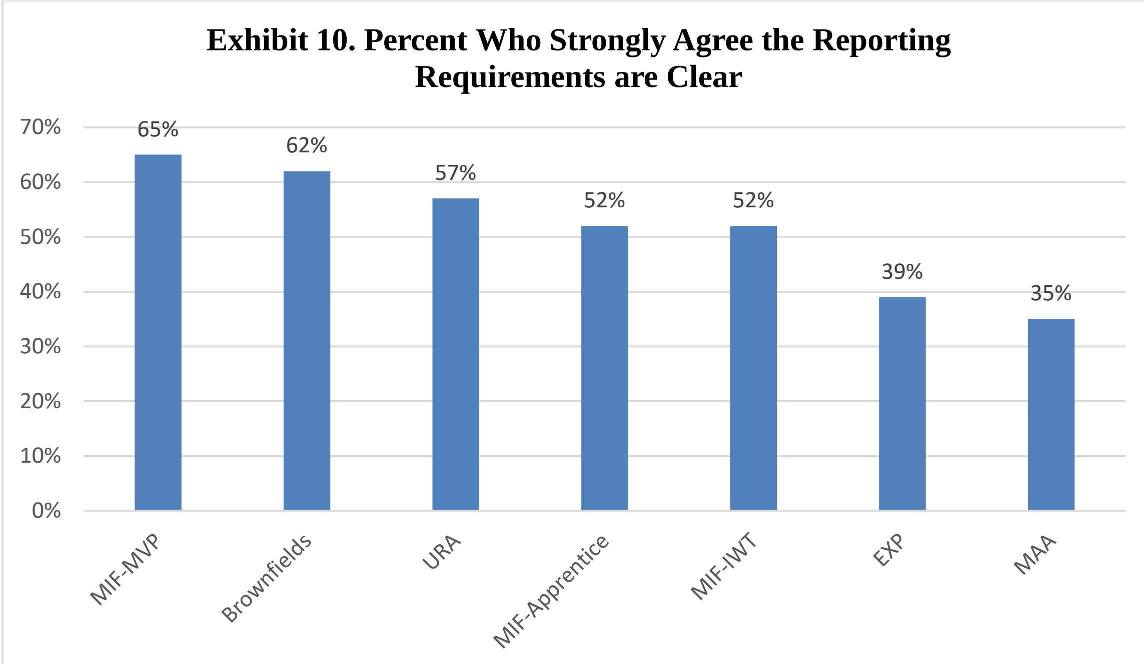
Reporting Requirements

Finding 4: Small Business Express and the Manufacturing Assistance Act program recipients rated clarity of reporting requirements relatively low, creating potential challenges for recipients of these programs.

Using a scale from 1 (most negative) to 5 (most positive), we asked businesses to rate aspects of the reporting requirements as a condition of assistance. Reporting requirement questions pertained to clarity of the requirements, knowledge of who to contact with questions about the requirements, promptness of answers to related questions, and overall rating of assistance provided with questions about the reporting requirements.

Since the reporting requirements may vary by agency and program, we analyzed the average ratings by agency and program, and noted differences where they occurred. The Film and Digital Media Production/Infrastructure Program has no reporting requirements; however, we asked recipients to rate areas associated with the process for transfer or carry-forward of tax credits.

Overall, businesses rated the clarity of reporting requirements highly (average rating of 4.1 out of 5). There were differences across the 7 types of assistance, however, with recipients of Small Business Express and Manufacturing Assistance Act program recipients giving ratings relatively lower than recipients of, for example, the MIF-Manufacturing Voucher Program-MVP **(Exhibit 10)**.



Recommendation: The Department of Economic and Community Development should review the current reporting requirements for the Small Business Express and the Manufacturing Assistance Act programs to improve administrative efficiency and effectiveness and promote greater ease for recipients to meet program reporting requirements. The department should develop techniques to clarify the reporting requirements and how it informs recipients about the requirements. **(See Recommendation 4.)**

Agency Response: "DECD was encouraged to see that the survey results reflected a 4.5 overall rating for reporting requirements and clarity of reporting requirements was rated at 4.3 in 2017-2018 (on a scale of 1-5). A clear positive trend from 2014-2015 scores of 4.1 and 3.7 respectively.

Reporting requirements are now specifically discussed by Project Managers up front when they initially discuss the financial assistance programs with prospective clients.

DECD will add a one-page overview of reporting requirements to the DECD website, explaining the job audit, project audit and annual survey requirements and timelines."

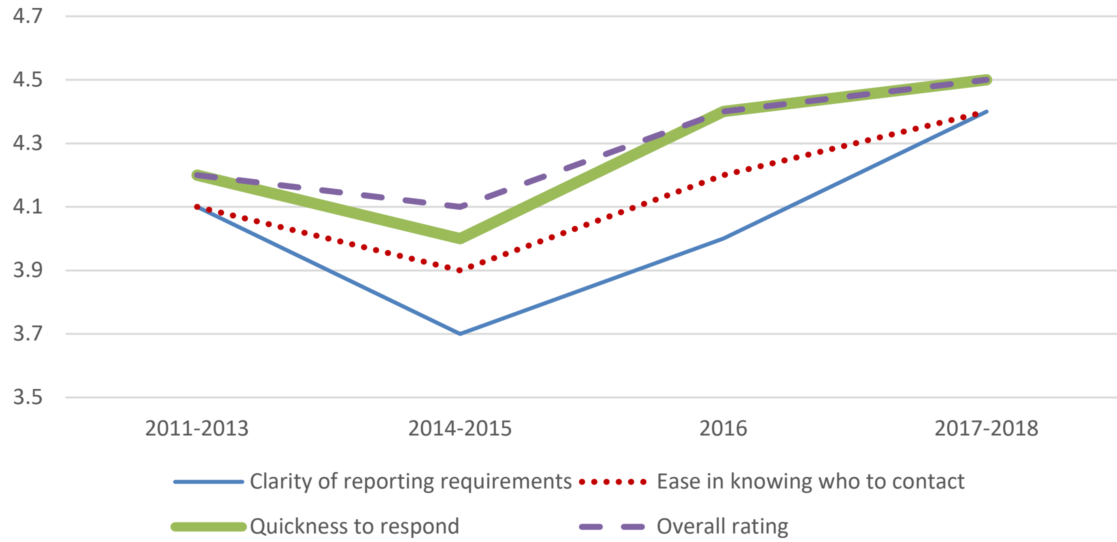
Overall, businesses rated the ease in understanding who to contact for questions about reporting requirements highly (average rating of 4.3 out of 5). There were differences across the 7 types of assistance, with Small Business Express and Manufacturing Assistance Act program recipients providing significantly lower ratings (average = 4.1 and 4.0, respectively) compared to the recipients of the Manufacturing Innovation Fund's Manufacturing Voucher (average = 4.6) and Incumbent Worker Training programs (average = 4.8).

Businesses also gave high ratings (average rating of 4.3 out of 5) regarding how promptly agencies responded to reporting requirement questions. Small Business Express Program recipients gave significantly lower ratings (average = 4.2) compared to recipients of the MIF Manufacturing Voucher Program (average = 4.7).

Businesses rated the assistance provided regarding reporting requirement questions highly overall (average rating of 4.4 out of 5). Small Business Express Program recipients gave significantly lower ratings (average = 4.2) than MIF's Incumbent Worker Training (average = 4.6) and Manufacturing Voucher programs (average = 4.7).

Despite the somewhat lower reporting requirement ratings given by Small Business Express Program recipients, **Exhibit 11** shows a trend of improved ratings over time.

Exhibit 11. Reporting Requirement Ratings for Small Business Express Recipients: 2011-2018



Suggestions. The recipients surveyed made few specific suggestions for DECD to improve its assistance with reporting requirements. Small Business Express Program recipients, the largest group of responders, made a number of suggestions to improve assistance with reporting requirements. The suggestions focused on notification of reporting requirements including:

- "A complete layout of the requirements with dates and time frames would be helpful."
- "Knowing the audit process up front would have saved me weeks of time…"
- "Email reminders to notify us when something is due would be helpful."
- "Reporting requirements should have been made clear right at the beginning so I knew what documents to save for these reports."

- "Provide the actual forms at the time of the award. That will allow us to track the information as we go through the year instead of having to go back and research."

Film and Digital Media Production/Infrastructure (Film)

We asked Film Tax Credit recipients to rate the process for transfer or carry-forward of tax credits in the following 5 areas: clarity of process, knowledge of who to contact with a question about transfer or carry-forward, promptness with which DECD responded to questions, overall assistance provided in this area, and efficiency in the re-issuance of tax credits.

All average ratings were above 4 on the 5-point scale. Recipients gave especially favorable ratings to ease in understanding who to contact, quickness in responding to questions about the transfer or carry-forward of the Film Tax Credits, and overall rating in this area (all had an average of 4.7 out of 5).

Actions Taken by Agency if Business did not Meet Reporting Requirement

Exhibit 12 shows responses from businesses who described what actions the agency took (i.e., DECD/CTDOL/CCAT) if the business did not meet reporting requirements. More than 1 response could be selected. The most frequent response was that the agency helped the business come into compliance.

Exhibit 12. Actions Taken if Reporting Requirements Not Met

Agency (DECD/CTDOL/CCAT)	EXP (n=439)	MAA (n=35)	MIF-Apprentice (n=31)	MIF-IWT (n=64)	MIF-MVP (n=145)	Brownfields (n=9)
Helped us come into compliance	15%	14%	13%	5%	8%	33%
Terms of assistance were modified	8%	3%		6%	1%	
Reduced # of jobs required	2%	6%				
Repaid some/all assistance	5%			2%	2%	
Local/regional association helped us	2%					

Additional Feedback

Businesses responding to the survey had an opportunity to provide any additional feedback. **Exhibit 13** shows the programs with additional feedback from at least 10 recipients. Due to the changes in the Small Business Express Program, we separated this feedback into 2 periods: 2011-2015 and 2016-2018.

Exhibit 13. Additional Feedback from Survey Recipients Receiving MIF-IWT, MIF-MVP, and EXP			
MIF-Incumbent Worker Training • Positive comment about program (8) • Positive comment about staff (5) • Paperwork time-consuming (3)	MIF-Manufacturing Voucher Program • Positive comment about program (30) • Example of how MVP helped the business (13) • Would like additional MVP assistance/increase lifetime limit (5) • Application processing time too slow (4)	Small Business Express (2011-2015) • Positive comment about program (34) • Positive comment about staff (15) • Application processing time too slow and/or complicated (12) • Confusion about the agreement and requirements (9) • Too much required paperwork (8) • Expenses associated with assistance too high (7)	Small Business Express (2016-2018) • Positive comment about program (16) • Positive comment about staff (9) • Application processing time too slow and/or complicated (6)

Responses from Telephone Interviews

We asked the tax credit recipients to provide feedback on the areas covered in our surveys. All comments were quite favorable. There were no suggestions for improvements.

The next 2 sections of this report provide an in-depth review of the administration of the Urban and Industrial Site Reinvestment Tax Credit (URA) Program and Small Business Express Program. This evaluation fulfills the third requirement of Section 2-90c (c) of the General Statutes and provides recommendations for improving the administrative efficiency and effectiveness of these programs.

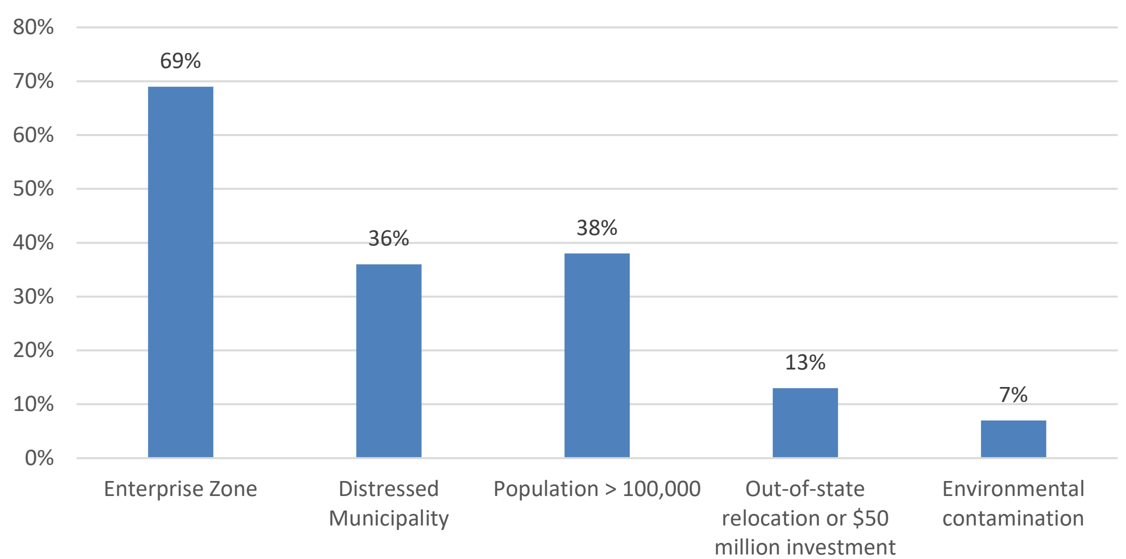
RECOMMENDATIONS FOR IMPROVING ADMINISTRATIVE EFFICIENCY AND EFFECTIVENESS OF THE URBAN AND INDUSTRIAL SITE REINVESTMENT TAX CREDIT (URA)

Overview of Urban and Industrial Site Reinvestment Tax Credit

Eligibility for the URA tax credit – Public Act 00-170 created the Urban and Industrial Site Reinvestment Tax Credit Program in 2000 to target investment in the state's urban centers (i.e., located in an enterprise zone, distressed municipality, or in a city with a population over 100,000) or remediate environmentally contaminated sites anywhere in Connecticut. These investments are intended to increase employment and municipal and state tax revenues, and return environmentally contaminated properties to viable conditions to generate new economic activity. The first URA tax credit was approved in 2004.

In 2006, Public Act 06-184 exempted projects from these requirements if (1) the DECD commissioner determines that it is associated with an operation relocating from another state or (2) they involve the expansion of an existing facility requiring a minimum $50 million investment. Thus, beginning in 2006, projects unrelated to investing in the state's urban centers or remediating environmentally contaminated sites could qualify for the Urban and Industrial Site Reinvestment Tax Credit. There are currently 5 businesses that qualify for the URA tax credit solely because the businesses relocated from another state or invested at least $50 million to expand an existing Connecticut facility. **Exhibit 14** shows the eligibility requirements recipients met to qualify for the URA tax credit. Businesses can meet more than one eligibility requirement.

