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INTRODUCTION

CBIA’s 2019 Survey of Connecticut Businesses—the 18th annual edition, made possible this year through the generous support of Marcum LLP—coincides with a period of tremendous opportunity for the state.

That sense of opportunity is somewhat clouded by ongoing uncertainty, particularly around the structural issues impacting Connecticut’s economic recovery and the whiplash consequences of federal trade policies.

Connecticut companies continue to grow—70% reported profits in 2018—yet this year’s survey shows their outlook for both the state and national economies is tempered.

Job growth in the state has not matched the region and the rest of the country, yet Connecticut employers, particularly manufacturers, cannot find enough skilled workers to offset retirements and meet demand.

The state’s economy grew 1% in 2018, expanding for the first time since 2015. First quarter GDP numbers for 2019 were promising, with strong growth in the finance and insurance, retail trade, and healthcare sectors.

This year’s survey was in the field from mid-June through

“It’s great to see Connecticut companies continuing to grow and expand despite the unrelenting negative trends in the state’s business climate. I am hopeful that companies continue to find ways to be innovative for the next generation of Connecticut workers.”

Michael Brooder | Hartford Managing Partner, Marcum LLP

late July, after the 2019 General Assembly passed two major workplace mandates—paid family and medical leave and the \$15 hourly minimum wage—and a two-year budget that relied almost exclusively on tax and fee increases to close a multi-billion dollar deficit.

Based on the survey responses, small businesses were particularly rankled by the legislative session. Generally speaking, smaller employers feel unfairly targeted by those two mandates, which are expected to further increase business costs in the state.

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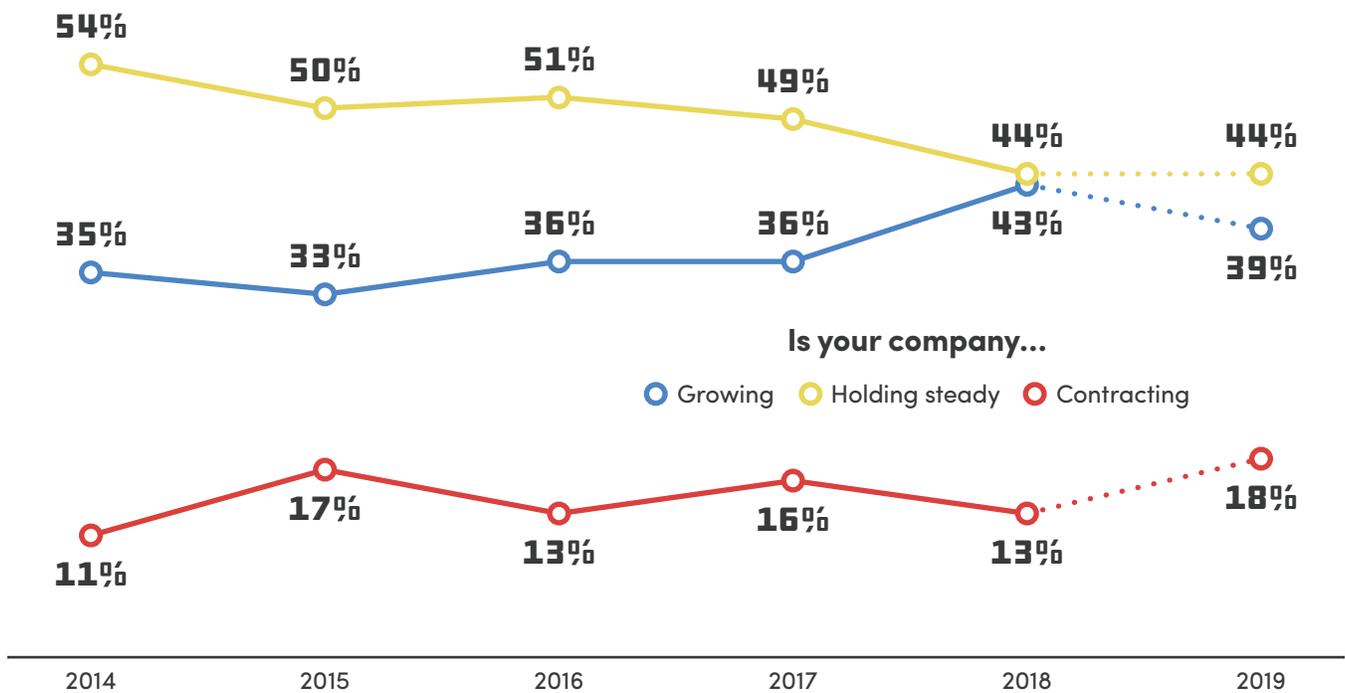
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Businesses are casting a hopeful, if not wary eye to the future. They see the state's tremendous economic potential and their responses to this survey not only offer valuable insights into the challenges they face, but areas of opportunity for policymakers to embrace.

KEY FINDINGS

- ▶ Company performance remains solid. Over twice as many firms see sales growth versus declines, over four times as many posted profits compared to losses. Investments, particularly in employee training, are strong.
- ▶ Businesses continue to pursue innovation, adding products and services at a healthy rate, while new technology and research and development remain investment priorities.

- ▶ More than half of surveyed companies expect the size of their workforce to remain static, with only 23% looking to add workers.
- ▶ Projections for both the state and national economies show a drop in optimism from 2018. Just 11% expect the Connecticut economy to grow next year, while 73% see U.S. growth.
- ▶ Concerns over Connecticut's business climate are growing, a reflection of new workplace mandates passed by the legislature in 2019 and the state's high cost of doing business.
- ▶ Retaining and hiring younger workers remains a big challenge for most employers.



STATE OF BUSINESS

Companies reported strong 2018 results, with 43% seeing sales growth, up from 36% the previous year and the highest in five years. Forty-four percent of respondents report static sales (down from 49%), while 13% said sales declined in 2018, down from 16%.

Sales growth numbers were weaker for small businesses (those with 100 employees or less): 35% reported growth, 47% said sales were unchanged from the previous year, and 19% experienced a decline in sales.

Half of all surveyed businesses have customers located in Connecticut, 39% ship and/or sell to other states, and 11% export goods and services to international markets. Those numbers are similar to last year's survey.

