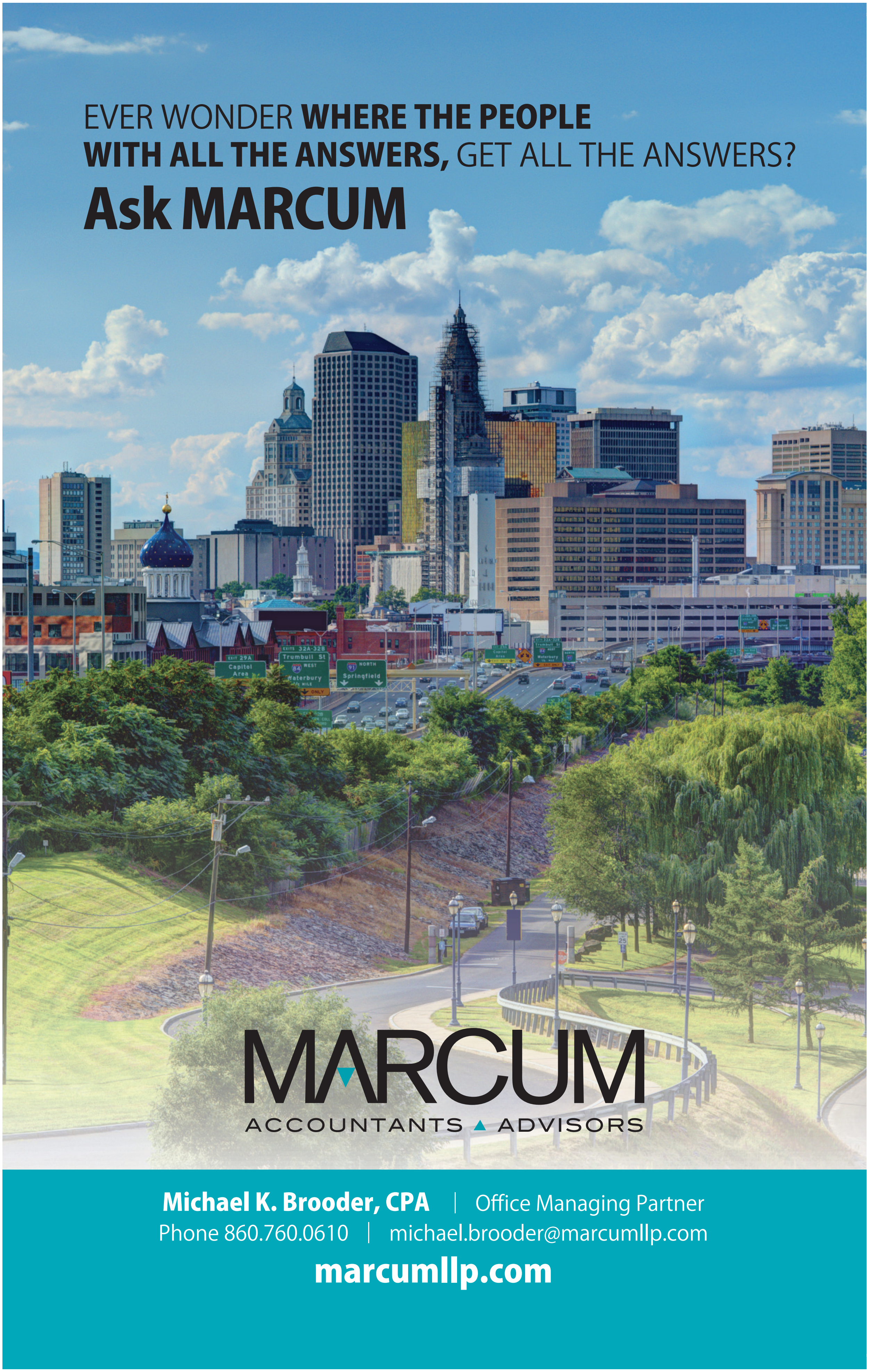
2021 SURVEY OF CONNECTICUT BUSINESSES

MARCUM ACCOUNTANTS ▲ ADVISORS

cbia

REBUILDING CONNECTICUT


EVER WONDER WHERE THE PEOPLE
WITH ALL THE ANSWERS, GET ALL THE ANSWERS?
Ask MARCUM
MARCUM
ACCOUNTANTS ▲ ADVISORS
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INTRODUCTION

CBIA's 2021 Survey of Connecticut Businesses—the 20th annual edition, made possible again this year through the generous support of Marcum LLP—captures how companies are adjusting to one of history's greatest disruptions. While the pandemic is far from over, employers are cautiously navigating a fragile, uncertain recovery.

As of mid-September 2021, more than 384,000 state residents have contracted COVID-19 and over 8,400 have died. There are more than 42 million cases nationwide, and the U.S. death toll exceeds 674,000—15% of global coronavirus deaths.

While Connecticut has emerged as a leader in response to the pandemic, a lack of predictability surrounds the economic outlook for the state, the country, and the world, as the Delta variant drives a resurgence in COVID-19 cases amid uneven vaccination rates.

In March and April of 2020, Connecticut's economy took a major hit from pandemic-related restrictions and shutdowns, with an historic 292,400 jobs lost in those two months.

> **There are numerous reasons to be optimistic about Connecticut's economic recovery. Addressing major growth challenges—including the labor shortage and affordability—will ensure we rebuild an economy with opportunities for all.**
>
> **Chris DiPentima** | President & CEO, CBIA

The state's economy contracted 4.1% in 2020 as the country and the world reeled from the impact of the pandemic. State and national GDP has increased in three consecutive quarters through March 2021, indicating an economic rebound, albeit with numerous challenges ahead.

Several factors support optimism for the state's economic prospects. First, 75% of Connecticut's population has received at least one dose of the COVID-19 vaccine, while 67% of the population is fully

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vaccinated, ranking the state second in the nation behind Vermont, and 13 percentage points ahead of the national rate.

In addition, the lifting of most COVID-19 restrictions in May bolstered business operations in Connecticut, driving increased economic activity and steady job growth.

This year's General Assembly session also provided a strong platform for recovery, building on the fiscal discipline of recent years that has seen revenue growth, a healthy rainy day fund, recognition from Wall Street through upgrades to the state's credit rating, and a number of high-profile business relocations.

State and federal emergency programs, including the Coronavirus Aid, Relief, and Economic Security Act and the American Rescue Plan Act of 2021 continue to play important roles in mitigating the lingering impact of the pandemic.

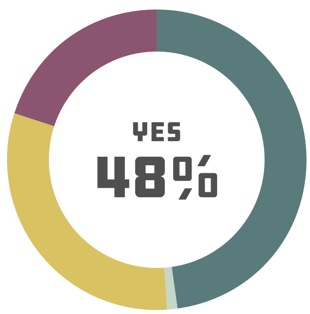
The resiliency and innovative spirit that marked the response by Connecticut businesses during the initial months of the pandemic continues. The pandemic changed everything—transforming the ways we look at systems, business models, consumer behavior, careers, and the workplace.

A number of factors threaten the recovery, including the increase in COVID-19 cases and the mandates that followed, the resistance to vaccines, the state's high cost of living, and—perhaps most significantly—the continuing labor shortage.