Exhibit 14. Eligibility Requirements Met by URA Tax Credit Program Recipients



Other entities statutorily permitted – According to DECD, the URA tax credit statute also permits the following entities or projects:

- Funded directly by including at least $2 million in a project of at least 4 housing units that preserves an historic facility and redevelops that facility for mixed use;
- Financed through a DECD-approved fund manager with an account created for investing in URA projects. The projects must have a total asset value of at least $60 million for the income year in which the initial tax credit is taken, and at least 3 unrelated investors. DECD has never registered a fund manager to make URA investments; and
- Funded through a DECD-approved community development entity (CDE). DECD has not registered any CDE as of August 31, 2018.

As of October 15, 2018, none of these statutorily permitted entities has conducted one of these projects.

Minimum capital investment obligation - To qualify for the tax credit, businesses are required to show a minimum capital investment of $5 million if the property is in a targeted investment community, distressed municipality, enterprise zone, or municipality with a population over 100,000. For all other properties, the minimum investment is $50 million.

Employment objective - In addition to the capital investment obligation, there is also an employment objective. For example, in exchange for $3 million in URA tax credits, a business could commit to spending $30+ million on an expansion project that will remediate an environmentally contaminated site and create 600 new jobs. In 2015, DECD began to incorporate specific annual job requirements into agreements rather than looking at jobs created over several years.

Size of URA tax credit - There is a cap of $950 million in total URA tax credits, and no individual project may be awarded more than $100 million. A business may receive more than one URA tax credit, but the projects must be in different parts of the state. With the exception of First Five Plus Program projects (allows for substantial financial assistance for large-scale business projects to encourage business expansion, relocation and job creation), the General Assembly must approve projects awarded over $20 million in URA tax credits.

Claiming URA tax credit - While businesses are permitted up to 10 years to spend funds and earn the tax credit, the expenditure for the project or investment often occurs in the first few years. Year 1 is defined as when the project begins, which is often prior to the date the contract is fully executed.

Approved businesses can apply to DECD for a certificate of eligibility for the URA tax credit in Year 4 of the 10-year period according to the following schedule in statute:

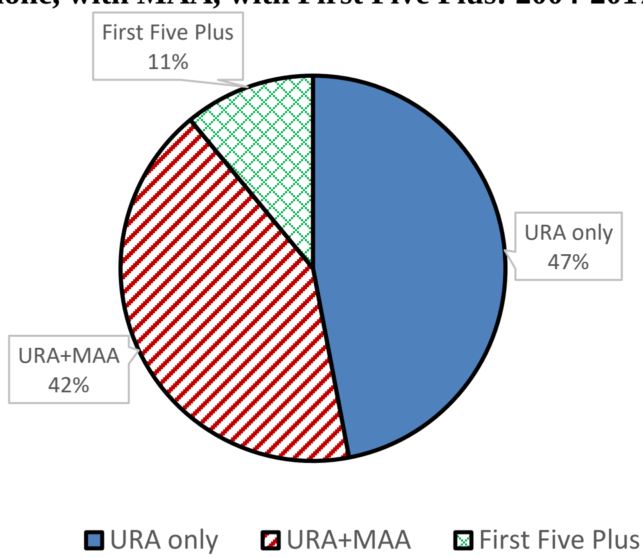
- The income year in which the investment was made and the 2 succeeding income years, 0% (Years 1-3);
- The third full income year following the year in which the investment was made and the 3 succeeding income years, 10% of the credit amount (Years 4-7); and

- The seventh full income year following the year in which the investment occurred and the two succeeding income years, 20% of the credit amount (Years 8-10).

The tax credits can be carried forward for 5 years or sold to another corporate taxpayer.

Companies receiving the URA tax credit - From its inception through June 30, 2017, DECD has awarded 42 businesses a total of 45 URA tax credits valued at $692.5 million. **Exhibit 15** shows that 42% of URA tax credit recipients also received Economic and Manufacturing Assistance Act (MAA) assistance (direct loans for projects DECD identified as having strong economic development potential), and 5 (11%) received URA tax credits as part of the First Five Plus Program. The median amount of tax credits was $10 million, with a range from $1.5 million to $100 million.

Exhibit 15. Number of Companies Receiving URA Tax Credits Alone, with MAA, with First Five Plus: 2004-2017



Publicizing URA to Potential Applicants

How the URA tax credit is publicized - The tax credit is described on the DECD website, including an overview of URA, amount and schedule of the credit, eligibility requirements, and salability and carry-forward options.

Given the size of the award, this form of assistance is targeted toward large businesses. DECD uses it as a tool, often in conjunction with additional forms of assistance (e.g., MAA), to lure or retain large businesses. It is often part of a competitive offer to a business that is considering relocation to Connecticut.

Surveyed URA tax credit recipients told us they heard about the tax credit program through a DECD project manager, the DECD or other website, or word of mouth. Although there is a description of URA on the DECD website, the department does not inform businesses that they may apply directly. Initial business contact with DECD is often made through business consultants, site selectors, or commercial real estate professionals. These initial conversations may occur through meetings with the DECD commissioner, Governor, or a legislator. The meetings help DECD understand what the corporation is looking to accomplish with an expansion or relocation project. During this phase, DECD project managers provide technical and logistical assistance, helping with site selection, for example. The DECD website identifies contact information for "DECD ambassadors" assigned by county to connect businesses with needed resources, build relationships, and familiarize them with various types of available business and technical assistance programs and tax incentives. Should the business express interest following these preliminary discussions, then it is asked to complete an official application for business assistance.

Finding 5: The Department of Revenue Services website instructs those interested in the Urban and Industrial Site Reinvestment Program to contact the Department of Economic and Community Development for a pre-application. However, DECD no longer uses a pre-application process. This may confuse interested businesses.

The URA tax credit is also publicized on the Connecticut Department of Revenue Services website. The website instructs interested parties to call DECD and request the Urban and Industrial Site Reinvestment Program pre-application. The completed pre-application will then be reviewed by DECD, and an employee will contact the interested business to explain the formal application process. The DRS website states that completion of the pre-application is not part of the formal URA tax credit application. Within the past year, the department determined that it would be more efficient to eliminate the pre-application process.

Recommendation: The Department of Economic and Community Development should notify the Connecticut Department of Revenue Services of the elimination of the Urban and Industrial Site Reinvestment Tax Credit pre-application process to reduce potential confusion and improve administrative efficiency. DECD should notify the Department of Revenue Services to amend its website accordingly. **(See Recommendation 5.)**

Agency Response: "We have notified DRS and requested the necessary update."

Processing URA Applications

DECD assigns project managers, located in the Office of Business Development (OBD), to guide businesses through the application process. As of August 2018, there were 4 full and 2 part-time project managers that have experience with the URA application process. The project managers are certified through economic development professional training from the National Development Council, and help develop the assistance packages. Project managers may be significantly involved in the project or may just provide information to the DECD commissioner if the project is confidential and the commissioner has taken the lead. DECD assigns project managers based on the geographic location and the strategic industry cluster it falls into. Those clusters include: insurance/financial services; green technology; bioscience; digital media; advanced manufacturing; or tourism.

As is the case for the Small Business Express Program, there is no initial application specifically for URA or any other tax credits. If the initial discussions with the DECD commissioner and/or other DECD personnel involved in these high-level negotiations progress, the business then completes an application for financial assistance. The application is for business assistance rather than a particular program or tax credit, and the business specifies the amount of requested financial assistance. The statute requires the business to submit an application to DECD containing certain information under section 32-9t(e) of the General Statutes. The 4-page application requires businesses applying for assistance to provide the following information:

- General description of the business, including type of business, business ownership, and gross sales/receipts;
- Amount of financial assistance and services requested (e.g., technical assistance, licensing and permitting, workforce development, etc.);
- Full and part-time jobs to be retained and created in Connecticut;
- Project description, including costs and sources of funding in addition to DECD;
- Required documents (e.g., a letter of good standing from the Connecticut Department of Revenue Services, business plan, and CPA prepared financial statements for the most recent 3 years and 5-year projections);
- Outstanding environmental and OSHA compliance issues; and
- Unpaid taxes.

Finding 6: The DECD application for business assistance instructions do not match the application form, making it potentially confusing for businesses to complete the form.

The application instructions page appears after the application cover page. The instructions are numbered 1-17. The numbered instructions are intended to coincide with the questions on the application form, stated at the top of the page “Please refer to the instructions on the previous page.” However, there are 24 items on the application form. After item 13 (Project Description), the instructions and application items no longer correspond. For example, item 15 on the application instructions (Conventional Financing) is item 21 on the application form.

Also, the instructions for particular application items do not fully match the requested information on the corresponding item on the application form. For example, item 10 in the application instructions states, “Employment: Current number of employees and the number of full-time employment to be created within 3-5 years after the start of the project. Item 10 on the application itself states: Connecticut Employment, and requests current number of full-time and part-time jobs (additional column to identify number of minority employees) and projected number of full-time and part-time Connecticut jobs to be retained and to be created.” The instructions only mention full-time employment whereas the application itself asks for information on both full and part-time jobs.

Respondents to the APA survey rated DECD quite favorably when we asked if they knew their DECD contact, had their questions answered, and calls returned in a timely manner. They gave slightly less favorable ratings for the clarity of the application form and the length of the application process. The discrepancies between the instructions and the application form could lead to less clarity and potential confusion for businesses.

Recommendation: The Department of Economic and Community Development should revise its Application for Business Assistance instructions to match the application form to improve the administrative efficiency of the application process. **(See Recommendation 6.)**

Agency Response: "DECD agrees with the finding and will update the instructions to match the actual application."

Selecting URA Recipients

The selection of URA recipients - According to section 32-9t(f)(1) of the General Statutes, the DECD Commissioner determines whether the proposed project is eligible for a URA credit by considering the following factors:

- Whether the project could only be economically possible if it had the tax credit;
- What effect the project would have on the municipality where the project is to be located;
- Whether there would be a net benefit to the state's economic development and employment; and
- Whether the project would meet requirements specified in the state's conservation and development plan.

The DECD Commissioner can also require additional information needed to assess the application.

The selection of businesses to receive the URA tax credit is a multi-step process. After receipt of the application and the various documents required in the application package (e.g., 3 years of audited financials, business plan, etc.), the DECD Office of Financial Review and Compliance (OFR) completes a financial review. In addition to the application form itself, the applicant also submits the Economic Impact Analysis (EIA) Worksheet, a form that contains information on existing and projected new employees, wages, benefits, corporate taxes, and planned capital expenditures. The office indicates what concerns the applicant should address before the project can be considered further.

Economic analysis – DECD uses an economic impact analysis called the Regional Economic Models Inc.(REMI model). The REMI model is calculated on a per project basis by the DECD economist, using information from the EIA worksheet. The model projects the amount of net revenue the project will bring to Connecticut.

DECD uses the REMI model to ensure that the total economic value of the project exceeds the tax credit value. DECD examines 3 types of impact:

- Direct impact—net revenues based on projected payroll and sales and use tax
- Indirect impact—such as construction worker payroll, supplies, etc.
- Induced—assumed spending company employees will do (e.g., purchase clothing and food)

DECD emphasizes its decisions, related to the amount and type of financial assistance, on the direct value of a project over a 10-20 year time period. In 2017, DECD began using the Tax Policy Insight (PI) version of the REMI model. This contains Connecticut-specific data when making assumptions about the project. Prior to 2017, the DECD REMI model made generic assumptions, but Connecticut is not like other states. We asked DECD to summarize its REMI model. DECD stated:

> "The REMI/Tax PI model is a structural economic forecasting and policy analysis model built for DECD using CT state data. Its underlying economic data reflects the historic and current state of the CT economy and is used to predict economic impacts. When DECD proposes to provide financial assistance to a company for making capital investments or growing jobs in the State, the model is able to estimate, among other things, how the State's revenues and expenditures are impacted over time (the fiscal impact), and therefore help determine whether the proposed investment will have a positive impact or a negative impact on the State's net revenues.
>
> The model's results reflect the total economic impact of the event we are modeling. The fiscal results therefore incorporate the 'direct' impacts to state net revenues (e.g. increase in payroll taxes from the new jobs, principal and interest payments from the company on a DECD loan versus the principal and interest on bond the State buys to finance the loan), the 'indirect impacts' (for example, the payroll taxes from the construction jobs needed to build a new building) and the 'induced impact' (for example, revenues generated when new employees at the company and those filling indirectly created jobs spend their income on food, clothing and other items which would generate sales tax revenue to the State)."

Based on the results of the REMI model, the package DECD will offer to the business may include a URA tax credit, a loan (e.g., MAA), or a combination of URA and MAA. Sometimes, DECD offers other forms of assistance too.

Letter of Intent Committee (LOI) - DECD convenes a Letter of Intent (LOI) Committee meeting to discuss company projects and the proposed financial assistance. The LOI Committee that deliberates awarding URA tax credits, considers all large business applications, and is separate from the Small Business Express Program LOI Committee that reviews smaller business projects.

The committee membership includes a deputy commissioner, executive director of the Office of Business Development, the associated project manager, the project manager's supervisor, representatives from the Office of Financial Review and Compliance, and the Connecticut Innovations Managing Director of Strategic Investments. The DECD commissioner sometimes attends the committee meeting.

After the due diligence and economic impact analysis, the project manager, in consultation with the supervisor and DECD personnel from the Office of Financial Review and Compliance, prepares an offer. The offer may only include URA tax credits, or additional incentives such as MAA or sales and use tax exemptions. Alternatively, the project manager may request a meeting with the LOI Committee to discuss the project prior to preparing a proposed letter of intent offer.

DECD informed us that approximately 50% of the time, it takes more than one LOI Committee meeting to develop a funding decision on a project, depending on the complexity of the project. They also informed us that it is rare that a project is rejected outright, because the project manager initially vets eligibility, eliminating submission of URA or MAA applications that the committee would ultimately deem unacceptable. Occasionally, DECD receives an unsolicited application for a URA tax credit that a consultant may have encouraged a client to submit. However, DECD could not provide a specific example of a time when this occurred. Sometimes, the LOI Committee requests additional information from the applicants.

The project manager presents a recommended package to the LOI Committee for consideration. The committee deliberates and may approve the presented package or approve it in modified form before making a recommendation to the DECD Commissioner. The recommendation may include either a tax credit summary letter to businesses only receiving the URA tax credit, or an assistance agreement (contract) for businesses receiving both the URA tax credit and MAA assistance. In 2014, DECD determined that it can rely on statutory language and a summary letter rather than an assistance agreement for businesses only receiving URA tax credits.

We observed a LOI Committee meeting. The project manager provided background information about the project and members of the LOI Committee asked questions that the project manager and other members familiar with the company or project answered. A member of the Office of Financial Review and Compliance reviewed his questions and concerns. Each was discussed and resolved to the satisfaction of the committee. In some instances, the project manager agreed to obtain additional information from the company. In other instances, the concerns had already been addressed. The discussion included a review of the amount requested, the cost per job, and the number of jobs to be created. Given certain financial considerations, the committee recommended less assistance than what the project manager originally recommended. The committee noted that a new REMI model would need to be run with the reduced assistance. However, given that the net result was favorable to the state with the original level of assistance, a new REMI analysis with lesser assistance would not have a net negative result.

