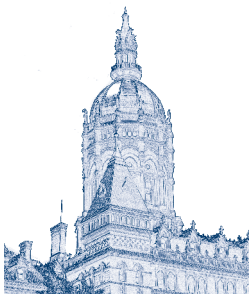


# The Capitol Update

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**MURTHA  
CULLINA**



An update on Connecticut State Government and Politics from The Government Affairs Group of Murtha Cullina LLP.

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*"Don't tax you, don't tax me, tax the fellow behind the tree."  
-Senator Russell B. Long, (November 1975)*

Nothing focuses a politician's mind like an upcoming election cycle. This likely explains the budgetary rapprochement between Democratic leadership and Governor M. Jodi Rell a day before the end of this year's legislative session. Ignoring critics in her own party who mocked the state budget agreement as a "shell game," Governor Rell quickly agreed to bond a large portion of the state's projected deficit backed by revenues from a continued charge on electric utility bills and a raid on the state's energy conservation fund. Remembering last year's long budget deliberations that did not reach closure until September 1, rank-and-file Democrats quickly fell in line and voted to approve the budget document in both chambers on the last day of the session, May 5.

## Budget

The 245-page budget bill sets a level of state spending a tad over \$19 billion for fiscal year 2011 (SB 494). The package includes a \$172 million general fund budget cut and nearly \$1 billion in borrowing to plug the projected budget hole for the fiscal year starting July 1. Incorporated in the budget is an anticipated \$365.5 million in stimulus funding not yet approved by Congress. Reviewing this document, one can anticipate the barbs that will fly next year as a new Governor is seated and the legislature reflects on this budget and the impending deficit for FY12 and FY13 e.g., house of cards, jerry-built, a Ponzi scheme, and

a lethal injection of red ink. Or, if the state's economy should miraculously turn around, the budget deficit was merely a speed bump on the road to economic recovery.

## Major Legislation

Wading through the legislative bills that were approved this year by the General Assembly, a few notable pieces of legislation point to the industriousness of both the administration and legislators in this short, three-month session.

Highlights include a complex **jobs bill** that was acted upon shortly before the session ended. This measure provides state assistance through tax credits, loans and technical support to new and expanding businesses in this state (HB 5435). It also extends state tax credits to "Angel Investors" and authorizes state assistance to promote exports and create new green jobs.

The legislature also approved legislation to jump-start the economy around Bradley International Airport by establishing an **enterprise zone** incorporating portions of the Towns of Windsor Locks, Suffield, East Granby and Windsor (SB 107). New tax incentives were approved for this zone including

state-reimbursed property tax exemptions and corporate tax credits for new and existing businesses. Bradley International currently is the second busiest airport in New England. A study by the Connecticut Center for Economic Analysis indicates that Bradley could add between \$4.4 billion to \$8.3 billion to the state's economy in future years depending on the strength of the state's economic growth.

Two major **education** reform bills passed both houses of the legislature this year. In support of Connecticut's effort to receive a portion of the \$3.4 billion remaining in the federal "Race to the Top" fund, legislators passed a bill to create a system to track individual academic growth throughout a student's educational career (SB 438). Additionally, this bill grants authority to the Commissioner of Education, through the State Board of Education, to reconstitute local boards of education that fail to make progress after being designated as low achieving school districts for two years. Finally, the legislature dramatically reformed the budget and governance process for the state's 16 vocational-technical schools (SB 379).

**Energy** reform took top billing for issues debated in the General Assembly this year. Propelled by a legislative version of a "harmonic convergence," the formerly divergent philosophies of the co-chairs of the Energy and Technology Committee came together in the approval of the most significant change in the state's utility laws since passage of electric deregulation in 1998. The legislation reorganizes the Department of Public Utility Control and establishes three new department bureaus for procurement, conservation and renewable energy and energy and research (SB 493). In addition, the legislation provides a host of incentives and mandates for the development of renewable power including solar, fuel cells, wind and hydro-electricity. Proponents of the bill claim the various provisions in the bill will reduce the price of electricity by 15%. Opponents assert that rather than reducing energy costs, the bill will cost ratepayers between \$62 million and \$268 million annually. Governor Rell sided with the opponents and vetoed the bill. In her veto message, she cited deep concerns this measure would raise utility rates for customers and disrupt the competitive electric supplier market which is starting to bring savings to the ratepayers of this state.

In the category of the "biggest surprise move of the session," Governor Rell endorsed a \$362 million plan to build a new medical tower and research facility at the **University of Connecticut Health Center** in Farmington (HB 5027). Two previous reconstruction plans were rejected by the Rell administration. Officials are counting on \$100 million built into the federal health care reform law to subsidize this new building plan.

Promoted by Governor Rell's Permitting Task Force and supported by key legislators, the General Assembly passed legislation to streamline the **Department of Environmental Protection's permitting process** (HB 5208). The bill establishes a standard of 60 days for the initial review and notification of application deficiencies and 180 days for tentative determination of approval or denial of applications. The bill also creates an Office of Permit Ombudsman to expedite certain permit applications tied to significant job growth. The legislature also approved legislation to give the Commissioner of Environmental Protection the authority to **waive certain permit requirements** for structures built before January 1, 1995 in state tidal, coastal or navigable waters provided such structures meet all applicable standards and criteria (SB 124).

In an effort to reduce the incidents of **domestic violence** in Connecticut, the legislature passed three separate bills which require teachers to have in-service training on teen dating violence and domestic violence, permit tenants who are victims of domestic violence to break leases under certain circumstances and provide the judicial and criminal justice system new authority to prosecute and monitor persistent domestic violence offenders (HB 5315, HB 5245, HB 5497).

