

The Capitol Update

FEBRUARY 2014

**MURTHA
CULLINA**

LEGISLATIVE ALERT

"There will come seven years of great plenty... but after them there will arise seven years of famine."

- Genesis: 42

With the convening of the 2014 session of the Connecticut General Assembly, attention was given to Governor Dannel Malloy's state-of-the-state speech and the budget modifications he proposed. The traditional Republican leadership rebuttal followed.

In dueling finance and tax proposals, Governor Malloy and the opposition leadership in the General Assembly proffered two different plans for future tax relief and fiscal stability.

These proposals come at a time when Connecticut is anticipating its largest budget surplus (over \$500 million) in six years. Much of the growth in revenues is attributable to the \$1.5 billion tax increase approved in 2011 and an improving state economy.

Governor Malloy's Budget Proposals

Tax Refund

- \$55 tax refund to individuals earning less than \$200,000 and \$110 to joint filers earning less than \$400,000. Cost - \$155 million.

Tax Cuts

- Exempt 50% of teachers' pension from state income tax. Cost - \$23.1 million.
- Extend Angel Tax Credit. Cost - \$3 million.
- Exempt non-prescription drugs from sales tax. Cost - \$16.5 million.
- Remove premium tax from municipal health care plans. Cost - \$8.7 million.

Renters' Rebate

- Expansion of elderly renter rebate program. Cost - \$6.5 million.

Services

- Two-day state park holiday on fees. Cost - \$0.2 million.

Rainy Day Fund

- Deposit \$250 million into the Rainy Day Fund.

Long-Term Debt

- \$100 million payment to state pension fund.

Republican Budget Proposals

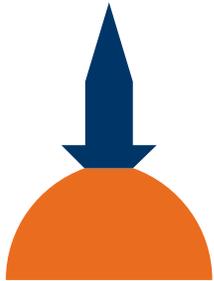
Tax Cuts

- Restore tax exemption on clothing and footwear for items under \$50. Cost - \$167 million.
- Exempt non-prescription drugs from sales tax. Cost - \$21 million.
- Eliminate special assessment tax on businesses for the state unemployment fund. Cost - \$59 million.

Rainy Day Fund and State Pension

- Pay down state debt on state pension fund and place funding in the Rainy Day Fund. Cost - \$268 million.

As you can tell, it's a gubernatorial election year in our state. Candidates can't contain themselves when it comes to recommending ways to spend surplus budget dollars. Gone are the opposition quotes from 2011 when budget disciplinarians warned future budgets "will come with pain" and predictions of "storm clouds gathering on



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

Elizabeth M. Gemski
Michael J. Martone
David J. McQuade
Janemarie W. Murphy

Murtha Cullina LLP
CityPlace I
185 Asylum Street
Hartford, CT 06103

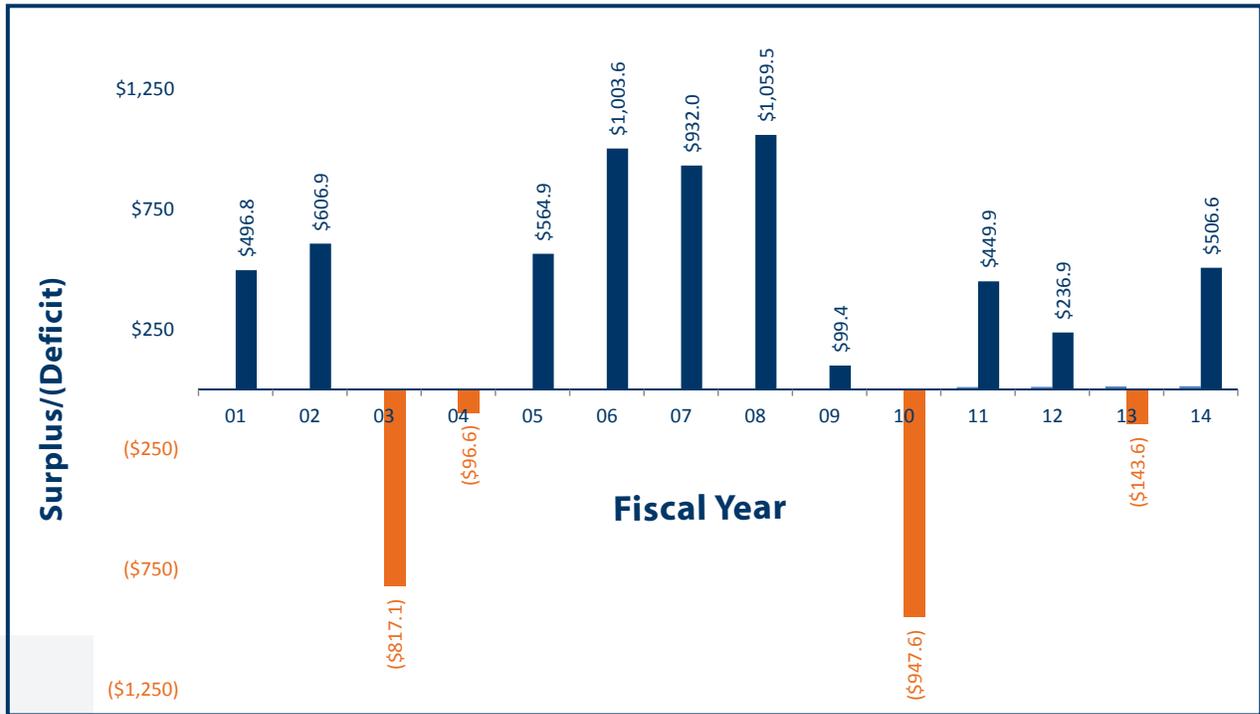
Follow us on Twitter:
[@MurthaGov](#)