DECD developed a template for letters of intent for businesses offered the URA and MAA assistance. The template letter of intent contains the following:

- DECD direct assistance in the form of a 10-year loan;
- Possible loan forgiveness eligibility, depending on the number of full-time jobs retained and created;
- Grant disbursement;
- URA tax credits, proportionately available in years 4-10; a provision allowing the sale or transfer to another corporate taxpayer; an explanation of the ability to carry forward earned tax credits for 5 consecutive years;
- Capital investment amount and purpose; and
- Fees to be paid to DECD.

Finding 7: The Department of Economic and Community Development did not keep minutes or other formal documentation to record discussion and decisions at Letter of Intent Committee meetings, leading to a lack of information on the committee's rationale, should a decision be questioned in the future.

DECD informed us that the LOI Committee usually meets weekly, and documentation of decisions may be located in the individual files, where multiple versions of the letter of intent, for example, may be found. However, there are no minutes or other formal documentation used to record decisions made in preparing packages for businesses. Should a future question arise, there would be no way of knowing exactly what the committee discussed to arrive at its decision.

Recommendation: The Department of Economic and Community Development Letter of Intent Committee should document the rationale for its decisions to improve administrative efficiency and effectiveness. The committee should prepare and keep minutes of its meetings in case questions arise in the future. **(See Recommendation 7.)**

Agency Response: "Please see the response to Finding # 27."

The offer – Once the Letter of Intent Committee agrees on an offer, the project manager prepares a letter of intent for the commissioner to review and sign. If the commissioner accepts the letter of intent, DECD will make the offer to the business. The letter of intent describes the assistance DECD is willing to offer, but does not contain contractual language. DECD developed a template for letters of intent, so they are all uniform. The business can choose to accept the proposed URA tax credit offer in the letter, negotiate modification of the tax credit amount, reject the URA tax credit in favor of another incentive, or no longer pursue funding. The negotiation process between DECD and the business may result in multiple letters of intent until there is a signed agreement containing a package acceptable to both parties.

No contract is required for letters of intent that contain only URA tax credits, and external legal counsel is not required. The project manager drafts the letter of intent, which is reviewed by the supervisor and potentially the DECD financial office. Prior to 2016, the proposed offer would then go directly to the commissioner for approval or rejection. The additional step of requiring review by the Letter of Intent Committee has been in place for approximately 2 years. There are also no additional legal fees required for businesses that only receive the URA tax credit.

Once the letter of intent has been signed for packages that have both Manufacturing Assistance Act (MAA) and URA, the DECD Legal Department assigns an attorney or outside law firm approved by the Office of the Attorney General, to draft a contract based on the letter of intent. The external attorney issues the first draft of the contract. There are typically modifications to the contract, and the revised drafts are then issued for review. Businesses receiving both URA and MAA assistance must pay the external attorney's legal fees. DECD estimated these fees average $5,000. This is in addition to the $10,000 application fee.

DECD generates a final tax credit allocation summary letter or assistance agreement, depending on whether the URA tax credit is combined, for example, with the Economic and Manufacturing Assistance Act Program. The terms and conditions may include a commitment to retain operations in Connecticut for 10 years, an agreement to abide by specific job creation and retention requirements, and an agreement to annually provide the state with a report on jobs, salaries, and investment of capital.

The Office of the Attorney General (OAG) approves larger contracts in which there is a material deviation from the standard contract language. OAG signed off on 36 of the 41 assistance agreements (88%) we reviewed. OAG approval is limited and is labeled "Approve as to Form." The OAG sign-off is not statutorily required. It does not appear to slow down the process significantly. We calculated that it averaged 14 days for OAG sign-off.

In addition to signing off on many of the URA tax credit assistance agreements, OAG may also consult with DECD if a company has been acquired, and DECD needs to determine who is assuming responsibility for the job requirements associated with the tax credit. Other times, a business may close or go bankrupt, and DECD must determine the ramifications to the URA tax credit and other assistance. OAG may suggest outside counsel for a bankruptcy or foreclosure action.

Finding 8: The DECD Commissioner is statutorily required to render an approval decision on a URA project within 90 days of receipt of the application. However, DECD does not track the time between application and the decision.

Section 32-9(g)(1) of the General Statutes requires the DECD Commissioner to render a decision on the acceptance or rejection of URA tax credit application within 90 days of receipt. The date of the letter of intent (i.e., offer) is considered the DECD commissioner's approval date. **Exhibit 16** shows the number of days between the date of application and the date of the letter of intent for 33 businesses for which this information was available. Businesses completed their applications after approval for 45% of the projects.

Exhibit 16. Number of Days Between Application and DECD Approval

	Including Approvals That Occurred Prior to Application Submission	Excluding Approvals That Occurred Prior to Application Submission
1-90 days	4 (12%)	22%
91-180 days	9 (27%)	50%
181-365 days	2 (6%)	11%
> 365 days	3 (9%)	17%
<=0 days	15 (45%)	
Total	33 (99%)	100%

We obtained the information in **Exhibit 16** from individual project files because there is no centralized tracking system to monitor the length of the approval process. Longer delays between application and decision increases the likelihood there could be changes in the company's circumstances. This increases the chance that DECD makes its decision using out-of-date information.

Recommendation: The Department of Economic and Community Development should track the duration of the Urban and Industrial Site Reinvestment Tax Credit application process to determine whether it is in compliance with the 90-day statutory approval requirement and to improve the program's administrative efficiency. DECD should include this information in its annual report. **(See Recommendation 8.)**

Agency Response: "The Agency disagrees with the finding that DECD does not track the time between the receipt of a complete application and the approval decision. At the time of the audit, both the date when the completed application is received and a decision on a URA Tax Credit is issued were tracked in the Office of Business Development's (OBID) Access database.

DECD has implemented a CRM application which enhances efficiency by automating the tracking of all measurement points in the life of a project. For projects which include a URA Tax Credit, tracking within CRM includes the date on which a fully completed application was received, eligibility review, issuance of a Letter of Intent, and issuance of Certificate of Tax Credit Eligibility."

Auditors' Concluding Comments: DECD initially agreed with our recommendation. The department updated its response on May 3, 2019 and now disagrees.

While DECD indicates it tracks the time between the receipt of a complete application and the approval decision, we found that the department only records certain dates, and does not track for compliance with its 90-day statutory decision deadline. The Client Relationship Management (CRM) application did not include information about the URA Tax Credit

Program during the audited period. Therefore, we are unable to conclude whether CRM will address these concerns.

Finding 9: The DECD Commissioner did not issue an approval decision within 90 days of application in 78% of cases when an application was submitted prior to approval.

We could not readily find signed and dated applications for 12 of the businesses that received URA tax credits. In many instances, the company does not submit an application in advance of the letter of intent. This reflects the nature of negotiations with large corporations that may not complete an application until they have agreed on the parameters of an assistance package with DECD.

DECD told us that the reason the 90-day threshold is not being met is because businesses often submit incomplete applications that require additional information. According to DECD, a business can sometimes take several months to respond to requests for missing financial information. DECD cannot process an application further until it contains all required information and is considered complete.

Recommendation: The General Statutes should be amended to require the Department of Economic and Community Development Commissioner to issue a decision on a complete application not later than 90 days from its receipt. **(See Recommendation 9.)**

Agency Response: "We agree with the suggestion that the 90 day window should reflect the moment from when the application was received 'In Good Order' (see comment under finding #14). However, DECD does not believe an update to statute is required for DECD to interpret 'Application Received' in this way."

Auditors' Concluding Comments: While current DECD personnel may interpret receipt of an application to be synonymous with an application received "In Good Order," we are not sure it is consistent with current statutory requirements. Therefore, it is appropriate for the statute to be amended to clarify this issue.

Finding 10: The Department of Economic and Community Development is not following the statutory requirement to identify the reasons for rejection of an application for business assistance. This creates a risk that supporting documentation is not readily available should future questions arise.

The DECD commissioner is statutorily required to identify the reasons for rejection of an application for business assistance. DECD informed us that this is not currently occurring. There have been instances in which a request for business assistance has been rejected. However, DECD does not document these rejections or the reasons for the rejections.

Since DECD and the business engage in discussions and screening prior to the formal application process, it is rare for DECD to reject the application of a business that DECD has been working with. Because DECD does not collect the rejection information, the department could not tell us how often it rejects applications. DECD did recall instances in which a consultant for a company worked with another company that received assistance and decided to apply without first discussing the idea with a project manager or other DECD personnel. Because the application for business assistance is general and does not specify a particular incentive program or tax credit, this finding applies to URA and other forms of assistance. The lack of supporting documentation of a rejection decision creates a risk for DECD and points out a deficiency in administrative effectiveness. Documentation of rejection decisions would provide adequate information should future questions arise.

Recommendation: The Department of Economic and Community Development should document the rejection of business assistance applications and reasons for the rejection to improve administrative effectiveness. **(See Recommendation 10.)**

Agency Response: "If a client is not approved, we routinely discuss, explain and share with clients the reason the request for assistance from DECD is not granted. In many cases DECD offers another form of assistance, even if different or less than the applicant had originally applied for. Outright rejections do not occur frequently, but when they do, the applicant is advised of the reasons.

Project Managers notate in our CRM system when an application is not moving forward. If the application process was completed and sent for Financial Review, the CRM system will also reflect any concerns that might have come up during the review, providing background on why assistance might have been rejected.

For these reasons, we believe we already have a process that documents any application rejections."

Auditors' Concluding Comments: DECD personnel told us that the department does not know how frequently and for what reasons it rejects applications. Therefore, we cannot substantiate DECD's conclusion that it already has a process to document the number and reasons for rejection of applications.

Finding 11: Businesses DECD approves for assistance are required to pay all legal fees associated with their transaction, including DECD outside counsel. However, DECD is not tracking the payment of legal fees and there are currently 3 instances in which businesses that received financial assistance failed to pay DECD's outside counsel. This creates a financial risk for DECD, resulting in DECD paying the project's legal fees.

As described in the letter of intent and contained in the required assistance agreement when URA is paired with MAA, the business receiving assistance from DECD is required to pay all legal fees associated with the transaction, including those of the DECD outside counsel. There are 5 firms contracted with the Office of the Attorney General to provide these legal services for DECD. Each outside law firm has a maximum contractual amount for their fees to represent DECD for this service. The maximum amount each legal firm may bill annually ranges from $750,000 to $1.8 million. The cap for DECD to reimburse the law firms when businesses do not pay the bills range from $150,000 to $325,000 annually.

In the past, DECD required project managers to log the legal bill amount, and confirm that the business paid the bill prior to disbursing the financial assistance. However, DECD suspended that practice when the number of companies receiving DECD financial assistance increased dramatically with the Small Business Express Program. In fiscal year 2017, DECD reported 3 instances in which businesses did not pay legal bills and DECD placed them in default. However, if DECD does not recover the funds to pay the legal bills, the department is responsible for reimbursing the law firms.

Recommendation: The Department of Economic and Community Development should improve administrative efficiency by requiring proof that all outside legal bills are paid prior to disbursing any financial assistance. The department should track the payment of legal bills. **(See Recommendation 11.)**

Agency Response: *"DECD strongly prefers that applicants pay their legal fees prior to funding. Hence our policy suggesting that legal fees should be paid prior to funding. However, under certain circumstances, an applicant may request for legal fees to be paid after funding. DECD will update its policies to specify that those requests need to be approved by an OBID manager or the LOI Committee. In those cases, the legal fees will be incorporated into the Financing Plan & Budget."*

Finding 12: The Department of Economic and Community Development is statutorily required to issue a certificate of eligibility to applicants upon approval, but that does not occur at that time. DECD does not comply with the current statute.

Section 32-9t(h) of the General Statutes requires the DECD commissioner, upon application approval, to issue a certificate of eligibility confirming that the company complied with all requirements. However, DECD does not distribute the certificates of eligibility until later, when the company has made the capital investment and hired the requisite number of employees. There is no initial certificate of eligibility because DECD does not issue the first certificate to companies until year 4. Companies can earn certificates of eligibility (referred to as certificate of continued eligibility) annually during years 4-10.

Instead of an initial certificate of eligibility, the DECD commissioner issues a summary letter, referred to as the Urban and Industrial Site Reinvestment Tax Credit Allocation Summary. This summary letter states that the company has been approved for a URA tax credit of up to a certain amount, and contains additional information such as employment obligation, fees, amount of capital investment, potential credit allocation reductions, and reporting requirements.

Recommendation: The Department of Economic and Community Development Commissioner shall issue an Urban and Industrial Site Reinvestment Tax Allocation Summary Letter certifying that the applicant has met the initial tax credit program requirements in accordance with the General Statutes. **(See Recommendation 12.)**

Agency Response: "We will clarify that the Summary Allocation Letter also serves as Certificate of Eligibility. This approach will have the same effect and is easier to implement than amending the Statute."

Record maintenance – DECD divides documentation associated with each URA or URA/MAA project among project manager-kept paper files, a shared DECD electronic drive, and electronic Alchemy files. The DECD Deputy Commissioner informed us that the department is in the process of converting to FileNet, an electronic document management system. FileNet will allow users more flexibility when searching the system. Additionally, DECD is transitioning to the Client Relationship Management (CRM) system, which became active in March 2018. According to the statewide strategic IT plan, which describes DECD's activities, CRM will give DECD increased efficiency by "…automating work processes, enhancing customer service, facilitating outreach and performing analyses."

Approval Process for URA Tax Credits over $20 million

We previously noted that, with the exception of the First Five Plus program, URA tax credits of over $20 million require legislative approval. To date, 3 companies have required this legislative approval. Diageo North America required legislative approval in 2003 for its $40 million URA tax credit in return for building a $107 million facility that would retain 700 employees and create 300 additional jobs. The DECD commissioner complied with all applicable statutory requirements by requesting approval for the tax credit from the legislature's Finance, Revenue and Bonding Committee. The committee held a hearing on the request and, since no subsequent legislative action was taken, the request was deemed approved. We also found evidence of presentations made to the committee on behalf of RBS and Starwood.

Reporting Companies that Leave the URA Program

Finding 13: The Department of Economic and Community Development annual report does not include information on companies that leave the Urban and Industrial Site Reinvestment Tax Credit Program prematurely, leading to incomplete data in determining the effectiveness of this assistance program.

Table 4 in the initial 2017 DECD annual report listed companies that were approved to earn URA tax credits. However, there was no information on companies that left the program early and were no longer eligible for URA tax credits. Companies may terminate their participation in the program for a variety of reasons. Those reasons include their sale or dissolution, relocation out of Connecticut, or an inability to meet investment capital and/or job retention/creation requirements.