Effective October 1st, drivers in Connecticut will no longer get a break if they acquire a hands-free device for their **cell phones** following their first offense for using a hand-held phone while driving (SB 427). First offenders will receive a \$100 fine, \$150 for a second violation and \$200 for third and subsequent violations.

Responding to a January, 2010 crash of a school bus on I-84 in which a Rocky Hill teenager died, the legislature approved compromise legislation to encourage school districts to equip their school buses with **seat belts** through a state sales tax incentive scheduled to rebate

50% of the sales tax paid on the purchase of school buses that have 3-point lap/shoulder belts installed during manufacturing of these buses (HB 5033).

### Left on the Table

Each year the General Assembly's bone yard collects a few more specimens of seemingly noteworthy legislation that did not quite have the juice to make it through the legislative process. This year, such laudable bills as those to regulate **power plant safety** (SB 462) and financial **hedge funds** (HB 5186), tax corporations through a multi-state **unitary tax** (SB 485), require employers with 50 or more employees to provide **paid sick leave** (SB 63), extend the current rate of the **conveyance tax** (SB 434) on real property sold in Connecticut and authorize a new **regional hotel tax** (HB 5483) all failed to cross the finish line. Also dying on the legislative operating table was a bill to prohibit school districts from requiring a student to **dissect animals** (HB 5423) as part of classroom instruction if the student raises conscientious objections to such activities (quick, someone alert Kermit that his request for clemency has been denied).

### Change

The catchword in politics today is "change." We heard about change in the last presidential campaign and we are hearing it today from Tea Party members and many aggressive political challengers. Pollsters are finding a growing level of discontent in the electorate driven by an increasing distrust of big government and large financial institutions. The electorate is contending with record rates of foreclosures, a 9.9% unemployment rate, and state budget calamities due to the biggest decline in state revenues in 50 years. Voters are angry with service reductions, higher taxes and government indebtedness. This hostility will certainly impact incumbents seeking reelection this November. Whether this was a prime factor in their decision, or simply a result of family and economic pressures, eleven legislators have announced their retirement from the General Assembly in the past few weeks -- Representatives Barry (D-12), Giannaros (D-21), Hamzy (R-78), Johnston (D-51), Lambert (D-118), Mioli (D-136), O'Connor (D-35), Shapiro (D-144), Staples (D-96), and Stripp (R-135). In the upper chamber, Senator Handley (D-4) has indicated her intention to retire.

Finally, five legislators are giving up their seats to run for higher office-- In the House, Representatives Bye (D-19, State Senate) and Merrill (D-54, Secretary of the State). In the Senate, three members are attempting to move up the political ladder-- Caligiari (R-16, Congress- 5th District), Debicella (R-21, Congress- 4th District) and Harris (D-5, Secretary of the State). Best wishes to them all.

## WHAT'S AHEAD?

For the first time in fifteen years, Connecticut has a wide open gubernatorial race with no incumbents running for the state's top office. Fortunes will be spent, thousands of miles will be travelled and endless speeches will be made in an effort by candidates to convince voters to hand them the keys to a suite of offices at the State Capitol where the Governor directs the institutions and personnel of state government.

What will the next Governor face following the inaugural ceremony on January 5, 2011?

The first clue will be given to the Governor-elect on November 15, 2010, when the Secretary of the Office of Management and Budget must give the future Governor a tentative budget for fiscal years 2012 through 2013. This document, more than anything else, will frame the priorities and goals of the new administration. It is a document that will quickly force policy decisions on resource allocation and tax policies.

By all measures, when the next Governor opens the state's cupboard, it will be bare, except for a little note that alerts the state its next deficit-financing bond payment is due. Connecticut continues to be mired in what's being called the Great Recession, in which over 100,000 jobs have been lost and state revenues have fallen by 12.2%.

To further encourage the next Governor to put his cardiologist on speed-dial, the impact of the state's weak economy on future state budgets has yet to be fully appreciated by many public officials. Estimates prepared by the legislature's Office of Fiscal Analysis, indicate the state's General Fund budget for FY12 will have a \$3.37 billion dollar deficit and the FY13 budget will be short \$3.16 billion. This represents a shortfall of 17.6% in FY12 and 16% in FY13.

Most economists do not predict a quick turnaround in the state's economy. Unemployment stands at 9.2%, new housing permits are at a historic low, net business starts continue to decrease and new car registrations marked their biggest drop in 46 years. Any recovery will be extremely slow and, absent additional federal stimulus funding, state and local government budgets will continue to contract.

To postpone the pain of state expenditure cuts and ward off the evil of higher taxes, the current administration and a majority of the legislature agreed this year to use a host of fiscal devices to balance the budget, many of which will be unavailable or unacceptable to the next Governor. This year's budget balancing tactics included reducing contributions to the state employee pension fund, securitizing a portion of electric utility surcharges and utilizing "anticipated" federal stimulus money.

Since the state's economy is not likely to recover for a number of years, the next Governor will be confronted with some of the following choices:

- **Greater use of non-profit organizations to provide existing state services**
- **State asset sales and lease backs**
- **Reduction of state employee workforce**
- **Restructuring state employee health and retirement packages**
- **Merger of state agencies**
- **Reduction of state aid to municipalities and school districts**

None of these options is attractive when you consider the personal and social consequences of such policies. But Connecticut is facing a grim economic future. The challenge will come to support a structural change in our economy while not totally disassembling state government and the array of programs that have made Connecticut an attractive state to live and work in.

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