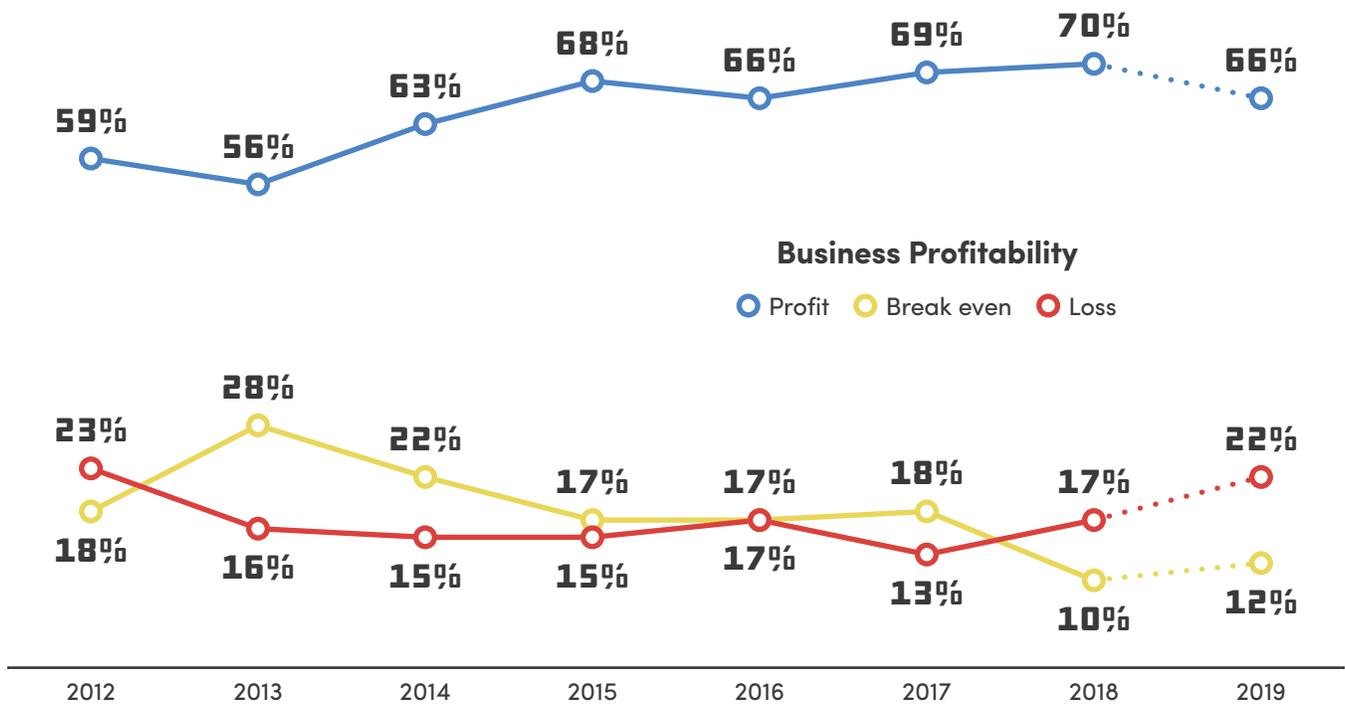
Canada is the primary export market for 15% of

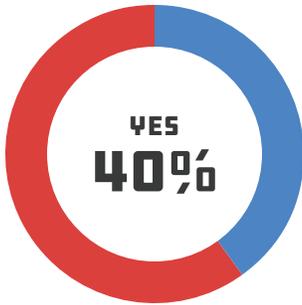
Connecticut companies, followed by Great Britain (10%), China (9%), Mexico (9%), Germany (7%), and Australia (7%). Over the next five years, 15% say Mexico has the greatest potential, along with Canada (12%), China (11%), Australia (7%), and Germany (4%).

Looking ahead, 39% of all companies expect sales growth in 2019, 44% see unchanged sales numbers, and 18% forecast declining sales.

Seventy percent of respondents reported a net profit last year, a post-recession high. Ten percent said they broke even, down from 18% in 2017, and 17% reported losses, up from 13%.

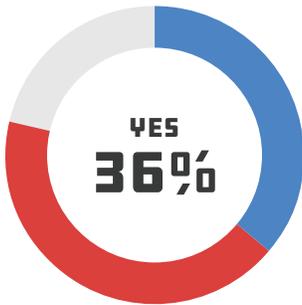
The manufacturing sector—buoyed by strong demand in aerospace and defense—reported slightly higher profits, with 75% of manufacturers showing a net profit for 2018 while 12% recorded losses.





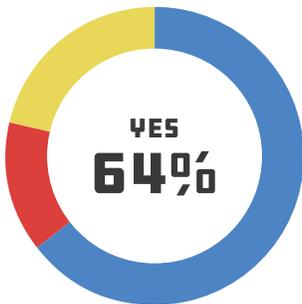
Did your company introduce a new product or service in the past 12 months?

■ Yes (40%) ■ No (60%)



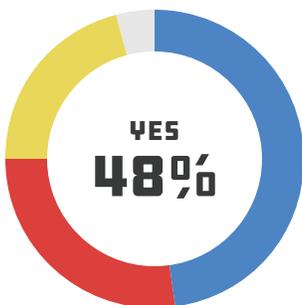
Will you introduce a new product or service in the next 12 months?

■ Yes (36%) ■ No (42%)
■ Unsure (21%)



Are your products or services manufactured or produced in Connecticut?

■ Yes (64%) ■ No (14%)
■ Partially (21%)



Will your new products or services be made or produced in Connecticut?

■ Yes (48%)
■ No (27%)
■ Partially (21%)
■ Unsure (4%)

What's driving profits for Connecticut businesses?

Many are benefiting from a strong national economy, with increased productivity (through technology and efficiency), tight cost controls, and greater workforce retention also listed as major factors.

Shrinking Connecticut markets and growing costs—particularly state taxes, labor, and energy—were the most significant loss factors. Trade tariffs also factored into losses for both exporters and companies that import raw materials.

One small business reported losing a multi-million dollar contract to a plant in Georgia, unable to match a competing bid that was 15% lower. Others said they were unable to pass on the added costs of tariffs to customers.