Without information on companies that exit the URA tax credit program prematurely, we cannot obtain a complete understanding of the effectiveness of the program.

Table 4 in the revised 2017 DECD annual report included some of the URA companies that terminated early from the program. However, DECD did not differentiate between those and the remaining companies in the program. In addition, we found another company that left the program early (Southern New England Telephone/Frontier Communications), which DECD omitted from Table 4. We also found 2 more companies that appear to have been awarded URA Tax Credits by June 30, 2017, but were excluded from Table 4 (Partner Reinsurance Company, Regional Energy Holdings).

Providing this information in the DECD annual report presents a more complete understanding of the outcome for this tax credit program.

Recommendation: The Department of Economic and Community Development could improve administrative effectiveness by including information in its annual report on companies that leave the Urban and Industrial Site Reinvestment Tax Credit Program prior to completing the 10-year program. **(See Recommendation 13.)**

Agency Response: "DECD currently makes note of companies leaving the program in the year that they leave the program, however this note is not repeated in subsequent years. The Economic Impact Analysis of the program does reflect any companies that left the program; 1) if they already received some Tax Credits, the calculation does include the cost of those credits. 2) if a project received approval initially, but the company never applied for a certificate of eligibility the project excluded from program statistics altogether as the potential economic benefit is not being attributed to the program (i.e. the State did not incur a reduction in revenue due to Tax Credits). We believe our current practice best reflects the status of the program in each year."

Auditors' Concluding Comments: Table 4 in the DECD annual report is under the section, "History of the Urban and Industrial Site Reinvestment Tax Credit." However, the revised 2017 DECD Annual Report does not identify all companies that left the URA Tax Credit program prior to completing the 10-year program. Lack of such information presents an incomplete understanding of the outcome and effectiveness of this tax credit program.

Finding 14: The DECD annual report overestimates the total amount of funds committed to past and current Urban and Industrial Site Reinvestment Tax Credit projects, and underestimates the amount available for new URA projects.

The DECD 2017 Revised Annual Report states that the URA tax credit program is capped at $800 million in awardable credits. However, effective July 1, 2015, the URA tax credit cap was increased from $800 million to $950 million (Section 408 of P.A. 15-5 - June Special Session).

Also, Table 4 of the DECD 2017 Revised Annual Report includes tax credits awarded to businesses that have left the URA tax credit program prematurely, such as Alexion ($25 million), Massachusetts Mutual Life Insurance Company ($13 million), Higher One ($18.5 million), and CF Foods ($2 million). This $58.5 million in URA tax credits is included in "Total Tax Credits Awarded," and overestimates the amount committed to date. It should have been removed to accurately reflect the capacity of the program. With the inclusion of these companies that left the URA tax credit program prematurely, Table 4 also overestimates the "Total Project Cost" column by $200,924,463.

Recommendation: The Department of Economic and Community Development's annual report should provide up-to-date information on the total amount of funds committed for past and current Urban and Industrial Site Reinvestment Tax Credit projects, and the amount available for new projects. **(See Recommendation 14.)**

Agency Response: "Going forward DECD will provide up-to-date information on the total amount of funds committed for past and current URA projects, and the amount available for potential new URA projects.

The three projects highlighted as having left the program (Alexion, Massachusetts Mutual Life and Higher One), were still in 'pending status' when the 2017 Annual Report was issued; meaning there were ongoing interactions with these companies about the status of the Tax Credit Allocation. To assume that the Tax Credits previously committed to these companies were still available to support other projects could result in over committing the State of Connecticut to new applicants. So instead we wait until final resolution to release unused tax credit authorizations."

Auditors' Concluding Comments: CF Foods was also highlighted above and, given that DECD issued the most recent URA tax credit certificate of continuing eligibility in November 2011, it is unlikely there would have been ongoing interactions about the status of the company's tax credit allocation in 2017.

Monitoring Reporting Requirements

The Urban and Industrial Site Reinvestment Tax Credit is considered a performance-based form of assistance. The business will not receive a certificate of continued eligibility for the tax credit if it does not meet the requirements specified in the letter/assistance agreement. After the project is approved for a URA tax credit, there are a series of required audits that DECD periodically performs **(Exhibit 17)**. Annually, beginning in year 4, DECD verifies that the job obligation has been met and certifies the business as eligible for a URA tax credit. DECD provides a copy of the continued eligibility certificate to the Connecticut Department of Revenue Services upon request. DECD may not give the business the annual certificate of continued eligibility for the URA tax credit if the business is not in compliance with the terms of the tax credit summary letter.

Exhibit 17. Audits Required by DECD for URA Tax Credits

Reporting Requirement	Year									
	1	2	3	4	5	6	7	8	9	10
A) Investment Audit		√*	√*	√*						
B) Job/Employment Audit				√						
C) Job Review				√	√	√	√	√	√	√
D) Annual Job Survey	√	√	√	√	√	√	√	√	√	√
E) Economic Analysis (REMI)				√	√	√	√	√	√	√

*See A below

A) Investment audit – The investment audit, also referred to as a project audit for assistance that includes both URA and MAA, occurs once during the second, third, or fourth year of the project, depending on when the project money was spent. It is conducted by an independent certified public accounting (CPA) firm that verifies that the investments were made according to terms of the agreement using United States of America Government Auditing Standards. This audit answers the question, "Did you spend the money on what we agreed to?" The investment audit is required within 90 days of completion of the capital project or at a time requested by the DECD commissioner.

B) Job/employment audit – The job audit, also referred to as an employment audit, is only done once, usually in year 4 of an agreement. It is prepared by an independent, third-party certified public accounting firm and submitted to DECD within 90 days of the twelve-month period referenced under the employment objective. A CPA firm conducts an on-site inspection of the company, examines payroll records, determines the full and part-time status of employees, and whether consultants or independent contractors were used for certain positions. The job audit examines job creation for the previous 12 months. MAA job retention requirements are for 24-month periods. However, given the annual schedule of job audits for URA tax credits, a 24-month retention period is not feasible.

C) Job review – The job review is prepared by company employees. This self-reported information is submitted to DECD, which may compare the reported job numbers with the Connecticut Department of Labor unemployment wage database. The job review is not as thorough as the job audit, because the CTDOL database does not distinguish between full or part-time jobs, or whether the person is a consultant or independent contractor (which may be excluded from the job retention and creation requirements in the assistance agreement). The URA tax credit allocation summary template states that job reviews may contain the following information:

- Total company employment for each fiscal year being reviewed, including a percentage breakdown of Connecticut residents versus non-state residents;
- Total amount actually paid to the company's employees annually by employment class (e.g., management, non-management, production, non-production, etc.);
- Total Connecticut income tax the company owes before any claimed credits;

- Total annual purchases by the company subject to Connecticut Sales & Use Tax, as certified by the company; and
- Amount of investments the company made annually in Connecticut, in real and tangible personal property located at the project site.

D) Annual job survey – The Annual Job Survey is distributed to all recipients of DECD incentives. Companies self-report this information, which is used in the DECD annual report. The survey asks the following:

- Number of jobs created?
- Is the companying paying health insurance benefits?
- Has there been a change of address in key contact information?

E) Economic impact analysis – DECD repeats the economic analysis described in the selection process annually during years 4-10 of the project. Employment information is updated annually through the EIA Worksheet, and the DECD economist reruns the REMI model with the new data.

Finding 15: The Department of Economic and Community Development does not always maintain current email addresses for businesses receiving assistance, creating administrative inefficiencies when trying to contact companies.

During the course of this audit, we requested email addresses of businesses in order to survey business assistance recipients. DECD did not have email addresses readily available for all recipients. In some instances, the APA survey request was undeliverable because of an incorrect email address, which resulted in 5% of the emails being undeliverable. Additionally, DECD did not have email addresses for some of their current personnel. The annual DECD request to all recipients of business assistance does not specifically ask about email addresses. However, this would be an opportunity to obtain updated email addresses.

Recommendation: The Department of Economic and Community Development could improve its administrative efficiency by amending its annual job survey to confirm or update email information of company contacts related to the business assistance program. **(See Recommendation 15.)**

Agency Response: "DECD will add a question in the annual survey to provide DECD with the most up to date contact for purposes of keeping track of company obligations under the Assistance Agreement."

Distribution of Tax Credits

Due to the nature of these negotiated agreements, we found that 74% of the time, the project started prior to the execution of the contract **(Exhibit 18)**. While the project start date could occur more than 3 years prior to the contract execution date, there were also instances in which the project start date occurred nearly 3 years after contract execution.

Exhibit 18. Time Between Project Start Date and Fully Executed Contract

Project Start Date:	Percent:
After agreement signed	26%
Up to 1 year prior to agreement signed	26%
>1 year and < 2 years prior to agreement signed	31%
> 2 years prior to agreement signed	17%
Total project start dates prior to agreement signed	74%

Finding 16: The Department of Economic and Community Development issued Urban and Industrial Site Reinvestment tax credits to businesses prior to the statutorily-required year 4 of the project. Early issuance of URA tax credits undermines the state's leverage, and subjects the state to potential financial risk should the business terminate from the program early.

Exhibit 19 shows the administrative complexity of the URA tax credit. If a business does not maintain the jobs required by the agreement, DECD may reduce the available URA tax credit. DECD can also revoke the eligibility of future tax credit certificates. However, if the business has already earned the tax credit for the previous year, DECD has no recourse in the current year.

Exhibit 19. Example of a $10 Million URA Tax Credit for a Project 1/1/17-12/31/26					
Time Period	**Project Year**	**What Company must provide to DECD**	**What DECD must do prior to certifying company eligible for annual URA tax credit**	**Portion of URA tax credit permitted**	**Dollar amount of URA tax credit permitted**
1/1/2017-12/31/2017	1			0%	$0
1/1/2018-12/31/2018	2			0%	$0
1/1/2019-12/31/2019	3			0%	$0
1/1/2020-12/31/2020	4	Investment Audit and Job Audit	Economic Analysis (REMI)	10%	$1 million
1/1/2021-12/31/2021	5	Job Review	Economic Analysis (REMI)	10%	$1 million
1/1/2022-12/31/2022	6	Job Review	Economic Analysis (REMI)	10%	$1 million
1/1/2023-12/31/2023	7	Job Review	Economic Analysis (REMI)	10%	$1 million
1/1/2024-12/31/2024	8	Job Review	Economic Analysis (REMI)	20%	$2 million
1/1/2025-12/31/2025	9	Job Review	Economic Analysis (REMI)	20%	$2 million
1/1/2026-12/31/2026	10	Job Review	Economic Analysis (REMI)	20%	$2 million
Total				100%	$10 million

We found businesses that received $2.49 million in URA tax credits ahead of time, often a year in advance of their eligibility to claim the credit:

- **Company A –** Project began in 2004, letter of intent signed in 2005, assistance agreement fully executed in 2005, and first URA tax credit certificate of eligibility issued in 2007 for use in tax year 2006 (Year 3)
- **Company B –** Project began in 2007, letter of intent signed in 2008, assistance agreement fully executed in 2009, and first URA tax credit certificate of eligibility issued in 2011 for use in tax year 2009 (Year 3)
- **Company C –** Project began in 2010, no letter of intent found, assistance agreement fully executed in 2011, and first URA tax credit certificate of eligibility issued in 2013 for use in tax year 2012 (Year 3)
- **Company D –** Project began in 2011, no letter of intent found, assistance agreement fully executed in 2014, and first URA tax credit certificate of eligibility issued in 2016 for use in tax year 2013 (Year 3)

DECD informed us that the department had incorrectly interpreted the statute and issued tax credit certificates for use in year 3 rather than in year 4. DECD indicated that it corrected this error for more recent projects after discussion with the Department of Revenue Services. However, we could not confirm this change, as tax credits have not yet been issued for the newer projects.

The error may have been caused by the way in which the current statute is written. It may be open to interpretation by referring, for example, to the 10% annual distribution of the URA tax credit as: "…the third full income year succeeding the year in which the investment in the eligible project was made and the three next succeeding income years…" The language DECD uses in its current letter of intent template for URA and MAA projects is less open to interpretation: "The credits can be used over ten years according to the following schedule: years one through three-0%; years four through seven-10%; years eight through ten-20%" and should be adopted in Section 32-9t(i)(1) on the General Statutes. The first year must be defined as the first year the project qualifies for the URA tax credit rather than the year in which the contract was executed.

Recommendation: Section 32-9t(i)(1) of the General Statutes should be amended to clarify what constitutes the first year of the ten-year cycle and when a business is eligible to receive its first Urban and Industrial Site Reinvestment Tax Credit. **(See Recommendation 16.)**

Agency Response: "DECD does not agree with this finding. All tax certificates reviewed during this audit were issued after Year 4 or later of the project as required by statute.

We acknowledge that the wording in our URA letters regarding the tax period on which eligibility is based and when the credit could be used may be confusing. Our revised Tax Certificates and URA Summary Allocation letter, which are currently in development, will clearly spell out the actual dates associated with the Income Tax Year of eligibility as well as in which Income Tax Year the certificate can be used."

Auditors' Concluding Comments: DECD initially agreed with our recommendation. The department updated its response on May 3, 2019 and now disagrees. Although DECD stated that "All tax certificates reviewed during this audit were issued after Year 4 or later of the project as required by statute," we found examples of URA tax credits that were issued early.

URA Tax Credits not Always Issued Annually

Finding 17: The Department of Economic and Community Development issued more than 1 Urban and Industrial Site Reinvestment tax credit to a business in a single year. The department told us this occurred because the business submitted required audits or job reviews late. DECD does not appear to have a system to monitor compliance of this issue.

Businesses receiving URA tax credits are required to submit annual job reviews in order for DECD to have the information necessary to perform the economic impact analysis. DECD cannot distribute a certificate of continued eligibility for the URA tax credit until the department has determined that the business qualified for the URA tax credit that year. Companies must submit job reviews annually, within 90 days after the end of the third full fiscal year of the businesses 10-year cycle. Assistance agreements often include language that failure to submit required information within the prescribed time frame (i.e., within 90 days) may result in the revocation of the certificate of eligibility.

We found that several businesses did not submit their required information within the timeframe specified in their assistance agreement or tax credit summary letter **(Exhibit 20)**. We used the date of the certificate of continued eligibility to estimate the date that companies submitted their required information, and found examples of businesses that significantly delayed submission of required information to DECD.

The Audit Unit of the Office of Financial Review and Compliance indicated that it contacts businesses to remind them of the requirement to submit their third-party audits. DECD told us it is flexible regarding this requirement, because it wants to work with companies to promote economic growth in Connecticut.