This year's survey offers a series of powerful insights, not only into the challenges facing the recovery, but the opportunities for the state's economy, job growth, and our communities if policymakers commit to rebuilding Connecticut better and stronger than ever.

KEY FINDINGS

- 80% of employers report difficulty finding and retaining employees and 35% say the labor shortage is the greatest obstacle to growth



Is it difficult to find and/or retain workers?

- Finding only (48%)
- Retaining only (1%)
- Both (31%)
- No (20%)

- 33% of businesses expect their workforce to grow in the next six months, a 13-point jump over last year
- Almost two-thirds (64%) of companies reported profits in 2020, down from 77% in 2019
- About two-thirds (67%) of surveyed companies expect a profitable 2021, with just 8% forecasting losses
- 43% of respondents see their business growing, up from 25% last year and the highest percentage since 2018
- The economic outlook is more optimistic than last year—39% expect Connecticut's economy to grow, with 53% forecasting national growth
- 66% of employers report that at least 75% of employees are fully vaccinated

- ▶ 88% of firms applied for a federal Paycheck Protection Program loan and 20% for other U.S. Small Business Administration loans or grants

COVID-19'S ECONOMIC IMPACT

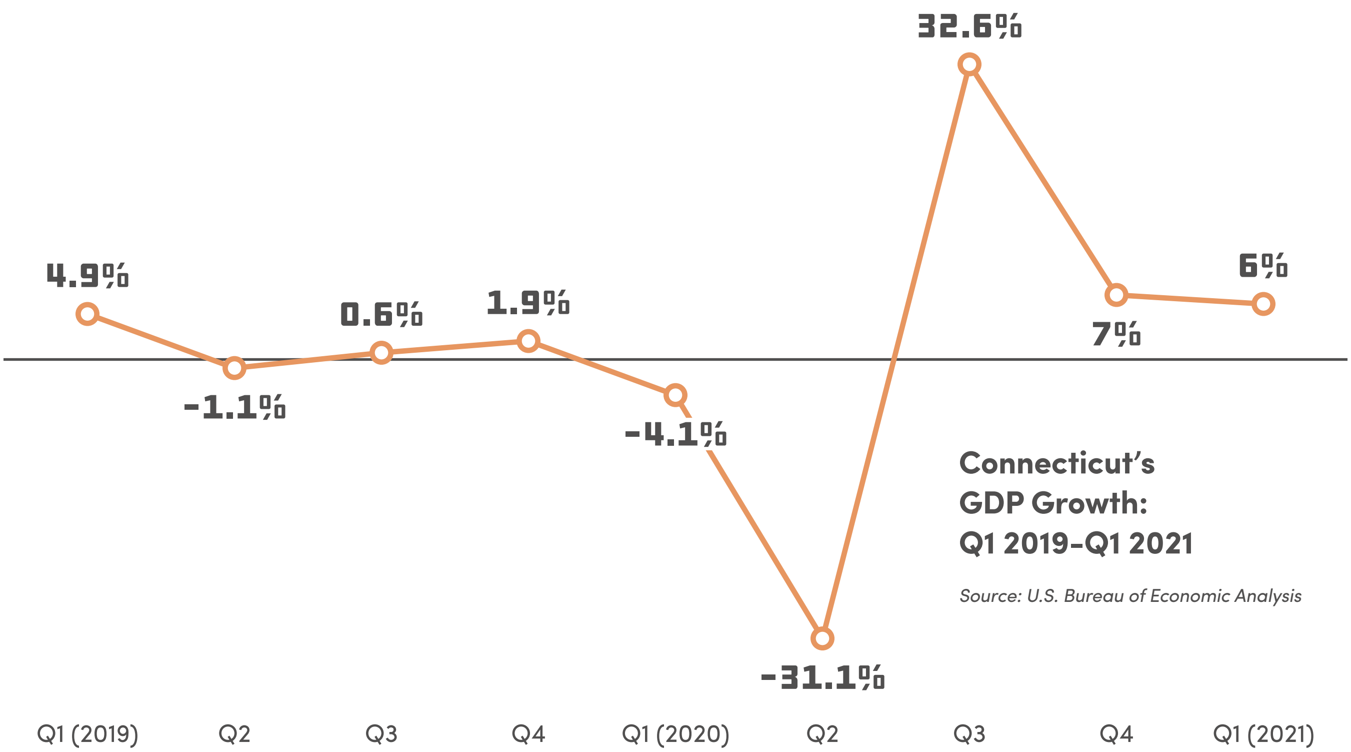
The damage to both the state and national economies caused by pandemic-related shutdowns and restrictions cannot be overstated. In the 2008-2010 economic recession, Connecticut lost 120,000 jobs over a two year period. In March and April of 2020, the state lost 292,400 jobs—17% of the workforce.

While 69% of those jobs were restored through August 2021, the state's 7.2% unemployment rate remains two percentage points higher than the national average and tied for fourth highest in the country.

The labor shortage is a national economic crisis. There are fewer available workers than the total number of open jobs in many states and industries. However, Connecticut's high unemployment rate makes the state an outlier.

Among the New England states, Rhode Island's August 2021 jobless rate was the next highest at 5.8%, followed by Massachusetts (5%) and Maine (4.9%), while New Hampshire and Vermont were tied for the country's fifth lowest rate at 3%.

Through August, Maine leads the New England states in recovering COVID job losses with an 81% rate, followed by Vermont (79%), New Hampshire (74%), Massachusetts (70%), Rhode Island (69%), and Connecticut. U.S. employers have recovered 76% of COVID job losses.



Connecticut's GDP Growth: Q1 2019–Q1 2021

Source: U.S. Bureau of Economic Analysis

According to preliminary U.S. Bureau of Economic Analysis data, Connecticut's economy contracted 4.1% in 2020, after declining an historic 31.1% in the second quarter and rebounding 32.6% the following quarter. GDP declined 4% in the New England region last year while the national economy shrank 3.5%.

The state's GDP grew 6% in the first quarter of 2021—34th in the country—while the regional economy expanded 6.7%, with national GDP growing 6.4%.