Two-thirds (66%) of all surveyed companies expect to return a profit in 2019, 12% say they will break even, and 22% forecast losses.

INVESTMENT, ECONOMIC OUTLOOK

Forty percent of surveyed companies introduced a new product or service in the last 12 months, down eight points from last year's survey. Almost two-thirds (64%) make or produce their products or services in Connecticut, virtually unchanged from last year.

Of the 36% of businesses planning on introducing a new product or service in the next 12 months, almost half (48%) plan on locating production in Connecticut. Last year, 49% planned on siting production in the state.

Why aren't more companies locating their production

and services in Connecticut? The cost of doing business here is the primary factor. Connecticut is the fifth most expensive state for business in the country according to CNBC's 2019 America's Top States for Business.

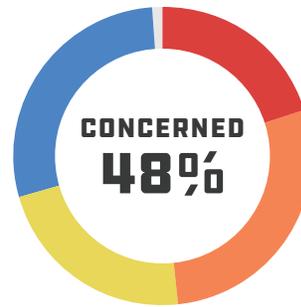
Based on this year's survey responses, the skilled labor shortage may also play a role, although not to the extent that costs are driving location decisions.

Given the impact the worker shortage is having on a number of industry sectors, it is no surprise that employee training is the top investment priority, cited by 29% of companies, with 14% emphasizing worker recruitment.



Where does your company currently make its greatest investment?

- Employee training (29%)
- New technology (16%)
- Property/facilities (15%)
- Recruiting qualified workers (14%)
- Other (10%)
- Other capital assets (8%)
- Research & development (8%)



Are you concerned about the potential negative impact of tariffs and trade disputes?

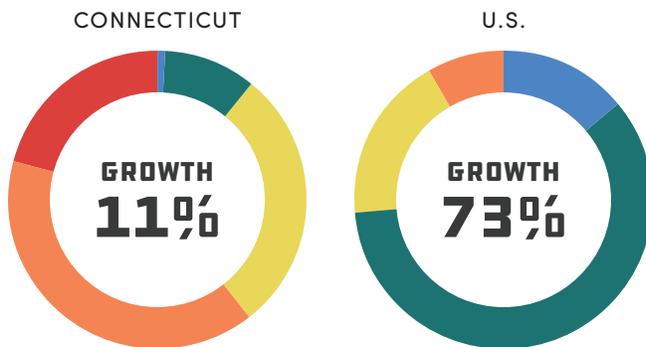
- Very concerned (20%)
- Somewhat concerned (28%)
- Neutral (22%)
- Not very concerned (28%)
- Unsure (1%)

Sixteen percent are prioritizing new technology, followed by property and facilities (15%), other capital assets (8%), and research and development (8%). R&D is more important to manufacturers, with 16% listing it as a priority.

Connecticut businesses are becoming increasingly anxious about the direction of the national economy—almost half (48%) are somewhat or very concerned

about the negative impacts of tariffs and trade disputes. Twenty-eight percent say they are unconcerned and 22% are neutral.

"It's simply awful—very destructive," said one



What is your 12-month outlook for the Connecticut and U.S. economies?

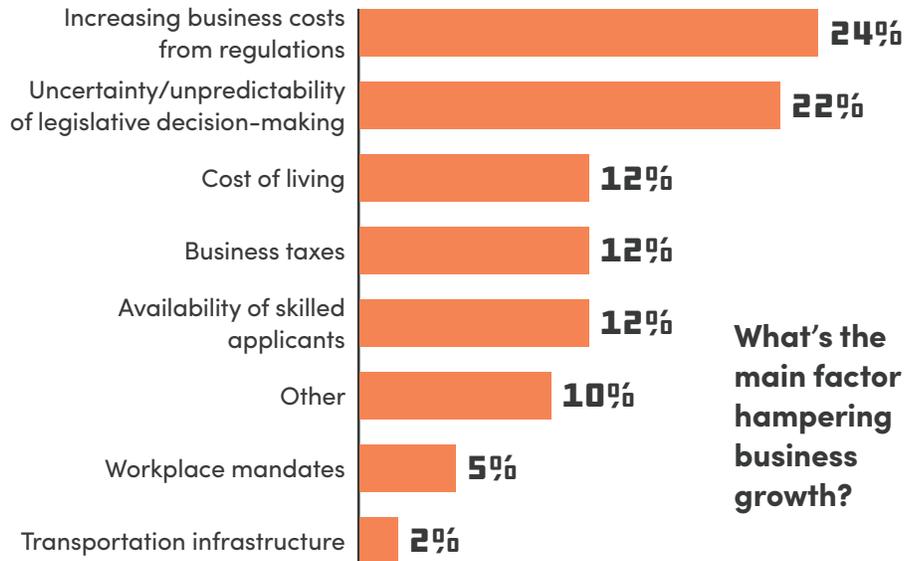
- Strong growth (1%, 14%)
- Moderate growth (10%, 59%)
- Static (29%, 18%)
- Moderate contraction (40%, 8%)
- Strong contraction (21%, 0%)

manufacturer. “Tariffs are the single biggest contributor to increased costs for packaging components and raw materials.”

A majority of businesses have a pessimistic outlook for the Connecticut economy—just 11% see the state’s economy expanding in the next 12 months, while 29% see no change and 61% forecast contraction.

That’s a significant shift from the 2018 survey when 18% forecast growth, 52% static conditions, and 30% contraction.

In contrast, 73% expect the U.S. economy to grow over the next 12 months, 18% see unchanged conditions, and just 8% predict a contraction. Those numbers are down from our 2018 survey, when 85% expected the national economy to grow, 11% saw static conditions, and 4% predicted contraction.



