

The Commission's task:

**Some benchmarks for success and
ideas for achieving them**

Commission on Connecticut's Future taking the lead

- First in the nation focusing on diversification planning for the current defense drawdown.
- Other states looking to follow suit: Wisconsin, Maine, Ohio.
- They will be influenced by what happens here.

Crossroads: Two possibilities

- Connecticut Commission fulfills its potential: demonstrates that defense-dependent states can successfully plan for and manage postwar diversification, with results that can benefit the state economy.
- Doesn't fulfill this potential—report joins others gathering dust on a shelf.

In either case, it will be a model for other states: either a motivator and roadmap or a cautionary tale.

The Commission's task was well-defined; the mandates in the bill form an integrated whole.

- CT highly defense dependent.
- Economy more concentrated than the average on manufacturing.
- Economic renewal depends on diversifying, and specifically diversifying the manufacturing base beyond defense.

Two reasons.

1. Winding down the post-9-11 wars
2. Deficit reduction.
 - The lead of National Defense magazine piece from last month: “Three years since [the Budget Control Act] was enacted on August 2, 2011, it is fair to say that Washington has officially given up hope [that it will be repealed.]”
 - The BCA including sequestration, are “a convenient default mechanism [for deficit reduction] that requires no action from Congress until 2021.”

Having a diversified economy is smart economic policy in any environment.

It's especially important for Connecticut in this historical moment.

Post-cold war and post-9-11 war periods compared

Similarities:

- Political climate turning from interest in foreign interventions and toward focus on domestic economy
- Defense budget cuts
- Procurement budget taking the biggest hit, along with military construction
- Drawdown following spending surge
- Private defense workforce: relatively high but specialized technical skills, high levels of unionization, relatively older

Post-cold war and post-9-11 wars periods compared, cont.

Differences:

- Military drawdown initiated by more by deficit reduction law than by dramatic historic change
- Military spending cut shallower than in post-cold war period
- Military budget cuts programmed into law over next ten years

My testimony:

- Outline what I see as a baseline of five things the Commission needs to do to fulfill its mandate—the big picture.
- Quick rundown: What was done nationally and specifically in Connecticut to help the state adjust to the last defense drawdown.
- Target a few specific things that would help you fulfill your mandate.

Benchmarks for a successful commission

- Identify key state actions not currently underway that would facilitate economic diversification
- Identify key areas where Connecticut's competitive advantages could spur growth, and key measures to capitalize on them
- Draw up an action plan to implement these measures

Benchmarks, cont.

- **Publicity for the plan:**
 - Press conference with the Governor and key sponsors of Public Act 13-19 plus the members of the Commission to announce the results
 - Release statement of consensus among Commission members on the need for diversification and the action plan
 - Commission members hold public meetings to discuss the plan with the public
- **December 2015:**
 - Commission meets to discuss progress toward implementation, report to the public

Post-cold war economic adjustment measures, in brief

National programs used in Connecticut, and most relevant to the Commission's current mandate:

- Defense Conversion Adjustment program (DoL): Demonstration grant program for innovative approaches
- Office of Economic Adjustment Defense Industry Adjustment program: planning grants and technical assistance
- Technology Reinvestment Project: grants to consortia teaming defense and commercial manufacturers, academic institutions, nonprofits, unions and economic development consultants to develop commercial applications of defense technology

DoL Demonstration grant program: New England Defense Conversion Planning and Technical Assistance Project

- Rallied key leaders from 6 states around objective of defense diversification;
- Formed inclusive 70-member task force, including the employment and training community, economic development specialists, educational institutions, other local government entities, management and labor representatives, business associations and private consultants
- The task force created 6 work groups on:
 - Business and work environments
 - Public awareness and commitment
 - Legislative agenda
 - Integrated Transportation
 - Environmental technology cluster
 - Communications and information

New England Defense Conversion Planning and Technical Assistance Project, cont.

- Conducted focus groups with defense firms and at-risk and dislocated workers to assess their needs
- Recommended action strategies to improve regional economic infrastructure:
 - Improving regional transportation systems
 - Support development of high speed rail system
 - Support funding and cost sharing for regional dredging projects to make New England's maritime industry more competitive
 - Support development of a regional alliance for collaboration on Intelligent Transportation Systems

New England Defense Conversion Planning and Technical Assistance Project, cont.

- Enhancing the state's environmental businesses
 - Initiate a regional project to promote environmental exports using the capabilities of the region's defense contractors
 - Support strong vehicle emissions standards, strategies for achieving them, and incentives for consumers to buy low-emission vehicles

The Project didn't secure second-phase funding for implementation.

The story doesn't end there.

Despite lack of second-year federal funding, Connecticut Department of Economic Development created a **Defense Diversification Program** in 1990. Among its accomplishments:

- Research
 - Survey of defense subcontractors
 - Strongest needs identified: marketing support and financial assistance
 - Conducted economic modeling of projected defense cutbacks in the most impacted regions of the state (Fairfield, New London and Hartford Counties.)
- Identified high technology growth areas critical to Connecticut's economy
- Established defense diversification support offices at DED and in Governor's Federal Liaison Office

Accomplishments of Connecticut Defense Diversification Program, cont.