Exhibit 20. Examples When More Than 1 URA Tax Credit Was Issued in a Single Year

Company	Date and Percent of Tax Credit Certificate Issued		
A	9/28/11 (10%)	9/28/11 (10%)	
B	5/12/14 (10%)	5/12/14 (10%)	11/17/14 (10%)
C	10/8/15 (10%)	10/8/15 (10%)	
D	10/29/15 (10%)	10/29/15 (10%)	
E	1/16/16 (10%)	5/16/16 (10%)	
F	9/1/16 (10%)	9/1/16 (10%)	9/1/16 (10%)

Until the new CRM electronic data system is fully operational, DECD should consider developing a formal, documented reminder system to monitor and facilitate more timely submission of required information by businesses in the URA tax credit program.

Recommendation: The Department of Economic and Community Development could improve administrative efficiency by developing a reminder system to promote more timely submission of required information by businesses in the Urban and Industrial Site Reinvestment Tax Credit Program. **(See Recommendation 17.)**

Agency Response: "DECD agrees with the finding to the extent DECD issued multiple tax credits in one year *for different income years* during the audit period. However, we note that additional context is necessary for the reader to understand that DECD is not erroneously issuing multiple tax credits in one year. The complexity of income tax eligibility requirements under this program may cause companies to submit late or incomplete reports.

This scenario is not a weakness in the effectiveness of our administration, but a strength. DECD does not allow issuance of tax credit certificates until ALL eligibility requirements are met.

DECD will incorporate reminders into its procedures to promote timely submission of information by businesses. This would expedite the Tax Credit eligibility process reducing the effect of issuing multiple tax credits within a year."

Auditors' Concluding Comments: DECD initially agreed with our recommendation. The department updated its response on May 3, 2019 to clarify and essentially dispute our recommendation. We reiterate that DECD should develop a reminder system.

Finding 18: The Urban and Industrial Site Reinvestment Tax Credit certificates of continued eligibility did not include the tax year in which the credit may be used.

DECD awards URA tax credits over a 7-year period in years 4-10 of the project, and companies may carry it forward for up to 5 years. Certificates of continued eligibility specify the portion of the URA tax credit amount being issued, but do not always state the earliest tax year in which it may be applied. For example, we examined the Certificates of Continued Eligibility for Company A, and found that 6 out of 7 did not have any information on the tax year in which the certificates may be redeemed. In another example, we examined the Certificates of Continued Eligibility for Company B, and found that 3 out of the 4 certificates awarded excluded information on when the URA tax credit may be redeemed. We found other examples that indicate this happens frequently. Requiring the tax year redemption information on the Certificate of Continued Eligibility will reduce some of the confusion on issuance and usage of URA tax credits.

Recommendation: The Department of Economic and Community Development should require the Urban and Industrial Site Reinvestment Tax Credit certificate of continued eligibility to include information on the earliest tax year in which the certificate is redeemable to improve administrative efficiency. **(See Recommendation 18.)**

Agency Response: "DECD agrees with the benefit of specifically including the earlier tax year in which the certificate is redeemable. This practice was incorporated during 2015."

Auditors' Concluding Comments:	DECD provided no evidence that it formally incorporated this practice into any of its written procedures. We believe there should be clear, written guidelines to avoid further confusion.

Monitoring of tax credit use or sales – Businesses may carry forward URA tax credits for 5 years from the tax year they were earned, or sell them to another business/corporate taxpayer. Buyers pay a reduced rate so they still receive a benefit.

URA recipients are required to pay fees according to the schedule in **Exhibit 21**. Applicants must pay a one-time, non-refundable application fee at the time of their formal application. DECD told us that a certificate is not issued to the business until the fees have been paid. DECD never waives the fees. Year 4 is the first time the business can apply for a URA tax credit certificate of eligibility. After providing DECD with all of the necessary information to obtain the tax credit, the business annually submits the $3,000 fee. The fee and required information are due within 90 days of the business' performance audit. DECD tracks all of the fees billed and payments received using the Nortridge database.

Exhibit 21. Fee Schedule for URA Recipients

Year	Fee
1	$10,000
2-3	$0
4-10	$3,000

Finding 19: We documented that 21 of the 30 businesses that earned Urban and Industrial Site Reinvestment tax credits through June 30, 2017 (70%) later sold them. This percentage may be higher, because DECD does not require businesses to confirm the status of their tax credit use.

Businesses receiving URA tax credits are permitted to sell a portion or all of them to another business. Section 32-9t(n) of the General Statutes allows the Commissioner of Revenue Services to require businesses to provide information regarding the sale of their URA tax credits. The DECD assistance agreements and tax credit summary letters require businesses to report in writing to the Commissioner of DECD, the Office of Policy and Management, and the Department of Revenue Services on or before March 31st of each year regarding the status of the tax credit for the preceding calendar year. At a minimum, the report must include the name, address, and contact information of the assignee, purchaser or transferee; the date of the transfer; and the number of credits transferred.

We were able to find documentation for the sale of URA tax credits for 21 of the 30 businesses who earned them through June 30, 2017 (70%). A single business may have sold tax credits for as many as 7 years, depending on how many project years have passed. Of the 74 times these 21 businesses sold their URA tax credits, they sold all of them 84% of the time. The other sales ranged from 25% to 97% of the credit. The major purchasers of the URA tax credits were hospitals, insurance companies, and utilities.

Of the $692.5 million URA tax credits allocated to 42 companies, $331,930,545 have been earned through June 30, 2017. The 21 companies sold more than half (57%) of their earned URA tax credits ($190,729,940) through June 30, 2017. Information on carryforward and sale of URA tax credits is also found in the Connecticut Department of Revenue Services FY 17 Annual Report. The report stated that on 2015 corporate business returns, there were: 9 URA tax credits claimed for a total of $2,785,252; $6,518,388 URA credits carried forward to the 2016 Income Year; and $33,900,000 in URA tax credits applied against the Hospitals Tax in FY 2017.

DECD assumes that absence of notification by the business indicates that URA tax credits have not been sold. However, it is possible that businesses sold URA tax credits and failed to notify DECD, and the percentage selling their URA tax credits could be higher than 70%. Assuming DECD needs this information as part of its assessment of the URA tax credit program, DECD should have the businesses confirm the status of the tax credit for the preceding calendar year in writing (use, sale, transfer, carry forward), to avoid potentially inaccurate assumptions.

Recommendation: The Department of Economic and Community Development should require businesses receiving Urban and Industrial Site Reinvestment tax credits to confirm the use, sale, transfer, or carryforward of the tax credit for the preceding calendar year in writing. This would enable DECD to maintain more accurate records and improve administrative efficiency. **(See Recommendation 19.)**

Agency Response: "Per Statute and per the Summary Allocation letter issued by DECD, companies that assign their tax credits to other entities must notify DECD. DECD maintains a record of these notifications.

The statute contemplates roles for both the Commissioner of DECD and the Commissioner of DRS. We believe the legislative intent is for DECD to track the authorization, awarding of and sale of any tax credits; similarly, the intent was for DRS to track the use of the tax credits. Given the statutory privacy protections for tax payments, and the lack of visibility DECD has to the actual usage of the credits after issuance, and we believe DRS should continue to be responsible for that portion of the reporting."

Auditors' Concluding Comments: The DECD assistance agreements and tax credit summary letters require businesses to notify DECD of the company's use or sale of URA tax credits for the preceding calendar year in writing. When this information is missing, DECD assumes that the company used its URA tax credit. Furthermore, by not requiring companies to provide use or sale information, DECD is not holding them accountable for adhering to their URA Tax Credit agreement.

Revocation of Eligibility and Other Penalties

Finding 20: The Department of Economic and Community Development does not include statistics on the revocation or other penalties imposed on Urban and Industrial Site Reinvestment tax credit eligibility in its annual report, providing an incomplete picture on the efficacy of the tax credit program.

DECD may proportionately reduce the amount of the URA tax credits available to a company due to lower than expected capital expenditures and/or employment goals. For example, if a business was supposed to create 100 new jobs, but only developed 75, then DECD could reduce the URA tax credit proportionately.

Exhibit 22 shows the 10 companies that DECD imposed revocation of eligibility and/or other penalties because the companies did not meet certain requirements associated with their URA tax credit. Five of the 42 businesses left the URA program through June 30, 2017 (12%), and another 5 businesses had certificates of eligibility reinstated. DECD reduced tax credits by $11,209,455 for the companies shown in **Exhibit 22**. This information provides a more complete picture for the assessment of the URA tax credit program. DECD does not currently report this in its annual report.

Exhibit 22. URA Tax Credit Revocation/Other Penalties Imposed

Company	Requirement not met	Penalty Imposed	Certificate of eligibility revoked?
Company A	Job shortfall for 1 year	URA tax credit reduced by $26,030	No
Company B	Job shortfall for last 4 years	URA tax credits reduced by $5,128,000 over 4 years	No
Company C	Job shortfall for last 5 years	URA tax credits reduced by $4,055,425 over 5 years	No
Company D	Did not qualify for tax credit in first year	100% of URA tax credit ($200,000) forfeited	Yes
Company E	Did not qualify for tax credit in 5th year	100% of URA tax credit ($2,000,000) forfeited	Yes
Company F	Requirement not met after first year	No	Yes
Company G	Requirement not met after first and second year to earn the tax credit	No	Yes
Company H	Requirement not ever met	No	Yes
Company I	Project did not materialize	No certificate of eligibility issued	Yes
Company J	Project did not materialize	No certificate of eligibility issued	Yes

Recommendation: The Department of Economic and Community Development should include statistics on the revocation and other penalties imposed on Urban and Industrial Site Reinvestment tax credit recipients in its annual report. **(See Recommendation 20.)**

Agency Response: "Going forward, DECD will include information about companies for whom Tax Credits were revoked or companies that, while receiving a Summary Letter, did not request a Tax Credit certificate."

RECOMMENDATIONS FOR IMPROVING ADMINISTRATIVE EFFICIENCY AND EFFECTIVENESS OF THE SMALL BUSINESS EXPRESS PROGRAM

Overview of Small Business Express Program

The Small Business Express Program (EXP) was established by Public Act 11-1 (October Special Session) as part of a broader "Jobs Bill." The Department of Economic and Community Development administers the program. The program was created in response to an existing credit crunch and small business owners having difficulty obtaining loans from traditional banks due to tightened lending criteria. The EXP program is intended to:

- Encourage job creation and growth;
- Increase skills by investing in training; and
- Encourage public/private partnerships by requiring matching dollars for grants.

The DECD EXP operates under Title 32, Chapter 578 and Sections 32-1m and 32-7g of the Connecticut General Statutes. The statutes define an eligible small business and criteria business owners must meet:

- Have operations in Connecticut or plan to relocate to Connecticut;
- Be registered to conduct business in Connecticut with the Office of Secretary of the State for at least 12 months, or, if relocating, be registered in the state that it is currently located;
- Be in good standing with all state agencies, and with the payment of all federal, state, and local taxes; and
- Employ not more than 100 employees for at least 50% of its working days during the preceding 12 months.

DECD has no discretion to waive any of these statutory requirements. However, if applicants are on a tax payment plan and are making regularly scheduled payments, they may remain eligible for the program.

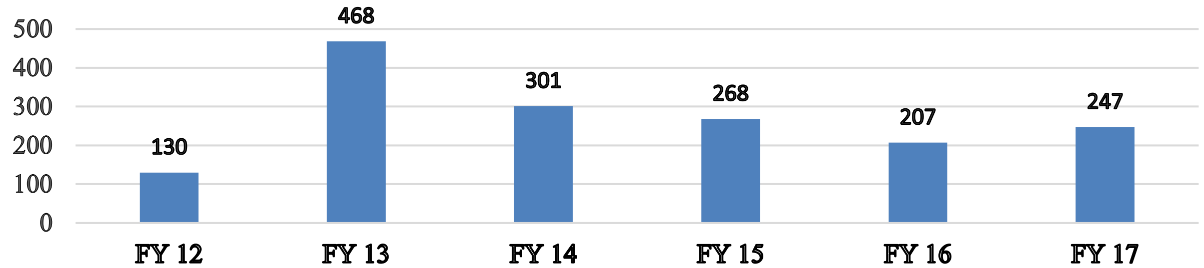
The DECD website describes EXP in detail, including eligibility requirements, funding amounts available, and compliance requirements after the company receives funding. The website also includes links to a prescreening eligibility form, the full application, and other forms and documents that are part of the application submission process.

EXP Program Statistics

Since the program's inception through June 30, 2017, 3,551 business owners have applied directly to DECD for funding under the Small Business Express Program. Of these, 1,621 applicants received funding and still had active loans in FY 17, and 1,930 businesses owners did not receive funding. It should be noted that the 1,621 business loans and grants DECD directly provided to businesses includes 92 businesses with multiple agreements. Therefore, the number of businesses actually funded was 1,529.

Exhibit 23 shows that the greatest number of businesses received EXP funding in FY 13. That number decreased each fiscal year until FY 17, when there was a slight increase. DECD told us that the drop off in the number of EXP loans/grants is lower now because: 1) banks are lending to small businesses again, and 2) EXP policies have become stricter over time, making traditional loans from banks more appealing.

Exhibit 23. # of Businesses Receiving EXP Funds by Fiscal Year



Types of businesses funded – Exhibit 24 shows EXP funding by business type based on the North American Industry Classification System (NAICS), which is a 6-digit code system that is the current standard used by federal statistical agencies in classifying businesses. Manufacturing was the most prevalent type of business provided EXP loans and grants, followed by owners of Professional, Scientific, and Technical Services businesses.

Exhibit 24. Number of EXP Loans/Grants Provided by Type of Business: FY 12 – FY 17		
NAICS Industry Classification	**Number**	**Percent of Total**
Manufacturing	420	25.9%
Professional, Scientific, and Technical Services	218	13.4%
Retail Trade	160	9.9%
Utilities And Construction	142	8.8%
Health Care and Social Assistance	102	6.3%
Other Services	98	6.0%
Accomodation and Food Services	94	5.8%
Wholesale Trade	92	5.7%
Administrative and Support and Waste Management and Remediation Services	58	3.6%
Information	53	3.3%
Finance and Insurance	52	3.2%
Arts, Entertainment, and Recreation	49	3.0%
Transportation and Warehousing	28	1.7%
Real Estate and Rental and Leasing	21	1.3%
Educational Services	20	1.2%
Agriculture, Forestry, Fishing and Hunting	7	0.4%
Public Administration	3	0.2%
Management of Companies and Enterprises	2	0.1%
Mining, Quarrying, and Oil and Gas Extraction	2	0.1%
Total	1,621	100%

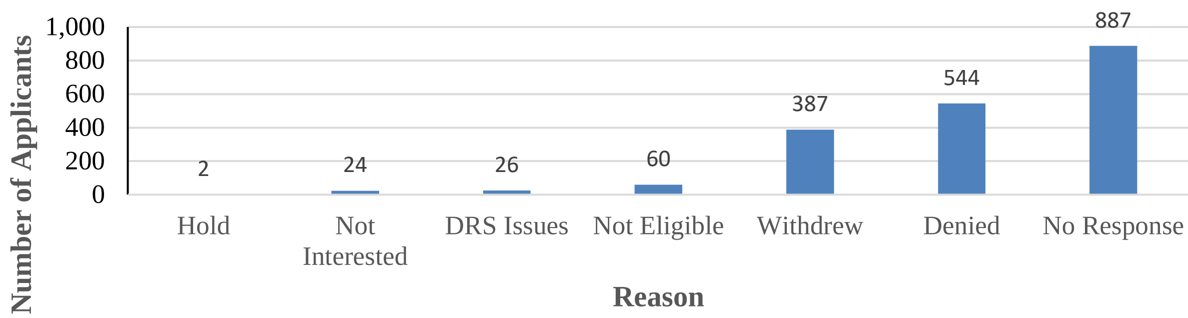
Business locations – Small business owners located in 150 Connecticut towns have received Small Business Express Program funding. **Exhibit 25** shows the top 10 municipalities where businesses received funding. Hartford had the greatest number of companies funded, accounting for almost 6% of all companies receiving EXP funds.