BUSINESS CLIMATE

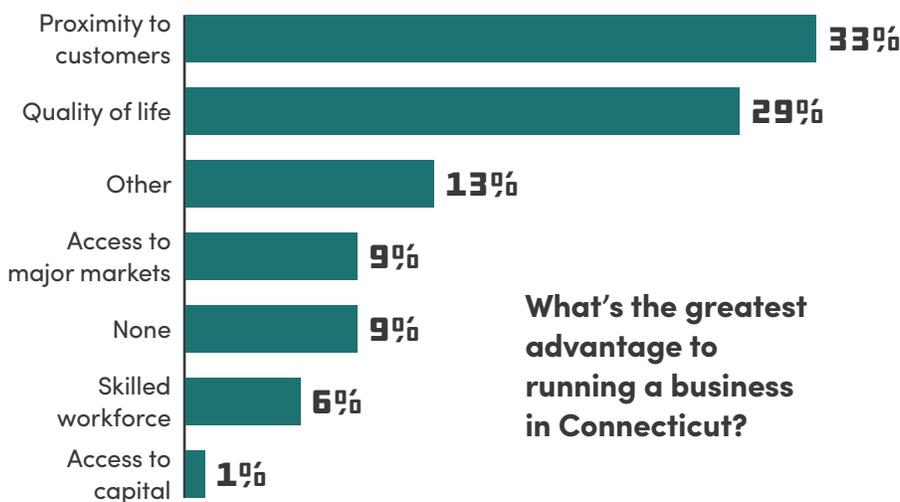
One-third of surveyed companies say proximity to customers is the greatest advantage to running a business in Connecticut, while 29% cited quality of life and 9% access to major markets.

Historically, the state’s skilled workforce was also among those key advantages. However, it was cited by just 6% of

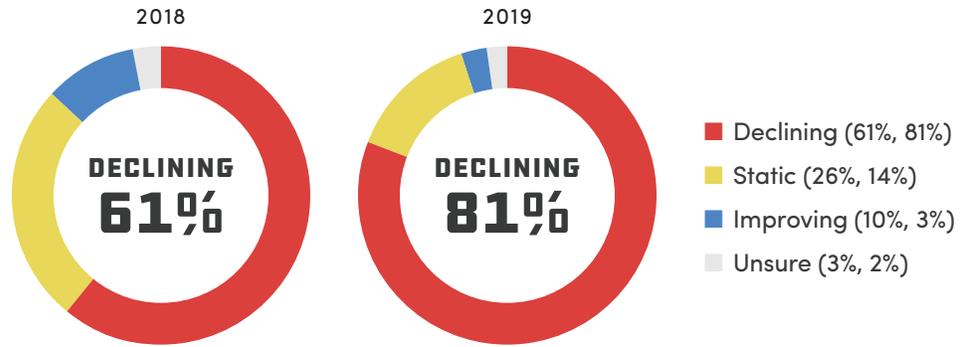
businesses in this year’s survey.

Nine percent say there is no primary advantage to being in Connecticut.

For a quarter of companies (24%), the ever increasing cost of complying with regulations is the main factor hampering business growth, closely followed by the uncertainty and unpredictability of legislative decision-making at the state level.



How do you rate Connecticut's business climate?



The state's high cost of living, business taxes, and the lack of skilled workers were each cited by 12% of surveyed companies as obstacles to growth. Five percent pointed to workplace mandates and 2% referenced the state's transportation infrastructure.

"If the Connecticut economy doesn't grow, we can't grow our business," said one survey respondent. "All of the taxes and regulations create an unfavorable environment for business and businesses are either leaving or shifting their growth to other states."

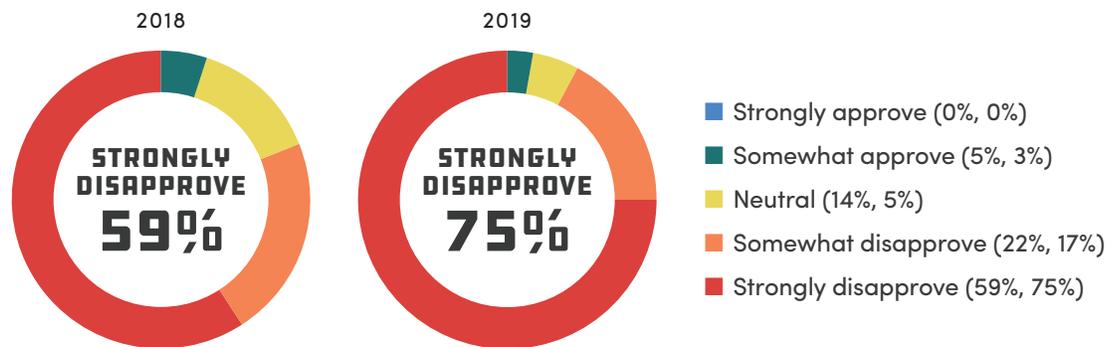
An alarming 81% of businesses believe the state's business climate is declining—that's a 20-point jump from last year's survey. Fourteen percent describe it as static and only 3% say it's improving.

Among small businesses, the percentage of those who say the business climate is declining jumps to 85%, with 10% calling it static and just 4% describing it as improving.

That pessimistic view of the state's business climate is not surprising, given the legislature's focus this year on workplace mandates. While many proposed mandates did not pass this session, two that did—paid family and medical leave and raising the minimum wage from \$10.10 to \$15—will likely have a defining impact on Connecticut's business environment.

Only 3% of surveyed businesses approve of the state legislature's handling of the economy and job creation, while 17% say they somewhat disapprove and 75% strongly disapprove—all-time high disapproval numbers for this survey.

General Assembly ratings: economy & job creation



ff While Connecticut businesses are finding ways to survive and grow, their concerns for the future are clearly apparent in this survey. State policymakers must acknowledge these very real concerns and focus on policies that will restore confidence, promote investment, and drive long overdue economic and job growth.

Joe Brennan | President & CEO, CBIA

Last year, 59% strongly disapproved of the legislature’s performance, 22% somewhat disapproved, and 5% somewhat approved. Those who considered themselves neutral on the question fell from 14% in 2018 to 3% this year.

“Has the legislature not realized we are in competition with other states?” asked one survey respondent.

