

Executive Summary

Background: Connecticut's economy, after growing strongly 1997-2007, has been shrinking since 2008; it is now smaller than it was in 2004. In November 2017, employment fell below the level of February 1989. Connecticut must restore growth and quality job creation if it is to address the fiscal crisis.

Recommendations:

- 1) The Legislature should establish a process by which the State and municipalities secure maximum federal funding; historically, CT has foregone I believe as much as \$1 billion or more annually.
- 2) The Legislature should mandate that a comprehensive economic assessment of Connecticut's economic performance, both historically (longitudinally) and comparatively, accompany the biennial budget proposal from the Governor.
- 3) The Legislature should task CASE to undertake, on a biennial basis, assessments of Connecticut's economic development performance and strategies, along with identification of best practice in other states, as CASE did in three insightful studies in the early 1990s.
- 4) The Legislature, building on both the biennial comprehensive assessment of Connecticut's economic performance and the CASE analyses, create a joint Senate-House committee to recommend policies and initiatives to which these studies point.
- 5) Given the central role of higher education and university-based research to contemporary competitive strength, the Legislature should create a framework to facilitate and incentivize collaboration between the University of Connecticut and Yale (and other institutions of higher education as well as Jackson Lab as appropriate) to strengthen Connecticut's human capital resources and education/workforce pipeline.
- 6) The Legislature should establish a framework for coordination and collaboration where appropriate with Massachusetts, New York, and Rhode Island, to promote multi-state collaboration that would permit assessments of major regional projects to determine whether they would strengthen the competitive position of the region as a whole.

Recommendations with Supporting Discussion

Background: See Attachment #1 for data on Connecticut's economic performance.

1) The Legislature should establish a process by which the State and municipalities secure maximum federal funding; historically, CT has foregone I believe as much as \$1 billion or more annually.

Because the spending cap included in many cases federal dollars, the State systematically avoided securing federal dollars to which it was entitled or for which it would have been competitive; those federal dollars came with requirements on how those monies were to be spent. Spending Connecticut taxpayer dollars had no such constraints, so there was a clear preference for those dollars in the budget process. Other states have put in place a systematic process for securing available federal dollars; CT should study best practices and implement them where possible to strengthen the State budget.

2) The Legislature should mandate that a comprehensive economic assessment of Connecticut's economic performance, both historically (longitudinally) and comparatively, accompany the biennial budget proposal from the Governor.

This analysis must include shift-share analysis for three and seven years for the ten (10) largest sectors in the State's economy, as well as a discussion of the fastest growing sectors in the national economy, a discussion of labor market dynamics, and state demography. Such an analysis provides a critical framework for discussion of the biennial budget and revenue projections as well as discussions of economic development policies and initiatives.

3) The Legislature should task CASE to undertake, on a biennial basis, assessments of Connecticut's economic development performance and strategies, along with identification of best practice in other states, as CASE did in three insightful studies in the early 1990s.

Those studies, each led by senior industry executives, looked carefully at the competitive environment, pointed to major opportunities for business growth, identified best economic development practices in other states, and provided a roadmap by which Connecticut might have significantly strengthened its long-term competitive health. They were I believe a model for how the Legislature and the Executive would be better informed of the array of policy choices that are available and what approaches have the best track record. These studies might be undertaken in collaboration with the permanent Commission on Economic Competitiveness, and thus might be a sustained contribution by that Commission.

4) The Legislature, building on both the biennial comprehensive assessment of Connecticut's economic performance and the CASE analyses, create a joint Senate-House committee to recommend policies and initiatives to which these studies point.

The Legislature does not have the kind of overarching framework and process to facilitate a clear identification and articulation of policies and initiatives that would make Connecticut more competitive, first to restore growth and then to strengthen it. Creation of this framework would create a focal point for meeting the challenge of economic growth and a more coherent structure for interacting with the Department of Economic and Community Development.

5) Given the central role of higher education and university-based research to contemporary competitive strength, the Legislature should create a framework to facilitate and incentivize collaboration between the University of Connecticut and Yale (and other institutions of higher education as well as Jackson Lab as appropriate) to strengthen Connecticut's human capital resources and education/workforce pipeline.

Collaboration between Yale, an outstanding research university, and the University of Connecticut, who stature as a research university has been growing significantly, would I believe deliver significant benefits in three areas of core importance to Connecticut's economy. i) Biomedical: combined Yale and UConn would move in the top ten of NIH funded medical complexes; with the collaboration of JAX, Connecticut could create a world leading program in graduate programs in genomic education and research. Such collaboration would both be more competitive in capturing external research funding but would create the pipeline of doctorates critical to sustaining strong growth in this sector. li) Aerospace engineering: Connecticut is, with UTC divisions and Sikorsky, a world leader in aerospace manufacturing. Missing is world-class aerospace engineering programs at both the undergraduate and graduate levels. Collaboration between Yale and UConn could address this powerfully, building a competitive complex that would sustain Connecticut's position potentially for generations. Add in comprehensive undergraduate programs at the State Universities, Community, and Technology colleges, and Connecticut would have not only a reliable source of appropriately skilled works, but become a magnet for other major firms in aerospace. 3) IT: in the Age of Big Data, the quality of IT infrastructure and the associated strength in computer science and engineering are central to regional competitiveness. Both MA and NY have made major investments in the area (nanotechnologies at SUNY Albany; the M.I.T./Harvard/UMass HPC in Holyoke) that have delivered huge payoffs, attracting both massive private investments but making the affiliated universities dramatically more competitive in attracting top faculty talent. Connecticut has made no such investments, despite having one of the best locations in the region for a globally competitive data center and/or high-performance computing center; as a result, Connecticut is in a weak competitive position. (See Attachment #2.)