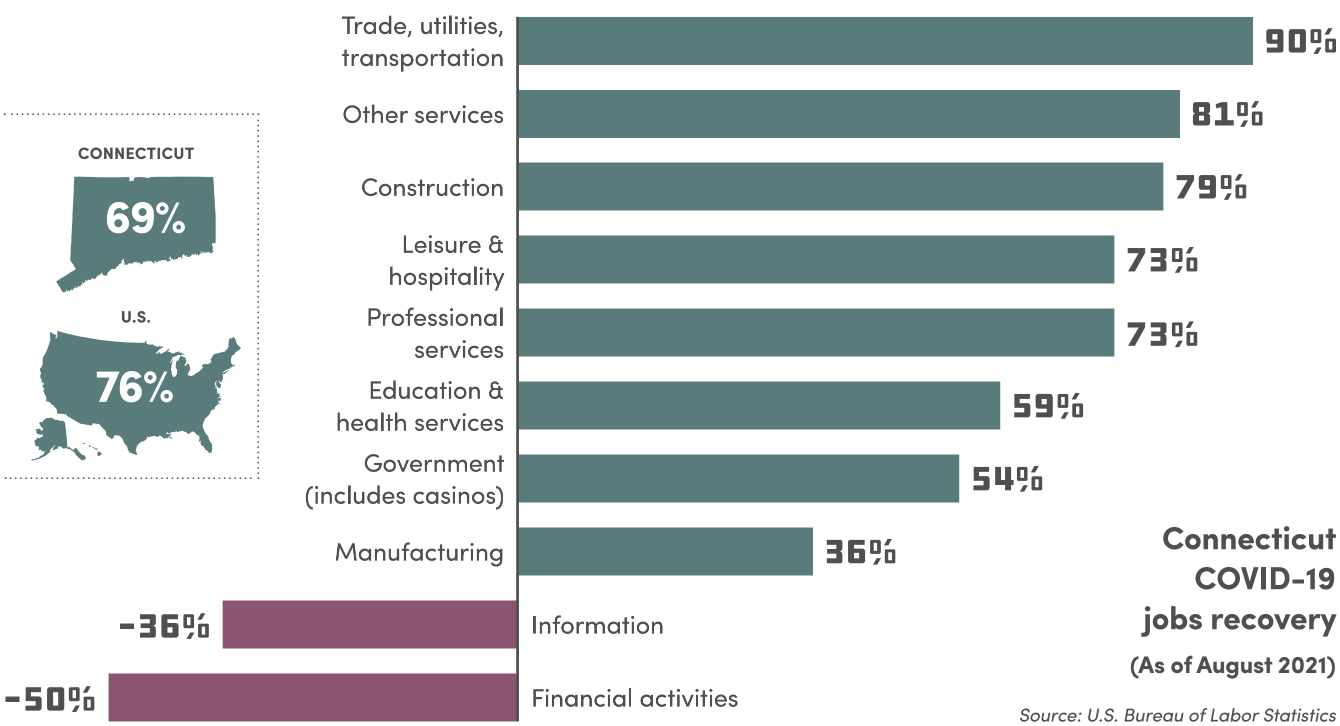
Based on those first quarter numbers, Connecticut has an annualized GDP of $294.5 billion—25% of New England's $1.16 trillion economy—and the region's second largest behind Massachusetts' $598.6 billion economy.

Connecticut's durable goods manufacturing sector grew 1.3% in that first quarter to lead all sectors. Nondurable goods manufacturing declined 0.48%, the worst of the five sectors that contracted in the first three months of 2021.

Finance and insurance grew 0.93%, with retail trade (0.77%), professional services (0.72%), information (0.62%), administrative services (0.54%), real estate (0.39%), management (0.3%), educational services (0.25%), and construction (0.25%) rounding out the top 10.

Other services shrank 0.13%, followed by healthcare (-0.1%), utilities (-0.08%), and agriculture (-0.06%).

As of August 2021, employment in the trade, transportation, and utilities sector has rebounded the fastest of any sector, recovering 90% of pandemic-related losses. Other services recovered 81% and the construction sector was at 79%. Hard-hit leisure and hospitality—the sector lost 90,800 (57%) jobs in two months—regained 73%, as did professional services.



Connecticut COVID-19 jobs recovery
(As of August 2021)

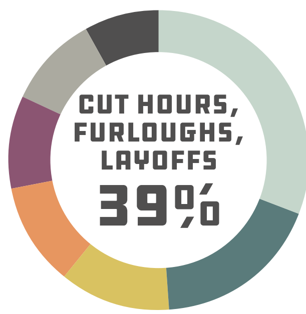
Source: U.S. Bureau of Labor Statistics

> **This year's survey highlights the opportunities we have for getting people back to work and rebuilding our economy if policymakers focus on addressing recovery challenges.**
>
> **Michael Brooder** | Hartford Managing Partner, Marcum LLP

Education and health services (59%) and government (54%)—which includes casino employment—are also among the seven of the state's 10 major industry sectors to have recovered more than half of pandemic-related job losses.

Manufacturing, a critical component of the state's economy, has recovered only 36% of the 12,700 jobs—8% of the sector's workforce—lost in March and April of 2020. Manufacturing was also one the sectors hardest hit by the skilled worker shortage.

The information sector has 3,800 fewer jobs (-12%) than it did in February 2020, while employment in financial activities, another key economic driver, is 5,100 jobs lower than before the pandemic.



How COVID-19 impacted workforce decisions

- Made no changes (31%)
- Reduced employee hours (18%)
- Hired additional employees (12%)
- Furloughed employees (11%)
- Increased employee hours (10%)
- Laid off employees (10%)
- Other (8%)

Connecticut commodity exports fell 15% to $13.8 billion in 2020, after hitting $16.24 billion the previous year. All but one of the state's export sectors saw declines, with pharmaceuticals the exception, as exports of medicaments, pharmaceutical goods, bandages, and immunological products soared more than 138%.

Aerospace parts and components, the state's leading export sector, fell 30% to $4.37 billion. Industrial machinery exports declined 6%, optical and medical/surgical instruments dropped 5%, electrical machinery fell 10%, and special classification products slipped 26%.

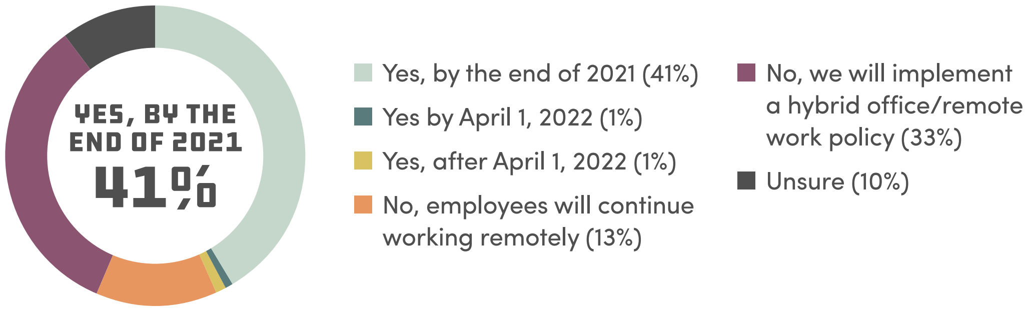
Nationally, exports fell 12.89% last year to $1.43 trillion, down from $1.64 trillion in 2019, with all states except Colorado, Utah, Oregon, and New Jersey posting declines.

And a final economic note. While Connecticut's per capita personal income—$79,771 in 2020—remains the highest in the country after the District of Columbia, average personal income in this state grew just 1.1% since 2007 according to the Pew Charitable Trusts, better only than West Virginia, Illinois, and Mississippi.

MANAGING COVID-19

When asked how the pandemic impacted workforce decisions in the last 12 months, 31% of business leaders said they made no changes to employment levels. Eighteen percent reduced employee hours, 12% hired additional employees, 11% furloughed employees, 10% increased hours, and the same percentage laid off workers.

Will all your employees return to the office full time?



More than half of responding firms (51%) said at least part of their workforce worked remotely since March 2020. Eighty-three percent said they do not plan on implementing a remote or hybrid work model, and that their employees will primarily work at the office or in the field, a significant change from one year ago, when 72% of employers had a remote work policy.