It is vital that as company ownership changes, firms remain in Connecticut. It is worrisome that diminished

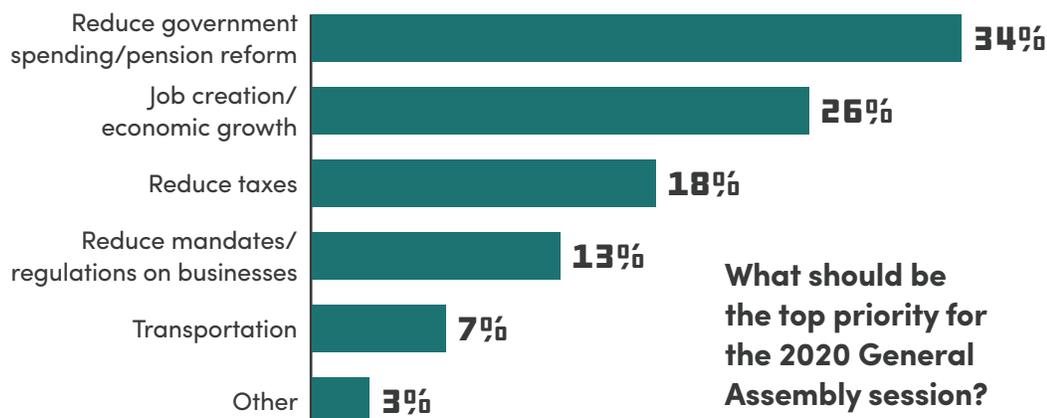
confidence makes firms not only vulnerable to relocation offers, but also that new owners will move innovative products and intellectual capital out of state to lower cost locations.

A substantial percentage (43%) have no plans to exit their firm. However, 5% plan to retire within the next year, 24% within five years, and 16% within six to 10 years. Thirteen percent are undecided.

Connecticut remains vulnerable to firms moving out of state. Twenty-three percent have, on their own, considered moving. Another 21% have been approached by another state to relocate. Florida, Texas, the Carolinas, Virginia, and New Hampshire are frequently mentioned as possible exit locations.

POLICY ISSUES

The 2019 legislative session did little to improve the business community’s confidence in policymakers. A renewed focus on mandates and adoption of a two-year budget featuring more than \$2 billion in tax and other revenue increases clearly shaped business responses in this year’s survey.



What should be the top priority for the 2020 General Assembly session?

Ninety-four percent believe state policymakers focus too heavily on implementing workplace mandates rather than prioritizing economic development and

job creation. Only 7% say state legislators understand business issues and the importance of growing jobs and the economy.

Where do employers want policymakers to focus their attention?

Over one-third (34%) say the 2020 session of the General Assembly should focus on government spending cuts, including reforming the state employee retirement system.

They fully recognize that Connecticut’s pension liabilities far exceed state employee and government contributions and investment returns.

They want lawmakers to recognize that the state’s fiscal instability is undermining economic growth—stripping resources from other critical areas like education and infrastructure and discouraging much-needed private sector investment.

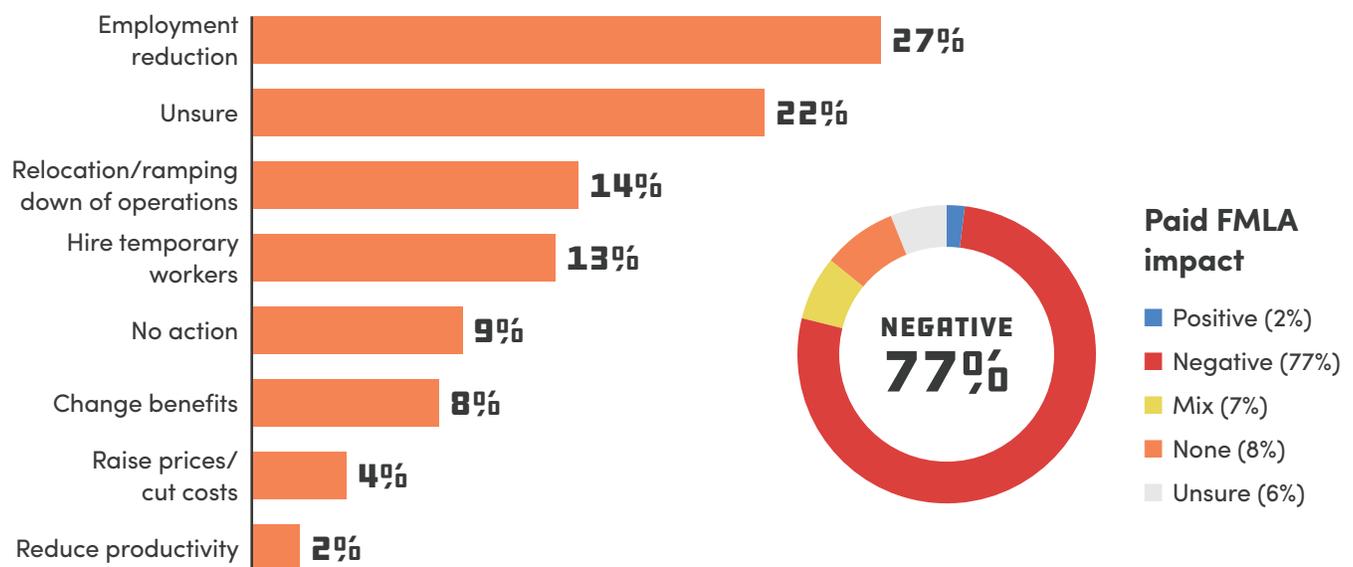
Other policy priorities include job creation and economic growth (26%), cutting the state’s high business and personal tax burden (18%), reducing business mandates and regulations (13%), and transportation (7%).

“Stop trying to find creative ways of raising revenue and start looking for effective ways of reducing the amount of money Connecticut requires to operate,” says one employer. “The long-term effect of all these tax increases is a talent and money drain on the state.”