6) The Legislature should establish a framework for coordination and collaboration where appropriate with Massachusetts, New York, and Rhode Island, to promote multi-state collaboration that would permit assessments of major regional projects to determine whether they would strengthen the competitive position of the region as a whole.

The southern New England region should see itself as a single economic region in some respects, and ought to consider how the region as a whole can become more competitive. A salient example is Governor Cuomo's consideration of a cross Long Island Sound tunnel/bridge to address the challenges facing Long Island, which lacks deep water ports and thus all shipments—incoming or outgoing—must go through New York City. The logistical costs and complexity hamstringing the growth of Long Island's economy. The question for Connecticut is whether such a major infrastructure project would benefit Connecticut and thus should want to assess its potential economic (and environmental) impacts. A multi-state collaborative framework would permit assessments of such major regional projects that impact the region as a whole, not just one state. It may also lead to the identification of major projects that would be mutually beneficial that no state is now considering on its own. (See Attachment #3.)

Attachment #1

Comparative Economic Growth: Compound Rate of Annual Real GDP Growth 1997-2007 & 2008-2016

Years:	1997-2007	2008-2016
Connecticut	3.0%	-0.9% [Only 2015 had positive growth*]
Massachusetts	2.9%	1.6%
New York	2.3%	1.6%
Rhode Island	2.5%	0.6%

All data from the U.S. Bureau of Economic Analysis.

2017 Real GDP: Connecticut's real GDP probably contracted in 2017 as well; the first quarter of 2017 saw a contraction of 4.4%; the second quarter growth of 1.4%; the third quarter saw robust growth of 3.9%. But overall the fall saw significant job losses: the year ended with employment down more than 7,000 from its June peak. Income tax withholding in the fourth quarter was \$90 million below projections, suggesting contraction again set in. It seems possible Connecticut's economy contracted during 2017 (despite a gain of about 7,800 jobs over the year), contrasting sharply with national growth of about 3%.

Employment: In November, 2017, the Connecticut Department of Labor reported that *total payroll employment in the state had fallen below the level of February, 1989*. In addition, the quality of jobs in Connecticut has been declining broadly, with lower wage jobs replacing higher wage positions. In January, DRS reported a significant decline in the fourth quarter of 2017 income tax revenue from withholding, consistent with the deteriorating employment situation in the state. This underlines how critical restoring economic growth and job creation is to Connecticut's future health, fiscal and otherwise.

Attachment #2

Connecticut had the opportunity to open this project to development if DEEP had selected it as one of the bids to provide electricity to Eversource on a long-term contract. Connecticut firms are major players in the fuel cell industry, the regional leader and important nationally. Supporting the fuel cell industry would have made payoffs for Connecticut in terms of quality jobs and economic growth. Beyond that, Connecticut has few data centers—something an industry study highlighted because it contrasts starkly with the large array of data centers in neighboring states and the importance of data centers in the IT-driven economy of today. Perhaps more striking, Connecticut has no Tier IV data centers, which the SEC requires financial services firms use for off-site real-time backup.

The following article from the Hartford Business Journal lays out what had been on the table. I believe development of this project would have put Connecticut on the global IT map.

Attachment #3: Modified from a Connecticut Post commentary

Would A “Hated” Project Create an Economic Boon for Connecticut?

By Ray Tillman and Fred Carstensen

The Long Island Sound crossing has always been anathema to Connecticut. “They” — Long Islanders — reap the benefits and “we” — Connecticut residents — pay the traffic congestion and environmental price.

A closer look argues the opposite: Connecticut will realize substantial economic benefits; traffic concerns can now be controlled; environmental effects can be greatly mitigated.

Connecticut has a mature, well-rounded economy, currently in the doldrums, in clear need of additional markets for goods and services it produces. Eastern Long Island is an imbalanced seasonal economy that pays a premium to import goods and services from or through Metropolitan New York.

Connecting these two economies with a vehicular crossing will likely benefit both. Connecticut goods and services suppliers would be roughly 30 minutes away from this vast new market. The result: increased sales, income, employment and investment. In addition, employers and job seekers will benefit from a larger labor pool and increased job availability.

Eastern Long Island will then itself pay lower prices and have access to Connecticut suppliers, educational and health institutions, and a broad range of retail establishments.

Connecticut’s benefits do not depend on traffic volumes using the crossing, but only on access to this new market. The much-feared recreation-oriented traffic can be readily limited by high tolls, possibly \$25 or \$40 per crossing. Tolls on business and commuter travel, primarily from Connecticut businesses and residents, could be at heavily discounted monthly rates. These rates plus peak period or variable tolls can be readily implemented via electronic toll collection systems.

Revenue from tolls and other sources — possibly including a sales tax in Eastern Long Island — should be sufficient to also upgrade sections of I-95 and other routes handling crossing traffic. A number of Connecticut bridgeheads—Bridgeport, New Haven, New London areas—can be studied to maximize Connecticut benefits and minimize traffic impacts.

The crossing itself may resemble the Chesapeake Bay Bridge-Tunnel configuration. The cost will be substantial, but reasonable revenue sources and financing methods can be identified to make it viable. And what is critical is to determine whether the benefits for both Long Island and Connecticut would justify this investment with a sophisticated dynamic study of the kind regularly done by Connecticut’s DECD and UConn’s CCEA.

Such a study would provide the kind of detailed information to frame a constructive discussion of this project, one which would deliver, in all likelihood, major benefits and value to the now struggling Connecticut economy.

Raymond Tillman, PE, is former president of the Public Private Partnership Division of the American Road & Transportation Builders Association; Fred Carstensen is Director of the Connecticut Center for Economic Analysis at UConn.