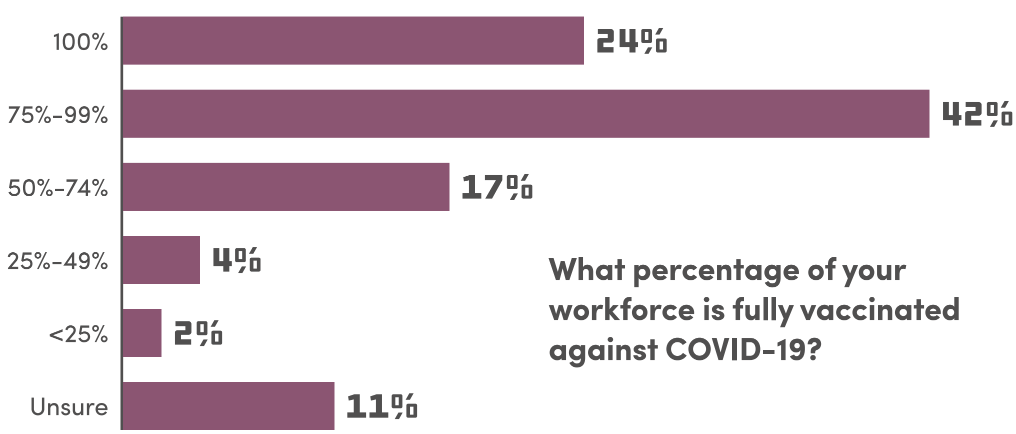
Eighty-eight percent of responding companies applied for a federal Paycheck Protection Program loan, and 99.8% of those applications were approved. Of those who received PPP funding, 96% said they met their employee retention goals—a 12% increase from last year—2% did not, and 2% were unsure.

Of the 12% that did not apply for a PPP loan, 62% said government loans or grants were not needed, 27% were not eligible, and 4% accessed private sector loans and/or credit lines.

Among the 20% that sought other U.S. Small Business Administration COVID-19 loans and grants, 72% applied for an Economic Injury Disaster Loan, 11% for an Express Bridge Loan, and 6% for the Debt Relief Program. All but 12% of those applications were successful.

Nine percent of responding companies applied for and received state-provided loans and grants or financing provided by nonprofit or other non-governmental organizations.

Only 18% of companies used the federal Employee Retention Tax Credit program, a fully refundable tax credit for eligible employers equal to 70% of qualified wages, including allowable qualified health plan expenses. Twenty-eight percent of respondents were unaware of the program.



What percentage of your workforce is fully vaccinated against COVID-19?

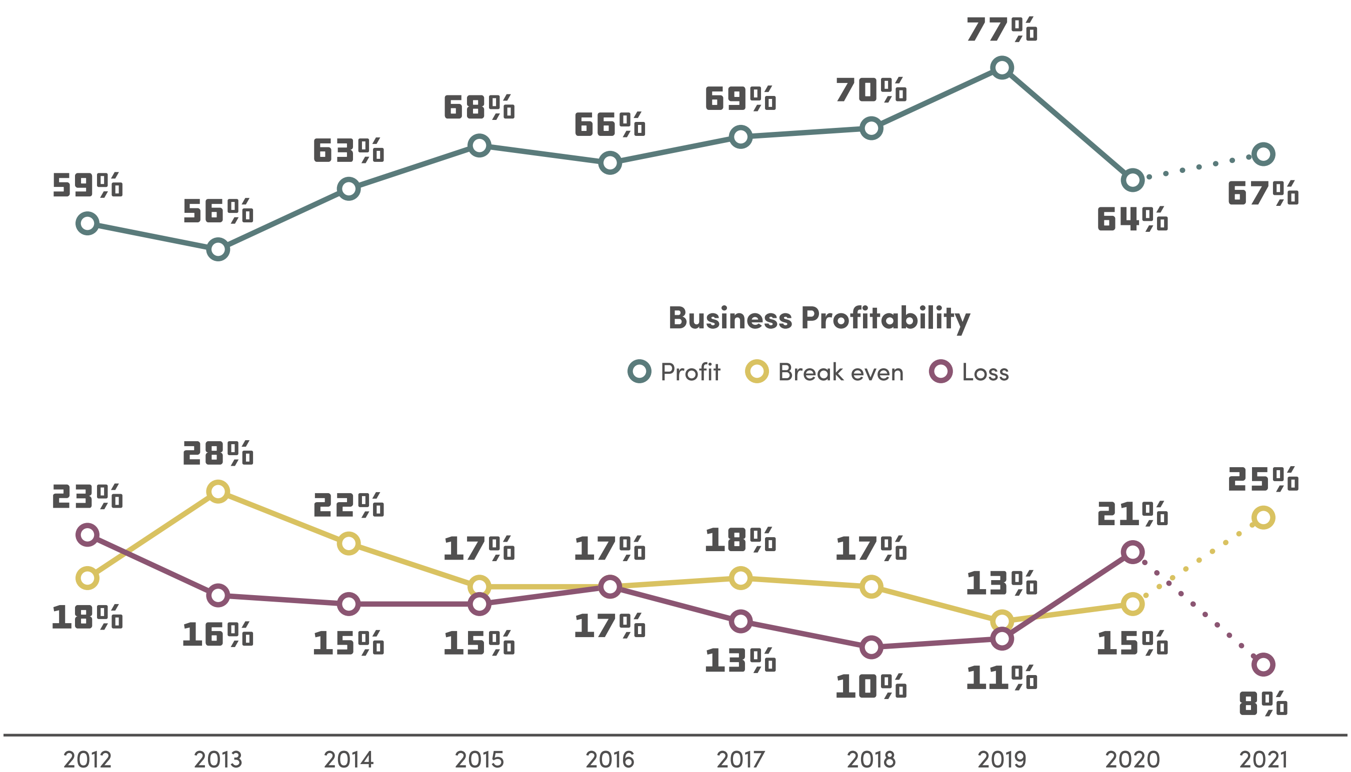
About one-third (32%) used another federal pandemic tax credit program to cover employee COVID-related paid medical and family leave. Twelve percent of employers were unaware of the credits, which expire September 30, 2021.

Employers are also managing various mandates and workplace safety requirements. Twenty percent require masks indoors for all employees—regardless of vaccination status—38% require masks for unvaccinated employees only, and 40% have no indoor mask mandate.

As of the first week of September, 24% of surveyed employers reported that all employees were fully vaccinated, 42% said 75%-99% were vaccinated, 17% had 50-75% vaccination rates, 4% had 25-49%, 1% had less than 25%, and 1% had none.

Eighty-eight percent of employers did not require that employees get vaccinated, but 52% support local, state, or federal government COVID-19 vaccine mandates, 37% are opposed, and 11% are unsure. More than half of surveyed companies (53%) said they shared educational and/or promotional vaccine materials with employees.

Only 26% of companies reported operational disruptions caused by employee COVID-19 cases within the past three months. Seventy-three percent said they had no disruptions and 1% were unsure.



STATE OF BUSINESS

In our 2020 survey, only 47% of businesses projected profits for that year, 25% forecast they would break even, and 28% expected losses.

The 2021 survey reveals that 64% of respondents reported profits last year—compared with 77% in 2019—15% broke even (13%), and 21% posted losses (11%).