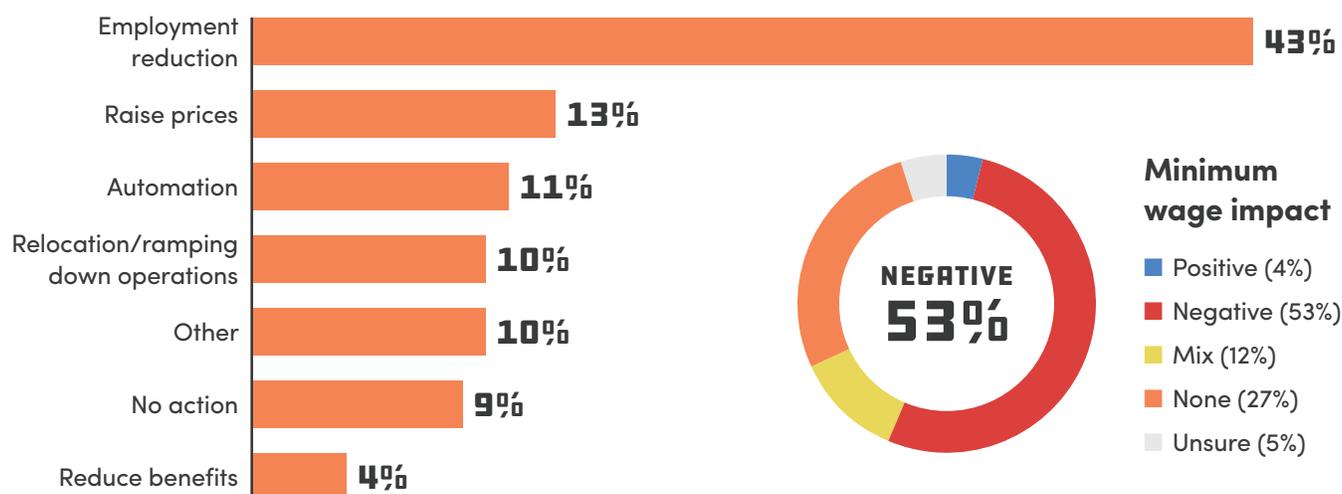
Wrote another: “To compete with our neighboring states, we need to make our tax structure competitive. That includes eliminating the sales tax on services and reducing rates below that of New York and Massachusetts.”

The new state budget also did little to build trust among small businesses. A year after lawmakers adopted a pass-through entity tax and corresponding credit designed to help small businesses mitigate federal tax

How will your company manage paid FMLA?



How will your company manage the minimum wage hike?



law changes, the budget reduced that credit to 87.5%—essentially a \$53 million tax hike.

“The increase in the pass-through entity tax is a direct hit on my company,” wrote one small business owner. “Lawmakers need to stop putting all the responsibility for state budget reforms on the backs of small companies.”

PAID FMLA, MINIMUM WAGE

While a number of proposed mandates failed during the session, the passage of laws implementing paid family and medical leave and raising the hourly minimum wage to \$15 by 2023 are real concerns for employers, particularly small businesses.

Paid FMLA—which will allow all private sector employees up to 12 weeks of paid leave beginning in 2022—will have a negative impact on 77% of companies that responded to this year’s survey (79% for small businesses).

Eight percent say it will have no impact, followed by mixed

(7%), and unsure (6%), with just 2% expecting the program to positively affect their business.

While the leave program will be funded through a 0.5% payroll tax on employees, employer concerns largely revolve around scheduling issues and finding replacement workers—no small feat in a tight labor market. The issue is more acute for small businesses.

When asked how they will manage the impact of paid FMLA, 27% say they are considering workforce reductions—pursuing automation, cutting their Connecticut workforce, or reducing the number of full time employees.

Other responses include relocating or ramping down operations (14%), hiring temporary workers (13%), no mitigation plan (9%), reducing other employee benefits (8%), and raising prices/cutting costs (4%). Almost one-quarter (22%) are unsure how they will manage the program’s impact.

ff With more than 60% of workers over 40 years old and 11% expected to retire in the next five years, companies will have no choice but to outsource certain functions or services in order to meet their business needs.

Ethan Brysgel | Partner, Marcum LLP

“We already have a family leave policy in place, so this is essentially double taxation on our employees,” responded one employer. “We will have to consider eliminating our current policy.”

Said another: “It could easily put us and other small businesses out of business. It takes years to train an employee to do what we do. To have one employee out for 12 weeks, let alone multiple employees, would not allow us to complete projects and meet other contractual deadlines.”

Many respondents questioned the sustainability of the state’s leave program, given its rich benefits.

“I would bet that the fund will soon be insolvent and will require heavy subsidies from taxes that will soon come from businesses, not simply employees,” said one.

Just over half (53%) say the \$15 minimum wage will negatively impact their business. Twenty-seven

percent expect no impact, followed by mixed (12%) and unsure (5%), with 4% predicting a positive outcome.

How will businesses mitigate the impact of the higher wage? Forty-three percent say workforce cuts, with other responses including raising prices (13%), automation (11%), relocating or cutting back operations (10%), and reducing benefits (4%). Nine percent will take no action.

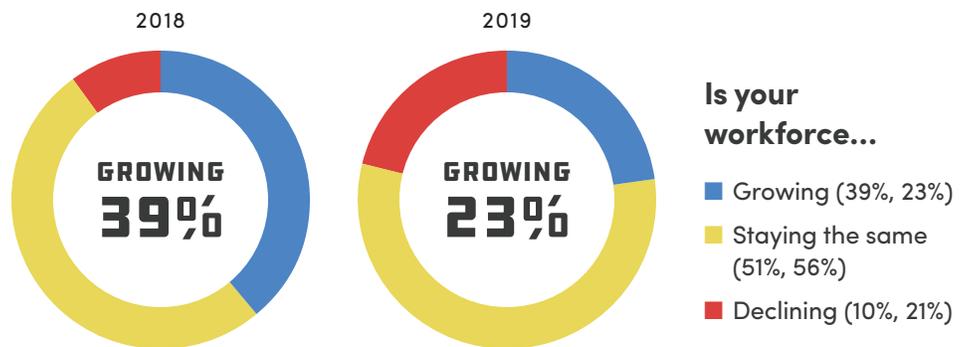
“We already offer a minimum wage of \$15,” responded one employer. “However, mandating this for all companies is heavy-handed. Market forces should dictate salaries and compensation.”