- Passed state legislation, initiated by the defense community, to establish R&D, training and other tax credits and a \$22.5 million **Defense Diversification Fund**. The fund provided tax abatements for capital investment including consulting, machinery and equipment upgrades, R&D, new civilian product development, and training/retraining for workers.
 - Recipients of risk investment for defense firms engaging in civilian product development included Textron-Lycoming and Electric Boat; Pratt & Whitney received tax credits to produce environmentally-sound civilian applications of energy-efficient gas turbine engines.

Accomplishments of Connecticut Defense Diversification Program, cont.

- Served as clearinghouse of information on defense diversification strategies for state businesses; non-defense federal, state and local procurement opportunities; federal and state assistance programs for defense-dependent companies; new and innovative technology and market areas that are compatible with the capabilities of CT defense manufacturers
- Established a Center for Flexible Manufacturing Networks for small contractors to share resources and facilities to enhance their competitive position.
- TECHCONN
- CONN/STEP (part of the federal Manufacturing Extension Partnership) facilitated coordinated access to federal, state, local and private manufacturing assistance programs.

Current federal resources for defense diversification

No DoL-led Defense Conversion Adjustment program

BUT

Office of Economic Adjustment (OEA) has expanded mission that can be leveraged for some of the same purposes.

- **New resources (2011: expanded budget +\$30 million annually; 2014: +\$10 million) and staff**
- **Non-competitive grants, collaborative, streamlined process, “bias for yes” (ex.: Oshkosh)**
- **Mandate as point of contact for implementation funds from other agencies, including Commerce (EDA), SBA, Transportation, Labor and Agriculture**

OEA in Connecticut

- Current grant: focus on mapping supply chain, analyzing and mitigating the impact of defense cuts on the state
- DECD is grantee, so well-positioned to coordinate implementation of Commission's action plan, with funding base including additional OEA grants

Possibilities for OEA funding beyond current grant

1. Multi-state grants (on model of New England Defense Diversification Planning and Technical Assistance grant) emphasizing regional cooperation
 - Current precedent: 2014 OEA grant to state universities—Michigan, Ohio and Indiana. Universities will ID best ways to help defense business sector diversify
 - Exs.: Technology transfer; NNMI cluster, R&D assistance, etc.
 - Action in some New England states to build on
 - Massachusetts: Massachusetts Development Finance Corporation—current OEA grantee; Metropolitan Area Planning Council
 - Maine: current discussions among congressional delegation re OEA and possible legislation to create state commission modeled after Connecticut
2. State as facilitator of sub-grants to specific local defense-dependent jurisdictions

Closest current match to post-cold war era Technology Reinvestment Project:

National Network of Manufacturing Innovation (NNMI)

- The current administration’s strategy for “creat[ing] an effective manufacturing research infrastructure”
- Identify technological advances with potential as foundational elements for a renewed manufacturing base—advances that the private sector isn’t likely to make on its own, or, if made, to share broadly to support the U.S. manufacturing sector as a whole.
- Solicit competitive proposals to construct roughly a dozen public-private regional hubs the Obama administration is establishing around the country: federally-funded collaborations of industry, universities and community colleges, government agencies and nonprofits to accelerate commercially-oriented research in each of these areas.
- Use this research to create approximately 12 hubs of new manufacturing around the country.

Recommended Action Steps

- Convene discussion with other New England states about creating New England Defense Diversification planning and technical assistance process, funded by OEA
- Facilitate OEA-funded subgrants to the state's most defense-dependent jurisdictions
- Identify key state supports for such high technology growth areas as hydrogen fuel cells and offshore wind, where Connecticut enjoys a competitive advantage

Recommended Action Steps, cont.

- Redevelop most important parts of Connecticut's post-cold war Defense Diversification Program such as:
 - Establish defense diversification support offices at DECD to serve as clearinghouse of information on defense diversification strategies for state businesses; non-defense federal, state and local procurement opportunities; federal and state assistance programs for defense-dependent companies; new and innovative technology and market areas that are compatible with the capabilities of CT defense manufacturers
 - Restore Connecticut State Technology Extension Program (MEP)'s specialty in defense diversification, possibly including the development of a Center for Flexible Manufacturing Network for small contractors to share resources and facilities to enhance their competitive position.

Recommended Action Steps, cont.

- Support state legislation to establish R&D, training and other tax credits and a Defense Diversification Fund to provide tax abatements for capital investment including consulting, machinery and equipment upgrades, R&D, new civilian product development, and training/retraining for workers. And/or a Revolving Loan Fund to support these purposes.

Concluding thoughts

- Challenge to overcome inertia bias
- Being proactive to adapt to historic changes
- Connecticut has shown vision—a model for the rest of the country
- A more diversified Connecticut economy will be a stronger, more flexible economy
- Opportunity to restore the best of CT's past diversification program and adapt it to new conditions
- How I might help:
 - Help publicize Commission's results
 - Consulting with other states—will brief on these results as a national model