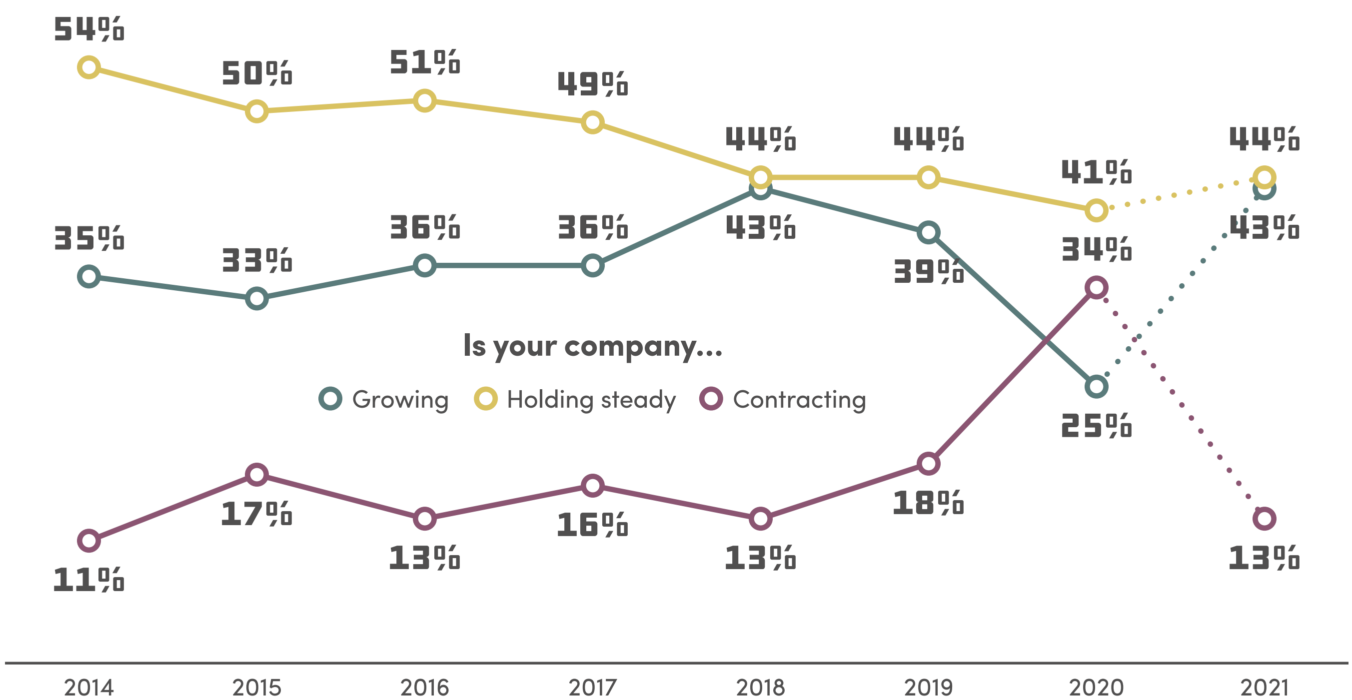
Looking ahead, about two-thirds (67%) project a profitable 2021, 25% said they will break even, and 8% forecast losses.

For those with 50 or fewer employees, the numbers are similar. Sixty-one percent recorded a profit in 2020, 15% broke even, and 24% recorded losses. For 2021, 64% expect to be profitable, 27% say they will break even, and only 9% project losses for the year.

Forty-three percent of all surveyed companies reported sales growth—an 18-point increase over last year—while 44% are holding steady, and 13% are contracting, a 12-point decline over last year and the lowest number since 2018.

Of those companies that reported profits in 2020, the majority were considered essential businesses and were able to maintain some level of operations, albeit amid significant workplace and market disruptions. Many noted that while it was difficult to obtain new customers, preexisting relationships represented a lifeline that supported them through the worst months of the pandemic.

"Our business has a very long sales cycle, so our 2020 profits were driven by sales activity in 2019 and early 2020 which was a very active period," explained one survey respondent.



Twenty-four percent said factors related to the pandemic drove sales. One respondent said "we make the base material for masks, surgical gowns, and other items for the surgical suite," while another explained that as a technology company, "companies need our technology post-COVID."

Sixty-two percent of businesses said the pandemic was the biggest factor driving losses, with 35% citing loss of work, almost always tied directly to shutdowns and restrictions. One respondent explained that they relied primarily on referrals for new work, and because so many offices "were often closed, we didn't get referrals."

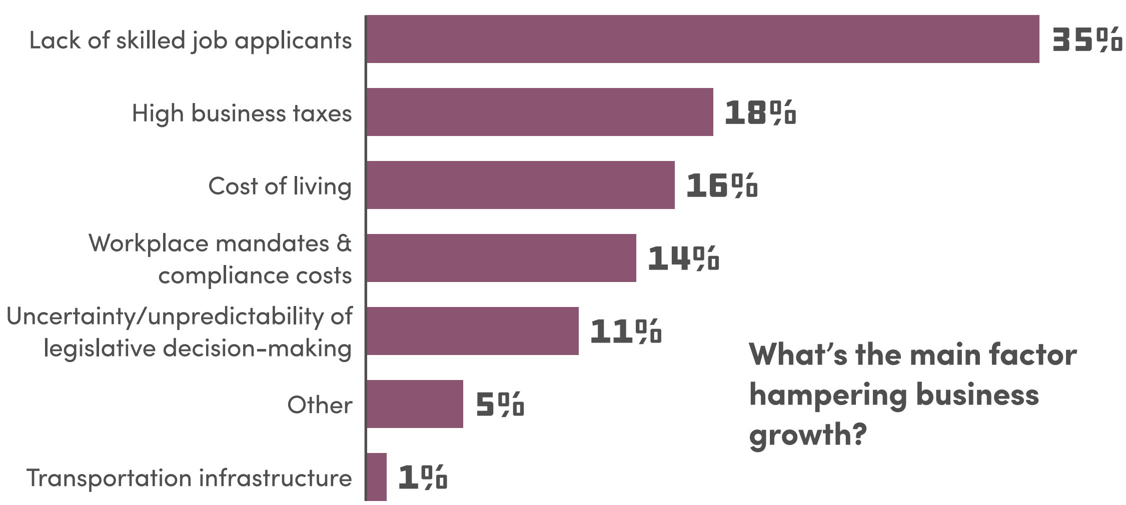
The survey found that 65% of companies based production of all products or services in Connecticut—a five-percentage point decline from last year—with another 20% locating partial production here.

Twenty-six percent of businesses plan on introducing a new product or service in the next 12 months, with 62% planning to base full production in Connecticut and 22% expecting to locate partial operations here.

Proximity to customers is the greatest advantage to running a business in Connecticut for 32% of companies (down from 36% last year), with 29% citing quality of life (28%), 14% the skilled workforce (12%), and 7% access to major markets (unchanged).

For 35% of the companies we surveyed this year, the lack of skilled job applicants is the main factor—excluding pandemic disruptions—hampering business growth, a 17-point jump from last year. Eighteen percent cited high business taxes (13% in the 2020 survey), 16% noted the cost of living (17%), 14% pointed to workplace mandates and regulatory compliance costs (24%), and 11% the uncertainty and unpredictability of legislative decision-making (15%).

This year's survey revealed a marked shift in perceptions of the state's business climate, with 46% of respondents—down 15 points from last year—saying they believe it is declining. Twenty-nine percent described it as static (32%) and 16% thought it was improving (7%). Although these numbers do not indicate complete confidence, the change from previous years is notable.