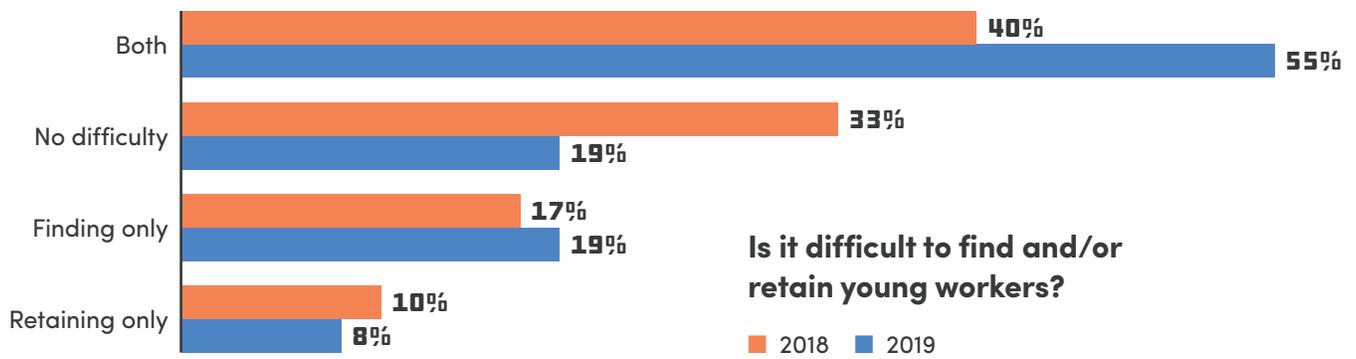
Responded another: “It is going to force me to switch current full-time roles to part time in order to save on the benefits packages I provide my employees. It will also force me to raise my rates and pinch already narrow profit margins even further.”

HIRING & WORKFORCE

The percentage of employers expanding their workforce declined this year to 23%, down from 39% in 2018.

Fifty-six percent are maintaining current employee levels (versus 51% in 2018) and numbers are declining at 21% of companies (10%).





Uncertainty with the state’s economy is largely responsible for that trend. Nonetheless, Connecticut continues to face a critical shortage of skilled workers, compounded by a shrinking labor force, population loss, retirements, and the state’s high cost of living.

That shortage is felt most acutely in manufacturing—one of Connecticut’s primary economic drivers—although other industries, including finance and insurance, also face the same issue.

Connecticut is one of the oldest states in the U.S. by average age. This year, 3% of the current workforce will retire and 5% the following year. Between 2021 and 2024, another 11% plan to retire. Of course, filling those vacancies is a priority for Connecticut firms.

Employers say 41% of their workers are 40 years old or younger, while 25% of managers are 40 years old or younger.

Most companies, small and large, note difficulties finding and retaining young workers. Only 19% have no trouble finding and retaining young workers. Fifty-five percent have issues both finding and retaining young workers, 19% just have trouble finding them, and 8% keeping them.

The top three obstacles for finding qualified young workers are a lack skills or expertise (34%), proper work ethic (25%), and the state’s high cost of living (19%).

There are several reasons why firms experience difficulty retaining younger workers, including living costs (37%), competition from other firms offering higher pay and more expansive benefits (27%), and a lack of opportunity for advancement (9%).

Eight percent of firms say changing federal immigration and enforcement policies are responsible for their hiring and retention challenges.

Along with prioritizing investments in training and recruitment, as noted earlier, companies are offering flexible work schedules (25%), employee engagement and recognition programs (19%), flexible paid time off policies (15%), and tuition reimbursement (12%).

Many firms also changed their culture to better engage employees. Some changes include focusing more on training, education and safety, implementing Lean processes, more flexible paid time off policies, greater pay incentives, more team building, and expanded casual dress practices.

These actions are similar to those proposed in other recent surveys. These responses show that despite huge efforts being made to address recruitment and retention, challenges persist.

CONCLUSION

This year's survey shows an upswing in business growth and profitability, thanks to strong national and international markets, a willingness to adapt and innovate, and what could best be described as stubborn persistence.

Some companies are moving production out of state to escape Connecticut's high costs. Many continue to shift investment priorities, putting more capital into workforce recruitment and training to address the skilled worker shortage.

Innovation continues to be the hallmark of Connecticut business. Addressing Connecticut's fiscal challenges and promoting a more supportive business climate is the prescription they need to drive sustained growth.

Companies remain bullish on the U.S. economy, although they are casting increasingly uncertain looks to the future as trade disputes continue to disrupt global marketplaces.

State policymakers must take notice of business leaders' pessimistic outlook for the Connecticut economy. This state has so many advantages, with so many opportunities for growth—if policymakers choose to promote a more favorable business environment.

Given the responses to this year's survey, Connecticut's economy cannot afford another legislative session like the 2019 General Assembly.

We cannot afford state budgets that emphasize revenue hikes rather than spending reforms. Businesses cannot invest and grow in a climate laden with mandates, regulations, and ever-increasing costs.

Small businesses, the engine of our economy, were singled out this session. They will unfairly shoulder much of the burden associated with paid family and medical leave, the \$15 minimum wage, tax changes, and revenue hikes.

It's time to change gears, to push Connecticut in a direction where we can take full advantage of our many strengths.

It's time to:

- ▶ **Restore** business confidence
- ▶ **Prioritize** job creation
- ▶ **Promote** economic development by developing and sustaining a positive environment that benefits all businesses
- ▶ **Stabilize** the state's finances for the near and long-term
- ▶ **Pursue and adopt** meaningful government spending reforms
- ▶ **Overhaul** state tax policy to make Connecticut's the most competitive in the country—attractive for businesses and residents alike
- ▶ **Continue prioritizing and expanding** workforce development efforts, leveraging public and private sector collaboration

ABOUT THE SURVEY

METHODOLOGY & DEMOGRAPHICS

CBIA mailed and emailed the 2019 Survey of Connecticut Businesses from mid-June through late July to approximately 5,300 top executives throughout the state.

We received 356 responses, with a margin of error of +/-5%. All figures are rounded to the nearest whole number and may not total exactly 100%.

Survey respondents have run their business operations in Connecticut for an average of 45 years. Nine percent have been in business for more than 100 years and 13% for 15 years or less.

