

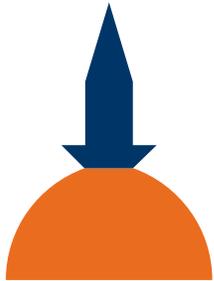
The Capitol Update

JULY 2015

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“The Only Difference Between a Tax Man and a Taxidermist is that the Taxidermist Leaves the Skin.”

- Mark Twain



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

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After declaring that past tax increases have placed Connecticut on a sound fiscal foundation, Governor Dannel Malloy presented a budget to the Connecticut General Assembly in February that contained more than \$590 million in new cuts to social services providers, reductions in health spending, diminished spending on higher education and court-run programs and fewer dollars for state park and heritage programs. He also proposed to reign in tax loopholes and corporate tax credits to raise \$357 million over the biennium “to ensure that all taxpayers in Connecticut share the responsibility for funding state government.” With his statement and budget document he delivered to the General Assembly, the political gears of the legislature were engaged with a clear spotlight on the budget numbers and their associated programs.

Connecticut General Assembly - 2015

The 2015 Session of the Connecticut General Assembly convened on January 7, 2015 with House Speaker Brendan Sharkey quoting the late Governor Mario Cuomo who once said “[We] campaign in poetry. But when we’re elected, we govern in prose.” And so the process of governing began. Members of the House introduced more than two thousand bills and, not to be outdone volumetrically, the thirty-six members of the Senate introduced over one

thousand bills. More than nine hundred of the proposed bills were reported to the floors of either chamber. The Governor signed 268 into law and vetoed nine bills.

Major Bills Approved

Aside from a contentious budget, the legislature approved a number of significant bills impacting everything from the environment, consumer protection, the criminal justice system, energy procurement to new transportation infrastructure initiatives. Environmentalists achieved victories by creating the Long Island Blue Plan with resource inventory requirements and increasing the percent of federal and state funds for open space purchases and watershed land acquisition. The Department of Consumer Protection was successful in extending the sale hours for off-premises alcohol sales and increasing the number of package stores a permittee may own from three to four on July 1, 2015 and four to five on July 1, 2016. Governor Malloy successfully achieved his objective of passing his “Second Chance Society” measure which lowers penalties for drug possession and streamlines the

process for paroles and pardons. A companion bill, promoted by the legislature's Black and Puerto Rican Caucus, provides standards for investigating officer-involved shootings and encourages the funding of body cameras for law enforcement officials. Activists on the energy front hailed the State's effort to permit the Department of Energy and Environmental Protection to solicit long-term energy supply contracts on its own or in coordination with other states. Additionally, variable electric rate contracts for residential customers are now prohibited under a new law and new provisions for reducing the fixed rate for electric distribution charges were approved. Finally, several administrative changes were added to the statutes including revising the system for Medicaid audits, new data security requirements and a cap on non-structural administrative costs for the State's public colleges.

State Budget

As traditional in Connecticut, the transparent nature of the budget deliberations, which kicked off in April, went behind closed doors as the June 3rd session deadline approached. Negotiations between legislative leaders and members of the Malloy administration continued to the last day of the legislative session. Discussions over increasing taxes and protecting social service programs led to a compromise budget of \$19.8 billion for FY 16 and \$20.4 billion for FY 17, an average growth rate of 3.68% for the two fiscal years. Initially, new and increased taxes were placed on cigarettes, corporations, computer services, hospitals, clothing, high-income individuals, outpatient surgical centers, luxury items and car washes. Then on June 12, acceding to corporate criticisms and relocation threats, Governor Malloy called for a roll back of a number of tax hikes impacting the business community. In a special session, the legislature agreed to delay the new unitary tax on corporations until January 1, 2016 and maintain the existing 1% sales tax on computer and data processing services saving corporations

more than \$180 million over two years. Taxes, originally scheduled to end this year but remaining on the books, are a 20% surcharge on corporate taxes, existing credit caps on insurance premium taxes, the moratorium on new film tax credits and the higher income tax for single filers. In total, the legislature and the administration increased taxes by \$1.3 billion over the next two years.