Exhibit 25. Top Municipalities Where Businesses Receiving EXP Funds are Located: FY 12 – FY 17

Town	Rank	Number of Loans/Grants	Percent of Total Loans/Grants
Hartford	1	96	5.9%
Stamford	2	66	4.1%
New Haven	3	56	3.5%
Bridgeport	4	44	2.7%
East Hartford	5	39	2.4%
Bloomfield	6 (tie)	35	2.2%
Cheshire	6 (tie)	35	2.2%
West Hartford	7	34	2.1%
Norwalk	8 (tie)	32	2.0%
Manchester	8 (tie)	32	2.0%
Waterbury	8 (tie)	32	2.0%
Middletown	9	30	1.9%
Glastonbury	10	29	1.8%

Exhibit 26 shows the reasons that DECD did not fund the 1,930 applications noted above since the program's inception through FY 17. The most common reason was that companies did not follow up (46%) after submitting their application and did not respond to DECD inquiries as to whether they were still interested in pursuing EXP funding. The second most common reason was DECD's denial of the application. Data was available for 1,897 applicants who requested a total of slightly more than $313,000,000 which was not funded. The average funding request was $165,031.

Exhibit 26. Reason EXP Applicants Did Not Receive Funding: FY 12 - FY 17 (N=1,930)



Types of financial assistance available under EXP – There are 3 types of financial assistance available to business owners under the EXP program. **Exhibit 27** shows the type of fund, available funding range, and loan terms. DECD does not allow a business owner to apply for both types of loans. In addition, there is no loan forgiveness if a business owner received both a job incentive loan and a grant.

Exhibit 27. Types of Funding Assistance Available Under Small Business Express			
Type of Fund	**Amount Available**	**Max. Term**	**Max. Interest Rate***
Revolving Loan Fund	$10,000 - $100,000	10 Years	3.5%
Job Creation Incentive Loan Fund	$10,000 - $300,000	10 years	3.5%
Matching Grant Fund	$10,000 - $100,000	n/a	n/a
* General Statutes allow a maximum interest rate of 4%.			

- **Revolving Loan Fund – to support small business growth (must have a job retention component)**
  - Eligible use of funds are acquisition or purchase of machinery and equipment;
    - Construction or leasehold improvements;
    - Relocation expenses;
    - Working capital; or
    - Other business-related expenses as authorized by the DECD commissioner.
- **Job Creation Incentive Loan Fund – to support new hires**
  - Eligible use of funds are training, marketing, working capital, or other business-related expenses as authorized by the DECD commissioner.
  - The commissioner may offer loan payment deferral and the option for partial loan forgiveness, based upon the commissioner's assessment of the small business's attainment of job creation goals.
- **Matching Grant Fund – to support new hires**
  - Most businesses must match dollar-for-dollar for specific job creation, capital investment and working capital goals.
  - Eligible use of funds:
    - Ongoing or new training;
    - Working capital;
    - Acquisition or purchase of machinery and equipment;
    - Construction or leasehold improvements;
    - Relocation within the state; or
    - Other business-related expenses authorized by DECD commissioner.

Each business owner who receives EXP funding is required to retain and/or create a certain number of full-time jobs and maintain those jobs for 24 consecutive months from the job creation date. DECD performs an audit later in the contract period (described later in this section) to ensure the business has met the employment obligation. Since the program's inception through FY 17, businesses receiving EXP created 6,525 new jobs and retained 19,861 existing jobs. If a business fails to meet the job retention or creation goals, DECD imposes penalties. DECD recently increased its penalties.

Program funding – There are 2 sources of state funds for the EXP program. They include:

- Bonding authorization/allocation; and
- Revolving loan fund – money is returned to this fund as loans are repaid.

Revolving loan fund – The revolving fund provides a constant source of new funds for DECD to lend or provide grants. As of FY 17, businesses repaid $17,716,452 million.

Bond funds – As of June 1, 2018, the General Assembly authorized a total of $285 million for the program since it began in FY 12. Of that, the State Bond Commission has allocated $265.2 million, including the most recent allocation of $20 million from its June 1, 2018 meeting. The State Bond Commission has $19.8 million left to allocate.

Program Administration

Organization/Staffing – DECD divides its staffing resources for the EXP program between the Office of Business Development and the Office of Financial Review and Compliance. Both offices work under the direction of a deputy commissioner. In addition, resources from the Office of Finance Administration (OFA) assist with the disbursement of funds and tracking of loan payments.

The Office of Business Development has 1 program manager and 3 development agents who serve as project managers. They work closely with EXP applicants and are mostly dedicated to the EXP program. The office is responsible for intake of the application, ensuring application documentation is complete, responding to questions from applicants, and assisting in determining whether to provide funding. Once DECD approves an application, the office employees are an ongoing resource for business owners with questions about program compliance.

The Office of Financial Review and Compliance is responsible for conducting financial analyses of the application and other financial documents. It also verifies compliance with broader program eligibility criteria. OFR has 12 employees, some of whom perform due diligence of applicants for various DECD financial assistance programs.

Publicizing EXP to Potential Applicants

DECD publicizes the EXP program in several ways. In addition to information on the department's website, small business owners can learn about the program through:

- Chamber of Commerce events;
- Word of mouth;
- State legislator organized events;
- Statewide events like the CT Business Expo;
- Stamford and New Haven city events;

- Partnership with Small Business Development Centers/UConn;
- Connecticut Economic Resource Center (CERC);
- DECD employees who serve as program ambassadors;
- Governor's Economic Development Summit;
- Town development officers; and
- Referrals to the program from banks.

Based on APA survey responses, the 3 most frequent ways EXP recipients heard about the program were through word of mouth, the DECD website, or attending an event.

Application Submission and Review Process

Exhibit 28 shows the EXP process from initial screening of applicants through application approval.

Pre-screening and ensuring application completeness – The first step in the application process is for a business owner to complete a one-page prescreening form and speak with a DECD project manager located in the Office of Small Business. This allows DECD to advise potential applicants on whether they meet certain minimum program requirements.

DECD introduced this pre-screening process in February 2018. The purpose of this process is to avoid having business owners complete a time-consuming full application if the owner would not qualify for EXP funding based on the broad statutory program criteria. DECD also saves staff time by avoiding a more complete financial review of a clearly ineligible applicant.

Program managers often refer business owners to other programs if they are not ready to apply or have not yet started a business. If a potential applicant does not have a business plan or needs technical assistance, the office directs them to the Small Business Development Center located at the University of Connecticut (UConn) or the Connecticut Economic Resource Center (CERC). Project managers also refer business owners to other loan programs if they do not meet the EXP requirements.

Exhibit 28. Steps in the EXP Application Approval Process
Step 1: Pre-Screening Call or Meeting
Step 2: Application Submission
Step 3: Financial Review and Identification of Concerns
Step 4: Letter of Intent Committee Review and Commissioner Sign-Off
Step 5: Letter of Intent Sent to Applicant
Step 6: Contract Phase/Financial Assistance Agreement
Step 7: Payment Phase

If small business applicants pass the initial pre-screen step, they can find the application online and submit it to the department. In 2019, applicants will be able to apply online via the department's newly developed Customer Relation Management system (CRM), although DECD will continue to accept a paper copy of the application. The assigned project manager works with an applicant throughout the entire EXP process and is the contact person if the application moves forward through loan payoff.

To formally apply for EXP funding, the business owner must submit the following:

- One-page application;
- Tax Status Letter or Letter of Good Standing obtained from the Department of Revenue Services;
- Personal Financial Statement;
- Project Description;
- Project Financing Plan and Budget Guidance Sheet;
- DECD Schedule A – salaries (jobs, hours, pay rate for employees of newly created positions);
- Schedule of Existing Employees;
- Ownership information, including listing of any business associates;
- Business plan;
- Last three years of historical financials or copies of 3 years of past tax returns;
- Copy of a signed lease, if applicable; and
- Other documentation if requested.

Since January 13, 2017, applicants must discuss their project's financing with a bank prior to submission of a Small Business Express Program application. The exceptions to this are if the company is located outside of Connecticut or in a foreign country and plans to relocate to Connecticut as a part of the project. While the application included the question "Have you discussed this project financing with a bank?" businesses self-reported the information. A positive response from a bank does not preclude a business from applying to receive EXP funding. DECD told us it amended the application to include this question to help business owners seeking loans to build relationships with banks.

Use of trade names versus legal name of business – Sometimes, a business owner wants to operate under a name other than the company's legal name. A trade name is different from a legal name that a business owner can use for advertising and sales purposes. The trade name is the public name the owner uses in advertising, signs and the Internet.

Finding 21: The Small Business Express Program application does not require applicants to list their trade name, only their legal name, making information on Connecticut Open Data less transparent.

Governor Malloy's Executive Order No. 39 launched the Connecticut Open Data initiative in February of 2014. The purpose of the executive order is to provide open access to raw data, before it has been aggregated and analyzed. The Office of Policy and Management maintains the Connecticut Open Data website. Analysts, academics, entrepreneurs and members of the public can use the open data portal to view a variety of state agency information. Individuals accessing this website to examine EXP data may not know the legal name of a small business. Including the legal and trade names on the application and the open data website increases the transparency of funding received under the EXP program.

In addition, media reports using the business trade name sometimes offer the first notification of a business closure. When this occurs, if DECD included trade names in the application, the department could be more quickly alerted and begin its monetary recovery efforts immediately.

Recommendation: The Department of Economic and Community Development should require businesses to include their trade name along with their legal name in its financial assistance application. The trade name should be included in any EXP data DECD posts on the Connecticut Open Data website. **(See Recommendation 21.)**

Agency Response: "DECD is supportive of updating the EXP application and reflect a dba name (if applicable) in the data available through the Open Data portal."

Number of days from application to contract execution – The Connecticut General Statutes provide that an EXP applicant may receive funding within 30 days of DECD deeming an application complete. However, we were unable to calculate how frequently DECD meets this timeframe, because when EXP first began in FY 12, there were no time limits for applicants to submit completed applications. Thus, the date DECD entered into the data system was not the date the department deemed the application complete. Recently, the department started requiring applicants to complete their submission within 15 days or contact their project manager if their application is delayed.

Finding 22: The Department of Economic and Community Development annual report does not include the total time it takes for DECD to approve or deny an EXP application for funding once the department has deemed it complete. In addition, DECD does not report to the General Assembly the length of time it takes for funding to be issued to gauge whether the department is meeting its statutory timeliness.

Recommendation: The Department of Economic and Community Development should include the time it takes for the department to approve or deny applications in its annual report. In addition, DECD should also report the time it takes for an approved applicant to receive the funds. **(See Recommendation 22.)**

Agency Response: "DECD agrees with this finding to the extent DECD does not include the total time it takes to approve or deny an EXP application submission in the annual report. DECD does collect data regarding the total time between the receipt of a complete application and a funding decision internally. We would gladly provide information about the length of time from a complete application to a decision regarding funding to the General Assembly, if requested."

Auditors' Concluding Comments: DECD initially agreed with our recommendation. The department updated its response on May 3, 2019. The new response does not fully address the recommendation. We reiterate that the DECD annual report should include how long it takes for it to approve or deny applications. It should also include the time it takes for an approved applicant to receive funds.

Site visit prior to approving application – Although not part of the DECD internal written procedures, the department indicated that the project manager assigned to the project will often conduct a site visit to verify business location and identify its assets.

Finding 23: The Department of Economic and Community Development relies on the discretion of the project manager to determine whether to conduct a site visit prior to making a funding decision, rather than having specific criteria that would mandate a site visit.

Recommendation: The Department of Economic and Community Development should establish criteria that would require a project manager to conduct a site visit prior to the department deciding on an application for the Small Business Express Program. **(See Recommendation 23.)**

Agency Response: "DECD prefers for Project Managers to do a site visit before funding a project. However, under certain circumstances and in certain situations, it is acceptable for a project manager not to visit the actual place of business:

- In some cases a DECD colleague or DECD business partner (e.g. SBDC) visits the site and provides feedback to the project manager.
- Some companies may not have an actual site established that warrants a site visit/tour, especially if at an early stage (e.g. just leasing a small office somewhere). In those situations a lease and proof of lease payments may be sufficient for the project manager to verify the company's presence.

For this reason, DECD does not believe specific criteria are needed. The project managers know that a site visit is preferred and encouraged. In addition, if a site-visit was not conducted and the LOI Committee believes it would be beneficial, the Project Manager completes a site-visit."

Auditors' Concluding Comments:

We agree with the department's response that a site visit should not be mandatory for all EXP business applicants. We also agree that a site visit by a DECD lending partner should be sufficient to meet any DECD site visit criteria. However, we believe DECD should establish a minimum criteria to require a site visit prior to funding certain EXP applicants. The criteria should include the items to be examined and documented as part of the visit.

Financial review of application – Once the application and documentation is complete, the project manager notifies employees in the Office of Finance Review and Compliance Unit. OFR reviews the application to ensure the applicant meets all of the broader program criteria and provided accurate information, and to evaluate the financial soundness of the business.

Financial review of repayment risk – OFR performs financial analyses to determine an applicant's credit risk and capacity to repay a loan. On August 14, 2018, DECD updated its internal financial review procedures to identify each step of this process. Financial review employees consider many factors, but the cash flow of a business is a key factor to determine the ability of the business owner to make regular loan payments, and the probability of successful repayment of the loan. Thus, the financial examination includes:

- Financial condition of the company;
- Project viability;
- Tax returns;
- Job creation and retention;
- Quality of the applicant's business plan;
- Court record checks;
- Examination of collateral available to guarantee loan; and
- Google search of applicant and of business name.

Review of business plan – In addition to the application, DECD requires business owners to submit their business plans. A written business plan is an effective instrument to identify and organize a company's goals and objectives. According to the Small Business Administration, a successful business plan includes an executive summary, market analysis, company description, details on organization and management, marketing and sales objectives, services or product lines, funding requests, and financial information.