the horizon.” Or from tax proponents, who claimed we are changing “the way we do business” in our state and we have a commitment “to taking future revenue increases beyond what we are already projecting and using that to pay off debt.”

Well, that was yesterday’s attempt at fiscal discipline. As Mark Twain once said, “Denial ain’t just a river in Egypt.”

Indeed, the General Assembly’s nonpartisan Office of Fiscal Analysis projects a \$1.1 billion state budget deficit for FY16 and a \$1.2 billion deficit for FY17.

Historical Surplus/(Deficit) from Operations (in millions)



Source: Office of Fiscal Analysis.

Other Legislative Initiatives

Aside from state budget proposals, the legislature and the Governor are expected to pursue a modest social agenda during this short-session of the Connecticut General Assembly. The legislature and the administration will renew efforts to create an Office of Early Education to coordinate early care and education of young children. School safety and the provision of additional mental health services for young adults will continue on the agenda following the Newtown tragedy. Legislators will do a deep dive into the competing interests of for-profit and non-profit hospitals. They will attempt to balance the shaky stability of a number of small hospitals in our state with the interests of the health care workforce and charitable support received locally by these hospitals. Expect a new statewide port authority to be created to jump start the development and marketing of the Bridgeport, New Haven and New London ports. To build on the success of the state sponsored college savings plan, the Governor and the State Treasurer are seeking to establish a CHET Baby Scholars Program to incentivize parents to participate in early savings for future higher education costs. Bills will also be introduced to establish social benefit corporations focusing on societal benefits over

shareholder profit. Pivoting off President Obama’s call for a new type of retirement savings account for all Americans, the General Assembly is poised to resurrect a measure from last year to establish a state-administered retirement savings plan for private sector employees. Additionally, the Governor is proposing to mirror President Obama’s effort by increasing the state’s minimum wage to \$10.10 by 2017. The legislature again will consider a measure to legalize physician-assisted suicide in this state. Finally, the agenda for the majority Democrats in the legislature anticipates the “graying” demographics of this state by seeking additional resources for the re-employment of older workers and an “aging in place” initiative promoting home and service-based systems for seniors.

The Economy

National

The consensus among economists is that this country is finally pulling out of the recession that dramatically plagued the U.S. between March 2008 and February 2010. Most analysts suggest the fundamentals are in place for positive growth. U.S.

Gross Domestic Product has been growing at an average annual rate of 2.3% since the recession. Employment has increased by 7 million at the same time, producing a national unemployment rate of 6.6%, the lowest in five years. Continued growth in the national economy is anticipated based on the expansion of the manufacturing community, gains in consumer spending, increases in real exports and rising new home sales.

Connecticut

While not as strong as the nation's, Connecticut's economic outlook projects a modest upturn in our economy in 2014. The state's unemployment rate, currently at 7.4%, is not expected to change this year. The housing market is experiencing moderate growth and personal income is expected to rise by 2.7%. Hiring by small manufacturers has picked up, auto sales continue to increase as drivers replace aging vehicles and the finance, insurance and professional services sectors are expected to rebound. Restraining the state's recovery will be the aging population, net-out migration, land limitations and rising mortgage rates in the out years.

Connecticut Politics

2014 opens a significant political year in this state. November will bring an election of the governor and the constitutional officers in Connecticut, the entire membership of the Connecticut General Assembly and five Congressional office holders.

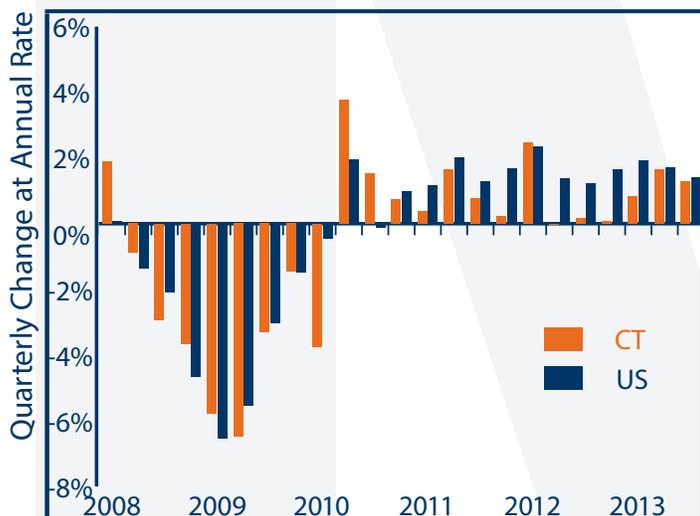
In 2010, after a twenty-year hiatus, Democrats finally took control of the Governor's chair. The current Governor, Dannel Malloy, will be at bat again swinging for the fence. He gained office in 2010