> **Connecticut businesses cite employee retention as the single largest area of investment in 2021, which should go a long way toward helping reduce the state's worker shortage.**
>
> **Ethan Brysgel** | National Financial Accounting & Advisory Services Leader, Marcum LLP

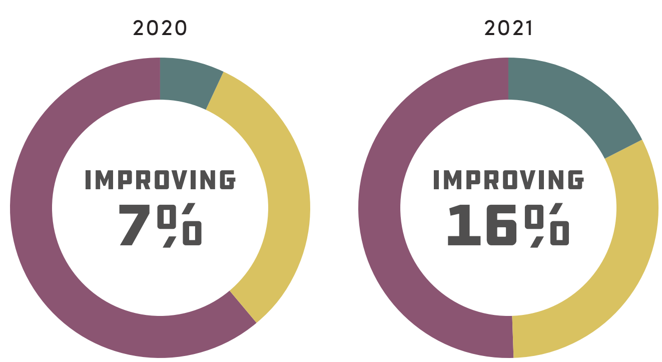
CNBC's America's Top States for Business study ranked Connecticut's business climate 24th in the country this year, up 11 spots from the previous report in 2019. Technology and innovation, workforce, and the state's pandemic response drove that improved performance, with the study ranking Connecticut in the top 20 in six of the 10 weighted categories it uses to measure economic competitiveness.

Each year, we ask business leaders whether they approve of the state legislature's handling of the economy and job creation. This year's responses show an improvement over previous years, with 22% approving of lawmakers' efforts, compared with 17% last year and 3% in 2019. Fifty-one percent said they disapproved of the legislature's performance (down from 92% in 2019) and 26% were neutral (35% in 2020, 5% in 2019).

The 2021 legislative session featured a number of positive economic initiatives, including a new, two-year state budget with no broad-based tax increases, historic reforms to the state's unemployment system, and significant targeted investments in our cities, workforce development, and childcare.

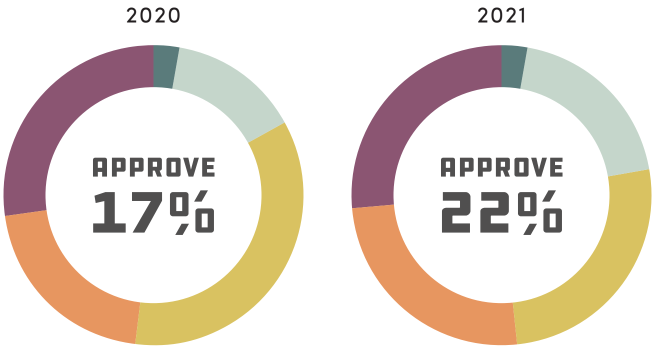
A bipartisan group of 55 lawmakers signed CBIA's Rebuilding Connecticut pledge—a package of policy priorities designed to help employers manage the high costs of navigating COVID-19 restrictions, create and retain jobs, and lead the state's economic recovery—with many of those initiatives winning legislative approval.

There was also a lack of broad support for the Labor and Public Employees Committee's latest series of costly proposed workplace mandates, indicating a shift in tone at the state Capitol, with a greater understanding among lawmakers of the role businesses play in the state's recovery.



What's your perception of Connecticut's business climate?

- Improving (7%, 16%)
- Static (32%, 29%)
- Declining (61%, 46%)



General Assembly ratings: economy & job creation

- Strongly approve (3%, 3%)
- Somewhat approve (14%, 19%)
- Neutral (35%, 26%)
- Somewhat disapprove (21%, 25%)
- Strongly disapprove (27%, 26%)

Nonetheless, employers were disappointed that lawmakers elected to extend the temporary 10% corporate tax surcharge, delay repeal of the capital base tax, retain the sales tax on personal protective equipment and training, not restore the pass-through entity tax credit, and not expand the apprenticeship tax credit to small manufacturers.

Connecticut needs "more support for small businesses" one respondent said. "Stop introducing new mandates for small businesses and reduce taxes," said another. Added a third: "Lower taxes to promote small business growth and attract people to the state."

HIRING & WORKFORCE

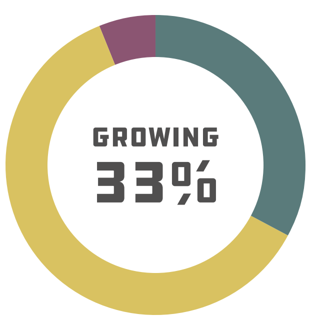
Workforce issues were dominant in this year's survey responses, with the pandemic exacerbating challenges that have plagued a number of sectors, particularly manufacturing, in recent years. As we noted earlier, just over one-third (35%) of business leaders say the shortage of workers is the main obstacle to growth.

Employers are anxious to solve what has become a frustrating riddle: despite tens of thousands of unfilled job openings, there are 91,000 fewer people working in Connecticut today than in February 2020 and the unemployment rate is tied for fourth highest in the country.

One-third (33%) of Connecticut employers expect to increase the size of their workforce this year, a 13-point jump over last year, while 61% project no change (59%) and just 6% forecast a decline (20%).

This year's survey found that just under half (48%) of employers are experiencing difficulties finding workers, 1% have trouble retaining them, and 31% say it is difficult to both find and retain employees.

In addition, more than one-third (39%) say it is difficult to get employees that were furloughed or laid off because of the pandemic to return to work. Forty-three percent report no issues and 18% do not plan to recall employees.



Is your workforce...

- Growing (33%)
- Staying the same (61%)
- Declining (6%)

The national debate around the impact of federal unemployment benefits on hiring has also played out in Connecticut. Those benefits expired in early September, and while states that ended federal benefits earlier experienced inconclusive results, there is an expectation among many employers that hiring challenges will ease somewhat in Connecticut.

After the Connecticut Department of Labor reinstated the work-search requirement for unemployment benefit recipients—waived because of the pandemic—in May, July's initial average weekly unemployment claims declined 58% to the lowest number since February 2020. However, first time claims then jumped 19% in August, yet another indication that the state's recovery is fragile, with multiple factors impacting the labor market.

What are the obstacles to finding workers? One-third (33%) of respondents said job candidates do not have the required skills or expertise, 26% cite poor work ethic, and 21% note competition from other employers offering higher wages and/or more expansive benefits.

Competition among employers—with small business often at a disadvantage—is also the main factor with retention, noted by 53% of employers, with the state's high cost of living (14%), lack of employee engagement and recognition (10%), fixed work schedules (3%), and transportation challenges (2%) among the other issues.

Where will you make your greatest investment?

- Employee retention (24%)
- New technology (18%)
- Property/facilities (18%)
- Recruiting (12%)
- Other capital assets (9%)
- Employee training (9%)
- Other (7%)
- R&D (4%)

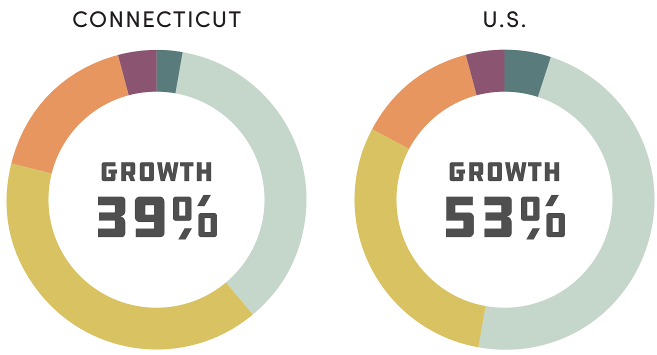
Given the challenges with keeping and retaining employees, those areas are the prime target for company investments. Twenty-four percent will make their greatest investment in employee retainment, including adding new benefits and improving company culture, while new technology (18%), property and facilities (18%), recruiting (12%), other capital assets (9%), and employee training (9%) were among the other responses.