Finding 24: The Department of Economic and Community Development requires applicants to submit a business plan as part of the EXP application process, which the department assesses for quality. However, DECD does not require a standard business plan template that ensures all business applicants address commonly accepted elements.

DECD provided us with a sample business plan submitted by an applicant that we consider less than adequate. Even though the department does not provide applicants a template, the application states that the applicant's business plan should include the company history, products and services, description of market, and completion and revenue forecasts. However, the business plan we reviewed was 2 short paragraphs and only contained a description of the project and owner information.

Recommendation: The Department of Economic and Community Development should provide applicants a business plan template so they can submit plans that address common elements affecting businesses. **(See Recommendation 24.)**

Agency Response: "As a result of this suggestion, DECD has made a template business plan available on the DECD website (https://www.ct.gov/ecd/cwp/view.asp?a=3931&q=489792). However, we will also accept other formats for business plans, avoiding duplication of effort, as businesses often submit existing business plans which may also be acceptable to DECD."

Finding 25: The Department of Economic and Community Development, Office of Financial Review and Compliance, does not perform certain personal financial checks related to an applicant's loan risk, which would assist the department when deciding on application approval. The office does not check: 1) the applicant's personal credit; 2) whether the applicant is current on property taxes (if an applicant's home will be used as collateral); and 3) local land records to identify any liens against the property.

Recommendation: The Department of Economic and Community Development should amend its internal policy manual to check the applicant's personal credit, whether the applicant is current on property taxes, and whether there are any liens against the applicant's property. **(See Recommendation 25.)**

Agency Response: "We agree with this finding to the extent that DECD does not require a personal financial background check in the application process. DECD demonstrates effectiveness in risk assessment by performing a comprehensive financial review of the applicant's overall financial condition and ability to meet short-term and long-term obligations. This risk assessment includes, but is not limited to: review of current three years of financial statements of the company concentrating on cash flow analysis, collateral search and adequate coverage as applicable, and repayment ability.

DECD also examines personal financial statements when a Personal Guaranty is required for a loan. This review identifies available equity to secure the loan. Hence, DECD does not find the credit score rating from a personal financial background check to be a valuable tool as a basis for acceptance in the Small Business program.

DECD will however improve on its comprehensive financial review of EXP applicants by including a financial background check on as-needed-basis. This additional review would be completed when initial risk assessment indicates concern that a business may not be able to meet its obligations."

Auditors' Concluding Comments:

DECD initially agreed with our recommendation. The department updated its response on May 3, 2019. The department continues to disagree that it should conduct personal financial checks for all Small Business Express applicants.

Checking local property tax records is important because not all financial institutions require the escrow of property taxes and property insurance in mortgage payments Homeowners pay property taxes directly to their town and insurance to their insurance company. In these instances, a mortgage statement would not reflect any unpaid property taxes. Checking personal credit is important, because applicants with high debt may affect DECD assessment of whether an applicant is too high risk and should not be funded.

Financial review and written analysis of risk – Once the financial review is completed, Office of Financial Review employees prepare an email for the project manager, providing a written description of the business, the business's financial status with calculations of the key risk-evaluation financial ratios, and any findings and concerns the analyst identified. The email summary includes the following:

- List of material reviews and description of the requested project funding, current number of CT jobs, and number of new jobs to be created;
- A description of the company and the project;
- Secretary of the State filing information;

- A summary of financial information, including revenue, profit or loss, cash flow, and balance sheet. Important ratios include:
    - Cash flow ratios;
    - Leverage ratio;
    - Liquidity ratio; and
    - Current assets against current liabilities;
- Any liens presently against the company;
- Statement showing no taxes owed to the Connecticut Department of Revenue Services;
- Comparison of applicant reported data regarding current jobs and employee salaries to the CTDOL database;
- A review of potential collateral;
- Findings and concerns relevant to the project; and
- Comments that could aid in the decision making process.

The Office of Financial Review manager reviews the email before sending the analysis to the project manager in the Office of Business Development. Occasionally, OFR will ask the project manager to request additional information from the applicant so that the decision-making committee will have answers to questions raised by the financial review.

The project manager reviews questions and concerns raised by OFR employees in the email and contacts the applicant for responses. The project manager adds this information to the summary of OFR analyses to clarify any concerns before the funding request. In interviews, DECD employees told us that the project manager may provide OFR employees with the responses provided by the business owner for further review, but DECD does not have a standard for when this must occur.

Finding 26: The Department of Economic and Community Development lacks criteria specifying when the Office of Business Development project manager should return an application to the Office of Financial Review and Compliance for further analysis of business owner responses when the initial financial evaluation identified certain financial concerns.

Recommendation: The Department of Economic and Community Development should establish a written policy that identifies criteria for further analysis of an applicant's loan risk when the Office of Financial Review raises certain concerns about the applicant's financial viability. **(See Recommendation 26.)**

Agency Response: "Business owner responses to concerns raised by OFR during the due diligence process are discussed with the EXP Program Manager. Often the response is also discussed with members of the OFR team, well before the project is presented to the LOI Committee. For that purpose, the manager of the EXP program and the manager of OFP meet on a weekly basis to discuss more complicated or ambiguous business owner responses to concerns raised in OFR's due diligence.

All concerns raised by OFR, as well as all business owner responses are reviewed and discussed in the LOI Committee. The LOI Committee in some cases requires a Project Manager to go back to the business owner to ask for additional information/clarification on prior responses.

DECD's policy guidelines do specifically state that a project manager is required to send the file back for OFR review if more recent financials (P&L/cash-flow/balance sheet) have been obtained."

Auditors' Concluding Comments: We understand that the project manager follows up on issues and concerns identified by the financial review employees. DECD informed us that some project managers obtain additional needed information from the applicant and forward it back to financial review for further analysis. Since this is already occurring on an informal basis, it is appropriate for the department to establish a written policy.

Determination of Funding

Following completion of the financial review and due diligence process, DECD determines whether to provide funding to the applicant. If the department denies the application, it notifies the applicant. Occasionally, the Office of Business Development program manager (supervisor), in consultation with the project manager, may deny the application based on financial concerns, insufficient cash flow or other identified issues (e.g., prior criminal convictions or civil lawsuits).

For eligible applicants, the process differs, depending on the amount of requested funding assistance. For those seeking $100,000 or less that have not been identified as having risk issues by the Office of Financial Review, the OBD program manager and the OFR manager meet with the project manager to recommend funding to the deputy commissioner, who is authorized to approve amounts under $100,000.

For requests over $100,000, DECD uses a committee to discuss and make funding recommendations to the commissioner.

Letter of Intent Committee – This committee was established in 2014 to review applications. The committee either meets weekly or on an as-needed basis. The committee is composed of the deputy commissioner, OBD and OFR program managers, and other project employees. The committee decides on the amount and terms of business assistance to offer to a business owner, including:

- The interest rate;
- A description of the project and mandated use of EXP funds as outlined in the approved Project Financing and Budget;
- Amount of loan and/or grant;

- Employment obligation and possible job forgiveness if obligations are met; and
- Any personal guaranties and/or collateral requirements.

Per policy DECD adopted on August 2, 2018, all loans require an unlimited personal guaranty unless the business has sufficient value or real estate with sufficient equity. According to DECD employees, for applications that appear higher risk, the department requires all applicants to sign a personal guaranty and may require collateral, including personal property, as an additional form of security. If the business owner fails to make loan payments, DECD may foreclose on pledged collateral and sell it to recover the debt.

We noted that even when the financial review reveals financial concerns, an applicant may still have their application approved by the Letter of Intent Committee.

Finding 27: In cases in which the Department of Economic and Community Development – Office of Financial Review and Compliance identifies concerns regarding the applicant's financial viability to repay a loan, the Letter of Intent Committee does not keep meeting minutes to explain why the committee approved the application in conflict with OFR concerns.

Recommendation: The Department of Economic and Community Development Letter of Intent Committee should maintain meeting minutes documenting its reasons for approving funding applications when the Office of Financial Review identifies significant financial concerns. **(See Recommendation 27.)**

Agency Response: "The LOI Committee meeting is not a public meeting and confidential information about an applicant is often discussed. The Office of Financial Review is represented on the LOI Committee. DECD prefers to maintain the confidential nature of the discussion and refers back to the documented financial review and mitigating information. Further, the CRM system tracks the outcome of the meeting and for each project and next steps can be added in the notes section.

In addition, the process as described under Finding 26, shows that concerns raised by OFR are always followed up on with the business owner, reviewed by OBID and OFR management as well as the LOI Committee. The mitigating factors to concerns raised are documented in the file and are often updated based on LOI Committee review/request for additional follow up."

Auditors' Concluding Comment: We note that DECD Policy Guidelines, effective 8/2/2018, state that one of the duties of the Letter of Intent Committee Chair is the documentation of the committee's decisions.

The taking of minutes to provide a record of the reasoning for the committee's funding decisions does not preclude those minutes from remaining confidential. Maintaining meeting minutes of LOI committee decisions creates a trail which provides an institutional record. This is especially important since most business loan terms are 10 years. In addition, if a company fails in the future, the employees involved in the original funding decision may no longer be employed by the agency.

Application approval and letter of intent – Once approved by the commissioner, the business owner is mailed a letter of intent, which notifies the owner that the application has been approved and outlines the terms that must be met to receive funding. The owner must sign the letter of intent accepting the DECD terms to move to the next step in the approval process, which is a legal review and drafting of a financial assistance agreement (i.e., formal contract).

Legal Review, Contract Phase and Signing of Written Assistance Agreement

DECD requires applicants approved for a loan and/or grant to execute a financial assistance agreement with the department. At this point, the department's legal office receives the signed letter of intent and assigns outside legal counsel to draft an agreement. In most cases, outside legal fees are capped at $1,000 for grants and $2,750 for loans.

Eligible business owners agree to accept responsibility for the payment of all necessary and appropriate legal fees associated with its respective transaction, whether or not a closing takes place. This includes the DECD outside legal counsel fees. These costs may include reasonable attorney fees, appraisal costs, and other possible costs related to the closing.

Finding 28: The Department of Economic and Community Development could not provide information on the number, total amount, and timing of business payments for legal fees related to business assistance loans and grants. DECD could not identify the number of business owners that owe legal fees and the amount they owe. Regardless of whether they complete the funding process, businesses are responsible for paying for the department's outside legal counsel.

Recommendation: The Department of Economic and Community Development should collect information on legal fees paid by business owners to track whether they have been paid. The department should recoup any unpaid legal fees from businesses. **(See Recommendation 28.)**

Agency Response: "Each payment request made to fund an EXP project includes information on the closing attorney and the amount of legal fees due. Project managers receive a notification from outside legal counsel once a legal bill is paid.

DECD will research the possibility to improve the CRM workflow on this matter, making is easier to report on whether and when legal fees paid."

The financial assistance agreement executed between DECD and the small business includes reporting requirements, a payment schedule, penalties and the required employment retention and job creation obligations associated with the project.

According to one part of the DECD internal EXP Procedures and Guidelines, financial assistance is "transmitted electronically to the EXP recipient upon receipt for the approved applicant: 1) verification of DECD outside counsel legal fees paid; and 2) payment requisition and payment request to the Finance Office for payment processing." However, another part states that "state funds may be used to pay fees and are allowed to be part of the applicant's approved Project Financing Plan and Budget." In addition, 2 letters of intent DECD showed us contained a provision that would allow the funds the applicant received to be incorporated into the applicant's approved budget. This allowed the business to pay the legal fees from that budget after it received the funds, in direct contradiction with one section of the procedures and guidelines.

Finding 29: The Department of Economic and Community Development's internal policy is conflicted and lacks clarity on whether businesses must pay outside legal fees prior to receiving funding, or if those fees can be part of the approved budget and paid for after funding is received.

Recommendation: The Department of Economic and Community Development should clarify its internal procedure and guideline manual regarding when a business owner must pay the department's legal fees as part of the Small Business Express Program's funding requirements. **(See Recommendation 29.)**

Agency Response: "DECD prefers for applicants to pay their legal fees prior to funding. Hence our policy suggesting that legal fees should be paid prior to funding. However, under certain circumstances, an applicant may request for legal fees to be paid after funding. DECD will update its policies to specify that those requests need to be approved by an OBID manager or the LOI Committee. In that case the legal fees can be incorporated into the Financing Plan & Budget."

Audits and Loan Monitoring

The Office of Financial Review and Compliance uses 3 approaches to monitor loans and grants provided to business owners under EXP: 1) loan repayment monitoring in order to take action when a business owner is delinquent or in default of loan payments; 2) project audits for "closeout" to ensure the project budget that was approved when financing was offered was spent accordingly;" and 3) job audits for "closeout" to determine whether the business owner met the job obligation requirements.

Loan repayment monitoring – The office monitors loan repayment for the entire life of the loan until it has been paid in full or is forgiven. The office receives monthly reports on delinquent accounts from the DECD Office of Finance and Administration. When an account becomes delinquent, the office takes a series of progressively stronger actions to notify the owner that payment is expected. The initial action is a "soft letter," to remind the business owner that the account is delinquent and needs to be paid.

If the owner does not respond to the "soft letter," DECD then sends a "hard letter," telling the business owner that the department will send the loan to collections if not repaid. If there is still no response, the commissioner sends a third letter after the account is 90 days past due notifying the business that the loan is in default.

When an owner defaults on a loan, a DECD employee conducts a site visit to speak with the owner and document existing assets of the business. In addition to performing site visits, the offices of Business Development and Financial Review and Compliance staff meet monthly to discuss how the department should proceed with businesses that are delinquent or in default. Often, the project managers reach out to business owners to find out why the loan is delinquent or in default, since they have a closer relationship with the owners than the financial reviewers.

Some companies with delinquent accounts will request a loan modification and enter into a forbearance agreement with the department. The company must request this, as DECD will not initiate the offer to a company. If the business requests a modification, financial review and compliance performs a financial analysis and determines the level of risk involved and whether the request is reasonable. DECD may modify the owner's request and make an alternative offer, which can include a deferment in loan and/or interest payments for a specific period. DECD staff believes this may allow the business to become financially stable and remain in business.

If there is no response from the business when its loan is in default, DECD attempts to collect on the loan or foreclose on items. However, DECD told us that this can be a difficult process, and they have to try to work directly with bankruptcy courts, client's attorneys, or banks that also have a lien on the property or equipment. The value of assets, like equipment, often declines, and the department must divide any proceeds with an auction house, which makes the recovered amount relatively low.

DECD attempts to recover money if a business owner in default guaranteed the loan with collateral. DECD expressed that it is very challenging to repossess property, because it is an expensive process and the amount ultimately recovered is usually significantly less than the amount owed. In addition, although DECD refers cases of owners in default to the Office of the Attorney General, the OAG sometimes will not take action because there are little or no assets left to recover.