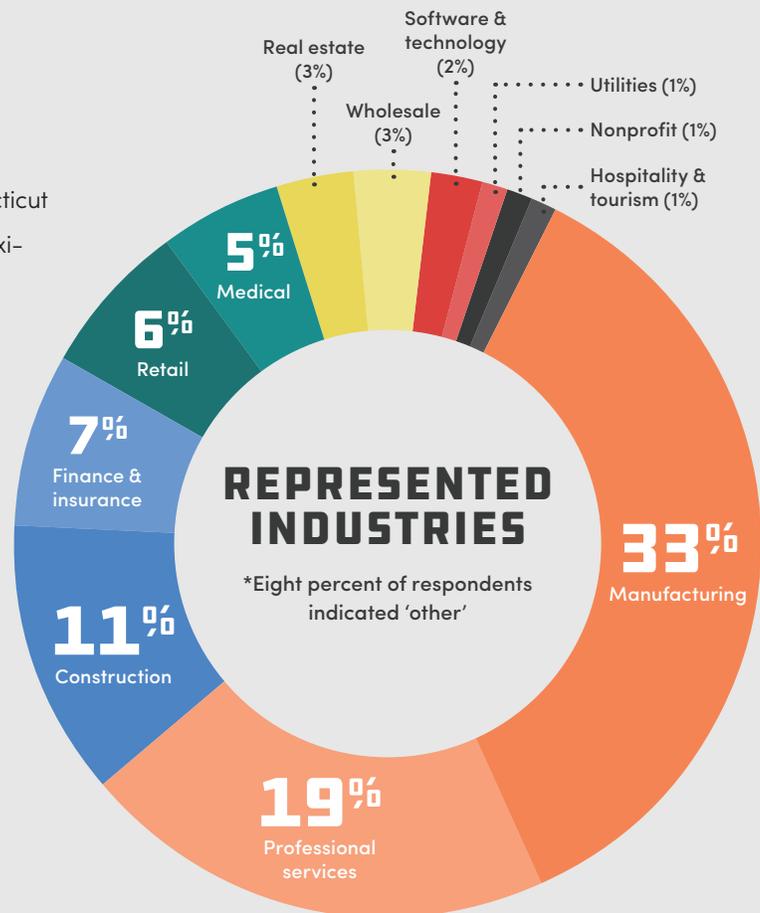
Twenty-two percent of respondents represent privately held companies, 23% are family-owned, and 16% are S corporations.

Other represented business types include limited liability corporations (12%), incorporated (9%), woman-owned (8%), veteran-owned (5%), publicly held (1%), minority-owned (1%), and foreign-owned (1%).

Manufacturing companies represent a third (33%) of all survey respondents, followed by professional services (19%), construction (11%), finance and insurance (7%), retail (6%), medical (5%), real estate (3%), wholesale (3%),

software and technology (2%), nonprofit organizations (1%), hospitality and tourism (1%), and utilities (1%).

Thirty-eight percent of respondents have their primary location in Hartford County, followed by New Haven (22%), Fairfield (19%), Middlesex (7%), Litchfield (4%), Tolland (4%), New London (4%), and Windham (3%).



ABOUT MARCUM

Marcum LLP is one of the largest independent public accounting and advisory services firms in the nation, with offices in major business markets throughout the U.S., as well as Grand Cayman, China, and Ireland.

Headquartered in New York City, Marcum provides a full spectrum of traditional tax, accounting, and assurance services; advisory, valuation, and litigation support; and an extensive range of specialty and niche industry practices.

The firm serves both privately held and publicly traded companies, as well as high net worth individuals, private equity funds, and hedge funds, with a focus on middle market companies and closely held family businesses.

Marcum is a member of the Marcum Group, an organization providing a comprehensive array of professional services.

Established in 1951, Marcum is a leader with an outstanding reputation at the national and regional levels.

Marcum offers an extensive range of professional services and a high degree of specialization. In addition to domestic and international tax planning and preparation, the firm's professional services include merger and

acquisition planning, family office services, forensic accounting, business valuation, and litigation support.

The firm has developed several niche practice areas serving private equity partnerships; hedge funds; SEC registrants; real estate; government, public, and

not-for-profit sectors; food and beverage; manufacturing; and bankruptcies and receiverships; as well as a China specialty practice.

The firm takes a team approach to every engagement, ensuring the highest degree of technical knowledge, experience, and understanding of current issues and regulatory matters.

As a founding member of the Leading Edge Alliance, a worldwide group of large, independent accounting practices, the firm's professionals have added access to a wide range of industry and service specialization.

In addition, as the exclusive U.S. member firm of ECOVIS International, a global accounting and advisory network with members in 60 countries on six continents, Marcum offers the resources of experts around the world.

[For more information, visit marcumllp.com](http://marcumllp.com)



ABOUT CBIA

CONNECTICUT BUSINESS & INDUSTRY ASSOCIATION

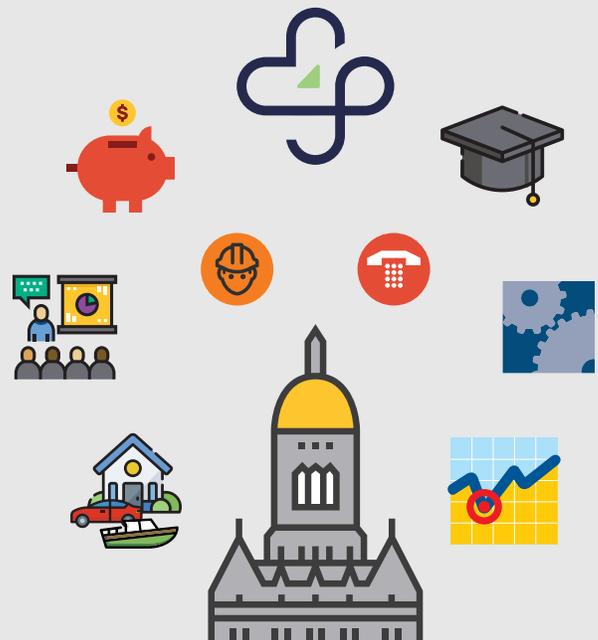
The Connecticut Business & Industry Association is the leading voice of business in the state, representing thousands of member companies, small and large, across a diverse range of industries.



We fight to make Connecticut a top state for business, jobs, and economic growth: driving change, shaping legislative and regulatory policy, and promoting collaboration between the private and public sectors.

DRIVING GROWTH, PROMOTING BUSINESS

- ▶ Powerful, dynamic leadership and advocacy at the state Capitol, driving policies that promote a globally competitive business climate.
- ▶ Valuable resources, information, and professional assistance, sharing expertise and best practices across a broad range of issues to help companies compete, grow, and succeed.
- ▶ Innovative, high-value products and member services, including insurance and employee benefits, business and HR resources, energy purchasing solutions, and more.



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