in a hotly contested race with a nail-biting victory margin of 6,404 votes out of approximately 1.1 million cast. Malloy will do his best to tout his administration's efforts to turn the state's economy around, clean up the fiscal mess left by previous administrations, promote affordable housing and restructure the delivery of energy in Connecticut.

Currently, four prime Republican candidates are angling to be Malloy's opponent—former Ambassador Tom Foley, who lost to Malloy last time, Republican Senate Minority Leader John McKinney, Danbury Mayor Mark Boughton and Republican State Senator Toni Boucher. Each of these candidates has attacked Malloy for being the only governor in the country to preside over a state economy with a Gross Domestic Product that fell in recent years. And since his election, Governor Malloy's favorability rating has never reached 50% (Quinnipiac Poll). Such numbers clearly indicate a degree of vulnerability for the incumbent. What is not clear, at this time, is if the Republican Party in Connecticut can produce a candidate who will be an attractive alternative to Malloy.

Expect no significant change in the Congressional seats in Connecticut or the makeup of the General Assembly. The one race to watch is the contest between incumbent Democrat Congresswoman Elizabeth Esty and Republican challenger Mark Greenberg in the 5th Congressional District.

Connecticut Employment Performance



Source: *The Connecticut Economy*, based on data from the Bureau of Labor Statistics.

Questions & Contact

If you have questions regarding any issues discussed within this publication, please contact one of the members of our Government Affairs Group:

David J. McQuade

860.240.6141 | dmcquade@murthalaw.com

Mr. McQuade's extensive experience in state and federal legislative procedure has served private and public interests for more than 25 years. He is an expert in local, state and federal government administrative functions and has extensive experience in advocacy before public interest and community groups. From 1991 to 1994, Mr. McQuade served as Chief of Staff for the Senate Majority Office of the Connecticut General Assembly. He served seven years under Governor William A. O'Neill as Chief of Staff and as Administrative Aide for Policies and Programs. Previously, Mr. McQuade had been Manager of Governmental/Regional Policies for the Greater Hartford Chamber of Commerce. He served in the Office of Congressman William R. Cotter as Chief District Aide and Press Secretary and continues to maintain excellent media contacts. Mr. McQuade began his career in 1973 in the General Assembly's Office of Legislative Research. He holds a Bachelor's degree from George Washington University and a Master's degree in political science from the University of Connecticut.

Janemarie W. Murphy

860.240.6143 | jmurphy@murthalaw.com

Ms. Murphy's expertise in state and municipal government is coupled with her extensive experience with community groups and in public interest negotiations. From 1990 to 1994, she served as Senior Legislative Aide to the Senate President Pro Tempore of the Connecticut General Assembly. Previously, Ms. Murphy had been a Legislative Assistant to the State Senate

Majority Office and served as staff to the Legislative Task Force on Manufacturing. She has served as a grant seeker with the United Connecticut Action for Neighborhoods, a housing consultant with Imagineers, and a community organizer with Hartford Areas Rally Together. Ms. Murphy holds a Bachelor's degree in political science from Holy Cross College.

Michael J. Martone

860.240.6109 | mmartone@murthalaw.com

Mr. Martone has a strong background in state and federal government and politics. Prior to joining Murtha Cullina LLP, he was the political director of a successful gubernatorial re-election effort. He also served a gubernatorial administration as a legislative program director at the Department of Economic and Community Development from 1997 to 1998, as director of constituent services from 1995 to 1997. Mr. Martone has also served as director of constituent service for a Congressional Office from 1985 to 1991. He holds a Bachelor's degree in history from Quinnipiac College and has continued graduate studies at Southern Connecticut State University.

Elizabeth M. Gemski

860.240.6185 | egemski@murthalaw.com

Ms. Gemski has over 10 years of experience in federal and state government affairs working in Washington, DC, Massachusetts, Rhode Island and Connecticut. Previously, Ms. Gemski was State Vice President of Health and Advocacy Initiatives for the American Cancer Society in Rhode Island where she was responsible for state-level planning, implementation and evaluation of health initiatives, as well as government affairs programs. Ms. Gemski received her B.A. from Clark University and interned at the Office of Greville Janner, Queen's Court, Member of Parliament in London, England.

FOLLOW US ON TWITTER!

@MurthaGov

The Government Affairs Group of Murtha Cullina now has a Twitter account!

We welcome you to follow us @MurthaGov for updates on federal and state politics, economic issues and for insights on what's trending in government affairs.