Businesses that close often have no assets to recover. DECD provided us with the total amount of uncollectible loans (i.e., the Office of Policy and Management declares the money uncollectible and a loss to the state), since the program's inception in FY 12 through FY 18. Altogether, 1,736 businesses received funding and 55 (3.17%) were written off as uncollectible. In terms of dollars, the total funding for the same period was $294,971,432 with $7,234,420 (2.45%) deemed uncollectable.

Finding 30: The Department of Economic and Community Development does not reassess factors that commonly indicate a business is likely to fail and could help reinforce the reasons to deny an application.

In addition to supporting small business owners, the department also has a responsibility to taxpayers to invest dollars in successful ventures. Given that more than $2 million dollars in EXP funds have been deemed "uncollectible" in each of the last 3 fiscal years, it may be useful for

DECD to conduct a 6-month review to identify patterns that could help inform future decision making. A reevaluation of the original Office of Financial Review summary may flag certain issues or factors that help determine whether the capacity of the business to repay a loan is too risky for the state to commit dollars in the future to the business, or certain types of business.

Recommendation: The Department of Economic and Community Development should conduct a semi-annual review of DECD-assisted businesses that have failed to determine whether the initial financial review identified common risk factors that could indicate that DECD should deny similar applications in the future. **(See Recommendation 30.)**

Agency Response: "The $2 million dollars deemed uncollectible over the past three years represents relatively small portion of the EXP portfolio (well below most commercial portfolios). However, while DECD does not perform an official 'semi-annual review', the monthly review of delinquent payments, the process to follow up with companies who are delinquent and our experience in reviewing default loans have resulted in changes to the EXP program in order to improve DECD's ability to collect on a loan and avoid State Funds to become uncollectible.

Examples of these improvements:

- In addition to a blanket position on all company assets; many EXP loans now require either a position on property owned by the company and/or a personal guarantee from the owner,; often also supported by a lien on a property.

- A business owner's reported excess equity value of a property is now augmented by a review of the Town's appraised value from property records as well as a recent statement from the mortgage company, reflecting the outstanding principal on the mortgage.

Subordination requests now always include an analysis of the company's balance sheet/valuation review of property serving as collateral."

EXP project financial closeout audit – Each company receiving EXP funding must submit to a project financial closeout audit as part of the financial assistance agreement between DECD and the business owner. This audit is typically performed 2 years after a business owner receives EXP funding, because funds are usually expended within the first 12 months of receipt.

The Project Financial Closeout audit compares whether expenditures made were in accordance with the DECD-approved Project Financing Plan and Budget. The purpose of the audit is to ensure expenditures were allowable and within approved budgeted line items (with some transfers allowed within reasonable discretion of DECD).

This review is conducted by the Office of Financial Review, which examines:

- Cumulative Statement of Program Cost; and
- Detailed Schedule of Expenditures.

The business owner must submit a Statement of Program Cost and a Detailed Schedule of Expenditures to DECD within 90 days after the expiration date of the approved Project Financing and Budget, which is part of the original financial assistance agreement. However, the Office of Financial Review indicated that business owners do not always immediately comply with requirements of this audit and do not respond to DECD emails requesting that forms be completed and submitted.

DECD estimated that approximately 30 - 40% of business owners do not respond to emails, for some of the following reasons:

- The email goes into a spam account that does not get opened;
- The email was sent to an outdated email address; or
- The company's contact person no longer works at the company.

If OFR does not receive a response to repeated emails, it sends progressively stronger letters to inform the business owner that a project audit is required. OFR sends the third letter by certified mail informing the business owner that the loan is in default, which often results in the owner's eventual compliance.

If the company does not comply with the project audit and is current on its DECD loan, the department would not forward the file to the Office of the Attorney General, but would do everything possible to meet with the company and help it complete the project audit. That could include several phone calls and site visits.

DECD data shows that through FY 17, there were 1,441 project closeout audits needed and 1,048 audits (73 percent) completed. An additional 91 companies went out of business or paid off their loans. Thus, there were 302 audits outstanding, with 205 of them more than 12 months overdue. DECD has contacted all of the business owners with outstanding audits due at least twice. DECD sent 172 default letters. According to DECD, all overdue audits are due to lack of owner response.

Finding 31: Many business owners are failing to submit required project closeout audit documentation in a timely manner and incur no penalties, despite agreeing to provide this information as part of their financial assistance agreement with the Department of Economic and Community Development. As a result, DECD cannot determine whether the owner expended funds in accordance with the DECD-approved project financing and budget, creating a risk that the department does not identify and recoup misused funds.

Although DECD could refer the business owners in default to the OAG, the OAG does not have the resources to pursue these issues if a business is current with its loan payments. DECD employees stated that they or the project manager would contact the owner and try to bring the owner into compliance. The department could consider publishing the names of the noncompliant businesses on its website to increase transparency and encourage enhanced compliance.

For business owners that do comply at the conclusion of a project audit, DECD issues a financial closeout letter to the business owner indicating whether the business has satisfied the Use of State Funding provision per the assistance agreement. If it has not, DECD may require the business owner to repay funds. Even when DECD issues a project audit closeout letter, the department still monitors loan repayment until the business pays off the loan.

Recommendation: The Department of Economic and Community Development may consider increasing loan interest rates in future assistance agreements if a business owner does not submit the documentation required for DECD to conduct a project closeout audit. **(See Recommendation 31.)**

Agency Response: "DECD agrees with the audit finding. Business owners need to be held accountable for all of their contractual obligations. DECD will develop procedures to increase compliance ."

Job audit - Job audits are the second type of audit the Office of Financial Review performs for all EXP recipients. Job Audits occur in Year 3 or 4 of an EXP project, depending on the job creation date. DECD compares the business owner's reported jobs creation and retention against a Connecticut Department of Labor database that contains wage information from most employers in the state. DECD uses data from the company and CTDOL database to verify jobs were retained or created per the financial assistance agreement.

DECD changed the length of time for business owners to meet job creation and retention requirements. Prior to October 2015, business owners had 12 months to create jobs and 12 additional months to retain new and existing jobs. Beginning October 2015, business owners had 12 months to create jobs and must retain new and existing jobs for an additional 24 months, so DECD performs the job audit in Year 4 for projects funded after October 2015. On August 22, 2017, DECD increased the penalties for businesses that did not meet their job creation/retention obligation in the assistance agreement. The penalty for companies with loans is a 1% increase in their interest rate and for grants, a repayment of grant funds based on a formula.

Job audits have similar issues related to business compliance with documentation submission requirements as project audits. DECD indicated that some business owners do not respond to its written requests for information to complete the job audit. When this occurs, DECD sends a letter to the business informing the owner of a default in the assistance agreement and requiring the owner to repay the financial assistance. Beginning in 2018, 2 OFR employees started going to the business site when the delinquent owner did not respond to DECD emails or letters. In addition, the Office of Business Development project managers may contact the delinquent owners since they have an established relationship.

DECD informed us that companies do not respond to requests for a required job audit between 10 – 20% of the time. Some of the reasons companies do not reply include:

- The email was sent to an outdated email address
- The business is current with loan payments so the owner ignored the request for the job audit
- The company's contact person no longer works at the company

When job audit loan forgiveness or penalties are required, the Office of Finance and Administration must be notified so that accounting records can be updated.

DECD data shows that through FY 17, there were 1,069 job audits needed and 876 audits (82 percent) completed. An additional 85 companies went out of business or paid off their loans. Thus, there were 108 audits outstanding, with 47 of them more than 12 months overdue. DECD has contacted all of the business owners with outstanding audits due at least twice. The department now has direct access to the Connecticut Department of Labor employment data. DECD uses this data to assess whether owners who failed to respond complied with the job creation or retention commitments in the financial assistance agreement. This allows DECD an alternative verification method to analyze the job creation/retention of unresponsive business owners.

Finding 32: Business owners often fail to submit required documentation for job audits without penalty, despite agreeing to provide this information in the signed financial assistance agreement with DECD.

Recommendation: The Department of Economic and Community Development may consider increasing loan interest rates in future assistance agreements if a business owner does not submit the documentation required for DECD to conduct a project job audit. **(See Recommendation 32.)**

Agency Response: DECD agrees with the recommendation to hold companies that accept financial assistance from the State to their obligations under the contract with regard to the Project and Job Audits.

DECD will update the Assistance Agreement to reflect that companies that do not provide the required documentation for a Job Audit in a timely manner and after reasonable reminders that the company will:

1) be charged an additional 1% interest on their loan (if applicable), AND / OR
2) be required to pay the grant back (if applicable)

If the company still does not respond, DECD will default the company under provision of the contract and demand all financial assistance be repaid plus applicable penalty.

RECOMMENDATIONS

1. **The Department of Economic and Community Development should consider and adopt suggestions made by program recipients to improve administrative efficiency and inform other businesses about the Small Business Express and Manufacturing Innovation Fund's Manufacturing Voucher programs.**

2. **The Department of Economic and Community Development should continue to develop ways to reduce the time needed to process applications to improve administrative efficiency and address the lower ratings businesses gave in regards to the time required to complete the application.**

3. **The Department of Economic and Community Development should clarify the Small Business Express Program financial requirements and accompanying instructions to improve administrative efficiency and speed up the application process.**

4. **The Department of Economic and Community Development should review the current reporting requirements for the Small Business Express and the Manufacturing Assistance Act programs to improve administrative efficiency and effectiveness and promote greater ease for recipients to meet program reporting requirements. The department should develop techniques to clarify the reporting requirements and how it informs recipients about the requirements.**

5. **The Department of Economic and Community Development should notify the Connecticut Department of Revenue Services of the elimination of the Urban and Industrial Site Reinvestment Tax Credit pre-application process to reduce potential confusion and improve administrative efficiency. DECD should notify the Department of Revenue Services to amend its website accordingly.**

6. **The Department of Economic and Community Development should revise its Application for Business Assistance instructions to match the application form to improve the administrative efficiency of the application process.**

7. **The Department of Economic and Community Development Letter of Intent Committee should document the rationale for its decisions to improve administrative efficiency and effectiveness. The committee should prepare and keep minutes of its meetings in case questions arise in the future.**

8. **The Department of Economic and Community Development should track the duration of the Urban and Industrial Site Reinvestment Tax Credit application process to determine whether it is in compliance with the 90-day statutory approval requirement and to improve the program's administrative efficiency. DECD should include this information in its annual report.**

9. The General Statutes should be amended to require the Department of Economic and Community Development Commissioner to issue a decision on a complete application not later than 90 days from its receipt.

10. The Department of Economic and Community Development should document the rejection of business assistance applications and reasons for the rejection to improve administrative effectiveness.

11. The Department of Economic and Community Development should improve administrative efficiency by requiring proof that all outside legal bills are paid prior to disbursing any financial assistance. The department should track the payment of legal bills.

12. The Department of Economic and Community Development Commissioner shall issue an Urban and Industrial Site Reinvestment Tax Allocation Summary Letter certifying that the applicant has met the initial tax credit program requirements in accordance with the General Statutes.

13. The Department of Economic and Community Development could improve administrative effectiveness by including information in its annual report on companies that leave the Urban and Industrial Site Reinvestment Tax Credit Program prior to completing the 10-year program.

14. The Department of Economic and Community Development's annual report should provide up-to-date information on the total amount of funds committed for past and current Urban and Industrial Site Reinvestment Tax Credit projects, and the amount available for new projects.

15. The Department of Economic and Community Development could improve its administrative efficiency by amending its annual job survey to confirm or update email information of company contacts related to the business assistance program.

16. Section 32-9t(i)(1) of the General Statutes should be amended to clarify what constitutes the first year of the ten-year cycle and when a business is eligible to receive its first Urban and Industrial Site Reinvestment Tax Credit.

17. The Department of Economic and Community Development could improve administrative efficiency by developing a reminder system to promote more timely submission of required information by businesses in the Urban and Industrial Site Reinvestment Tax Credit Program.

18. The Department of Economic and Community Development should require the Urban and Industrial Site Reinvestment Tax Credit certificate of continued eligibility to include information on the earliest tax year in which the certificate is redeemable to improve administrative efficiency.

19. **The Department of Economic and Community Development should require businesses receiving Urban and Industrial Site Reinvestment tax credits to confirm the use, sale, transfer, or carryforward of the tax credit for the preceding calendar year in writing. This would enable DECD to maintain more accurate records and improve administrative efficiency.**

20. **The Department of Economic and Community Development should include statistics on the revocation and other penalties imposed on Urban and Industrial Site Reinvestment tax credit recipients in its annual report.**

21. **The Department of Economic and Community Development should require businesses to include their trade name along with their legal name in its financial assistance application. The trade name should be included in any EXP data DECD posts on the Connecticut Open Data website.**

22. **The Department of Economic and Community Development should include the time it takes for the department to approve or deny applications in its annual report. In addition, DECD should also report the time it takes for an approved applicant to receive the funds.**

23. **The Department of Economic and Community Development should establish criteria that would require a project manager to conduct a site visit prior to the department deciding on an application for the Small Business Express Program.**

24. **The Department of Economic and Community Development should provide applicants a business plan template so they can submit plans that address common elements affecting businesses.**

25. **The Department of Economic and Community Development should amend its internal policy manual to check the applicant's personal credit, whether the applicant is current on property taxes, and whether there are any liens against the applicant's property.**

26. **The Department of Economic and Community Development should establish a written policy that identifies criteria for further analysis of an applicant's loan risk when the Office of Financial Review raises certain concerns about the applicant's financial viability.**

27. **The Department of Economic and Community Development Letter of Intent Committee should maintain meeting minutes documenting its reasons for approving funding applications when the Office of Financial Review identifies significant financial concerns.**

28. **The Department of Economic and Community Development should collect information on legal fees paid by business owners to track whether they have been paid. The department should recoup any unpaid legal fees from businesses.**

29. The Department of Economic and Community Development should clarify its internal procedure and guideline manual regarding when a business owner must pay the department's legal fees as part of the Small Business Express Program's funding requirements.

30. The Department of Economic and Community Development should conduct a semi-annual review of DECD-assisted businesses that have failed to determine whether the initial financial review identified common risk factors that could indicate that DECD should deny similar applications in the future.

31. The Department of Economic and Community Development may consider increasing loan interest rates in future assistance agreements if a business owner does not submit the documentation required for DECD to conduct a project closeout audit.

32. The Department of Economic and Community Development may consider increasing loan interest rates in future assistance agreements if a business owner does not submit the documentation required for DECD to conduct a project job audit.

ACKNOWLEDGMENT

The Auditors of Public Accounts would like to recognize the auditors who contributed to the report:

Bryne Botticelli
Maryellen Duffy
Catherine Dunne
Miriam Kluger

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Department of Economic and Community Development.

Miriam P. Kluger
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Maryellen Duffy
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Approved:

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