REBUILDING CONNECTICUT

Business leaders have a more positive outlook for Connecticut's economy than in years past, with 39% expecting the state's economy to grow in the next 12 months—compared with just 12% last year—while 40% said it will remain static (29%) and just 21% forecasted a slowdown (59%).

Connecticut companies are also bullish about the national economy's prospects, with 53% projecting growth, up from 30% last year. Thirty percent expect the national economy to remain static (26%) and 17% said it will contract (44%).

For additional perspective, just 11% of business leaders predicted the state's GDP would grow in our 2019 survey, 29% expected no growth, and 61% a contraction. That 2019 survey saw a rosier outlook for the U.S. economy: 73% forecast growth, 18% no change, and 8% a contraction.



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

- Strong growth (3%, 5%)
- Moderate growth (36%, 48%)
- Static (40%, 30%)
- Moderate contraction (17%, 13%)
- Strong contraction (4%, 4%)

As we noted earlier, business leaders believe the labor shortage, high business taxes, the state's high cost of living, workplace mandates and compliance costs, and the uncertainty of legislative decision-making are the greatest barriers to growth in Connecticut.

So where do they want policymakers to focus their attention in next year's General Assembly session?

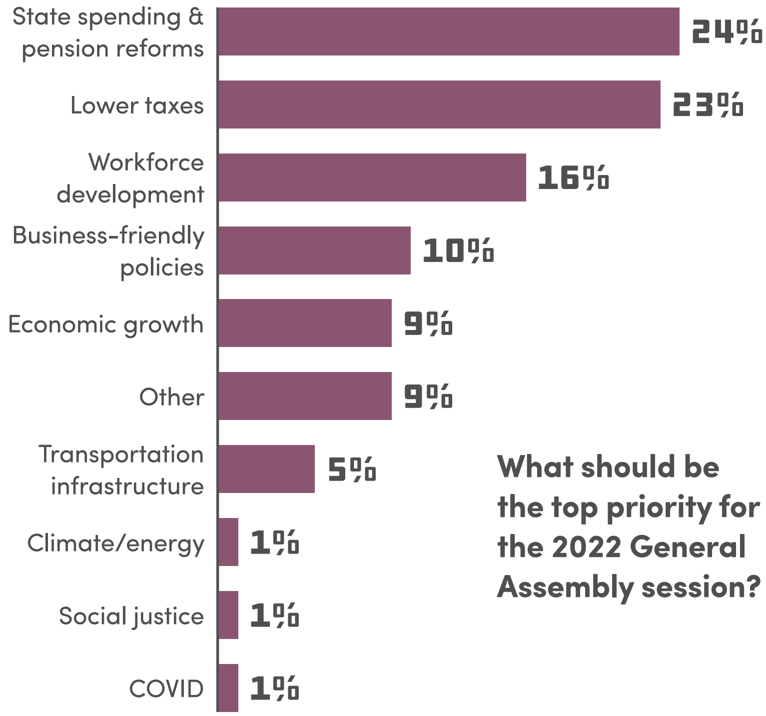
Based on our survey, the business community's main policy priorities are state spending and pension reforms (24%), lower taxes (23%), workforce development (16%), business-friendly policies (10%), economic growth (9%), and transportation infrastructure (5%).

Here's a sampling of how they responded, in their own words:

- "Lower taxes for individuals as well as businesses. Shrink the amount of government involvement and spending."
- "Listen to the needs of the business community and work to reduce the cost of doing business in the state."
- "Put financial incentives in place that will allow private employers the opportunity to build a successful workforce."
- "Get Connecticut back to work!"
- "Decrease the administrative burden on small to medium-sized companies due to over-regulation."
- "Help small businesses grow."
- "Repair infrastructure and work to make Connecticut a more business-friendly state."
- "Stop partisan politics and special interests and focus on the real issues."

We asked business leaders if they believed that state government was doing enough to drive workforce development initiatives in their respective industries—9% responded yes, 46% said no, and 45% were unsure.

Policymakers have focused on workforce development in recent years, with the Governor's Workforce Council helping shape policymaking, including last year's creation of the Office of Workforce Strategy and additional funding for new and existing programs. Nonetheless, these survey responses indicate the issue needs greater attention, particularly given the additional stress brought by the pandemic.



What should be the top priority for the 2022 General Assembly session?

Where should policymakers focus workforce efforts? Forty-three percent of those surveyed chose investments in education and vocational training programs, 18% supported reduced unemployment benefits, 14% cited lower taxes—including exempting training programs from the state sales tax—and 12% called for work incentives.

Connecticut's transportation infrastructure is aging and the inability of policymakers to find long-term funding solutions limits the state's economic growth potential, slowing the delivery of goods, clogging supply chains, and adding countless hours to commuting times, with associated quality of life concerns.

We asked business leaders to choose their preference from seven options for addressing the state's infrastructure challenges, with the assumption that any potential revenue source would solely fund transportation projects—an issue that has derailed many previously proposed initiatives.

Twenty-seven percent chose lowering the state's highest-in-the-country administrative costs per-mile for highway projects, 16% want expanded use of public-private partnerships, 13% favor highway tolls on all vehicles, 11% support truck-only tolls, 6% elected a mileage tax on trucks (this was approved by the legislature in 2021 and takes effect in 2023), 5% nominated increased taxes, and 2% opted for mileage taxes for all vehicles.

It was telling that 15% chose "none of the above." Based on the comments that accompanied those responses, it is clear that Connecticut's state government has a trust issue when it comes to funding transportation projects.

"All of the above are targeted at small businesses," replied one business leader. "We operate a fleet of trucks in this state—fuel prices and taxes are killing my business." Added another: "We already pay for infrastructure through federal and state taxes, gas taxes, and personal property taxes. Allocate the money correctly."

"Stop stealing tax dollars before they are used for transportation projects," said another, supported by a peer who suggested policymakers "recover the stolen money from the transportation fund and put it into roads!"

"Cut government spending and put it into infrastructure," wrote another respondent, echoing a theme that runs throughout this survey.

About 30% of Connecticut's annual budget goes to payments for state employee pension funds, retiree healthcare benefits, and debt service. Connecticut's massive unfunded liabilities—about $92 billion, one of the highest per capita in the country—erode the state's ability to properly fund essential services such as education, transportation, and healthcare.

CONCLUSION

A number of key takeaways lept out from this year's survey responses. First, it is important to understand whose voice is represented here—91% of respondents were small businesses with 100 or fewer employees.