Dedicated Taxes

The legislature and the Governor took two landmark actions dedicating 0.5% of the State's sales tax to transportation funding and another 0.5% of the same tax for direct aid to municipalities. The new revenue stream for transportation infrastructure includes \$1.77 billion for rail, \$613 million for highways, \$281 million for bridges, \$101 million for bicycle and pedestrian trails and \$48 million for bus service. In total over the next five years, \$10 billion will be spent on transportation when existing State and Federal resources are included. By moving 0.5% of the State's sales tax revenue to the State's towns and cities for targeted tax relief, municipalities will split a pot of more than \$400 million in biennial revenues.

The Dust Bin

With three thousand legislative bills up for consideration this year, the majority of them never made it to either the House or Senate floors for votes. Prime among these were the aid in dying/assisted suicide bill, the ban on single use paper or plastic bags, taxes on sugary drinks, the creation of a list of chemicals of concern to children, a bill mandating the labeling of baby foods containing GMOs, a corporate fee requirement for large companies that pay workers less than \$15 an hour, palliative use of marijuana for children, a bill to create a transit corridor development authority, a bill allowing a certain electric vehicle manufacturer to sell directly to consumers, a provision to expedite the removal of firearms upon the issuance of a civil restraining order and the extension of time in which minors may bring a medical malpractice claim.

National Economy

While the national economic outlook is moving in the right direction, the pace of recovery is viewed as “moderate” to “mixed” depending on the region of the nation. Coming off a weak growth earlier this year, attributable to winter’s weather disruptions, the strong dollar and West Coast port delays, economic growth continues its modest climb with the addition of 2.5 million jobs in the first quarter, strong auto sales, wage growth and rising home sales. Tempering this growth, however, are the continued impact of the strong US dollar on export sales, the downturn in national oil and gas exploration and the flat growth in manufacturing. Market watchers also are keeping an eye on the negotiations between Greece and its international lenders and any moves by the Federal Reserve to raise interest rates.

Connecticut’s Economy

As the national economy has improved, so has Connecticut’s, yet ever so slowly. The sales and prices of single-family homes are rising. Unemployment has fallen to 6% versus the national average of 5.5%, gaining 23,000 new taxpayers over the past twelve-month period. New auto sales are following the strong market of 2014. Lower gasoline prices are pouring millions of dollars back into consumer’s pockets supporting discretionary spending which may foster greater retail activity. Most important to the State is the growth in personal income (earnings, dividends, Social Security, Medicare, Medicaid and rental income) which in the first three months of 2015 has increased by 1% outpacing the national figure of 0.8%. Threatening these positive notes, however, are the recently approved state business tax increases projected to raise \$700 million over two years, an annual increase to the hospital tax of more than \$250 million and higher taxes on the wealthy scheduled to raise \$200 million to \$230 million each year of the biennial budget. Confusing the State’s economic scene were recent corporate alerts by General Electric, Aetna and the Travelers that proposed new taxes on computer and data services, the lowering of the percentage of tax credits used to offset tax liability and the future implementation of

mandatory combined reporting of taxes under the Corporate Business Tax (unitary tax) have companies contemplating relocation of core business operations.

What’s Next?

Connecticut’s economy over the last years has pressed the State budget on two fronts- lower than anticipated revenues and constant pressure to maintain an adequate social safety net. Since 2009, Connecticut has lagged in the nation in job growth. Restraining our economy have been increases in State and local taxes, net-out migration, a graying workforce and diminished Federal funding. Many economists view Connecticut as having one of the worst economic records in the nation. Members of the General Assembly must feel they are starring in “Ground Hog Day,” finding themselves in a time loop, repeating the same day again and again. Following the approval of the largest tax hike in history- approximately \$3.8 billion for FY 12 and FY 13- the legislature was confronted again with budget deficits that ultimately required a majority of the members to support a budget that increased taxes by nearly \$1.3 billion. A year from now the State’s economy and these tax increases are sure to become fodder for the political wars during the next legislative election in 2016. The question is, will these candidates face an apathetic public or a puling electorate?

QUESTIONS & CONTACT

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

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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.

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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. In 2014, Ms. Murphy was elected as President and Chair of State Law Resources, Inc. ("SLR"), an international network of independent law firms selected for their experience in government relations at the state and national level. Murtha Cullina LLP has been the SLR member firm for the State of Connecticut since 2000. Ms. Murphy holds a Bachelor's degree in political science from Holy Cross College.

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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.

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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.

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