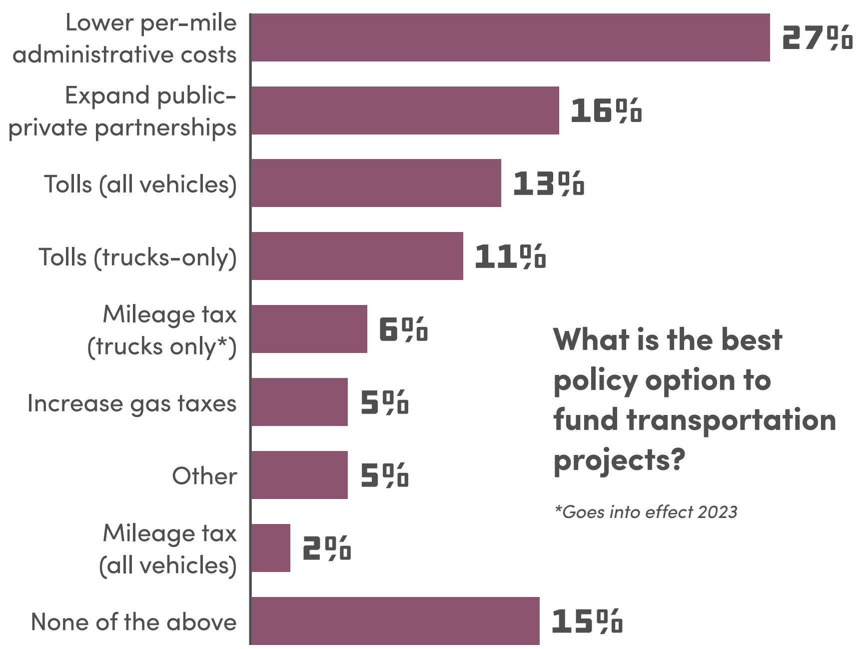
According to the SBA's 2021 Small Business Profile, Connecticut has 355,596 small businesses, generally defined as a firm with 500 or fewer employers—99.4% of all companies in the state. Those companies employed 739,870 people, 48.4% of the state's workforce, and accounted for 46.4% of the $16 billion in goods Connecticut exported in 2019.

Even before the pandemic, there were concerning trends in the state. Between March 2019 and March 2020, there was a net decrease of 652 small businesses while smaller employers saw a net loss of 11,251 jobs.

The pandemic has only added to the challenges faced by Connecticut's small businesses. They are the ones who struggled the most throughout the pandemic and have the most to lose if we do not effectively manage the recovery.

Survey responses emphasize the significant challenges employers face finding workers, as does employment data. While we applaud the recent efforts made by the administration and the legislature to address workforce development, more needs to be done to get people back to work.

It will take real collaboration between the public and private sectors and educational institutions to address this issue in a holistic way. In the meantime, employers are not sitting on the sidelines and are involved in a number of initiatives.



What is the best policy option to fund transportation projects?

**Goes into effect 2023*

For instance, New Britain-based Stanley Black & Decker this month announced a five-year, $25 million global effort to fund manufacturing and construction industry vocational training and reskilling programs.

Connecticut's job growth struggles are not new. We are one of a handful of states that failed to recover all jobs lost during the 2008-2010 recession—the state had 24,600 fewer jobs in February 2020 than in March 2008.

Which brings us to taxes.

Policymakers spent much of the decade following the 2008-2010 economic downturn engaged in a cycle of budget deficits followed by tax hikes followed by more deficits. We saw two of the biggest tax hikes in state history in those years, yet they did not restore fiscal health nor bring back jobs nor drive economic growth—Connecticut's GDP growth trailed the region and the country for much of the last decade.

Some in the state legislature continue to ignore history by relentlessly pushing tax hikes, even though Connecticut's state and local tax burden is among the highest in the country. This year, despite the pandemic's economic impact and the availability of federal relief funds, some progressive lawmakers advocated for more than $1 billion in tax hikes.

"Small businesses will bear the brunt of many of these tax increases and it defies sensible logic that there are lawmakers who think further burdening struggling smaller employers is a positive for the state," CBIA president and CEO Chris DiPentima said at the time.

Fortunately, more moderate voices in the legislature and administration prevailed, as they did on other issues impacting the state's economic competitiveness this session. Those voices will become increasingly more important as the state continues to chart its recovery.

Spending reforms also must be a larger part of Connecticut's budget debates. The reforms included in the 2017 bipartisan budget were a major factor behind the historic current balance of the state's reserve fund. However, more work is needed to streamline and modernize government operations and better control spending to ensure long-term fiscal health.

The expected looming wave of state employee retirements offers real opportunities for substantial reforms. About 8,000 of the 30,000 executive branch employees are eligible to retire by the end of fiscal 2022, when some retirement benefit changes take effect.

The March 2021 CREATES report—commissioned by the Lamont administration to evaluate workforce efficiency and identify potential spending reductions—outlined recommendations that total between $600 million to $900 million in "expense reduction, increased revenue, and cost avoidance."

That report also addressed state overtime spending, which hit almost $240 million last fiscal year, the third highest on record. As overtime is allowed as a factor in calculating state employee pensions, failure to control those costs drives up Connecticut's long-term liabilities, with major implications for taxpayers.

The CREATES report found that overtime represents 10.9% of Connecticut's total state payroll, compared with 5% in Massachusetts, 4.7% in New York, and 4.2% in New Jersey.

The report noted that modernizing workforce management, capping pensionable overtime, and improving hiring processes and oversight of overtime and workers' compensation practices "could generate $70 million to $100 million in cost savings and improve conditions for state employees."

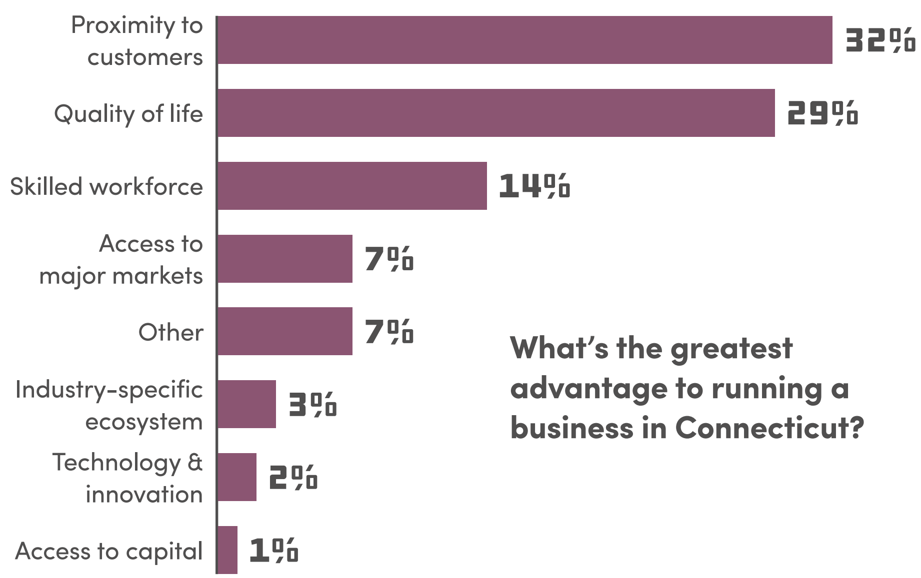
The recommendations outlined in the report represent significant taxpayer savings, a streamlining of government, and an improvement in the quality of services agencies provide, and must form an integral part of the legislature's agenda in 2022.

Connecticut must continue the fiscal discipline of recent years that provided the foundation for the state's navigation of the pandemic and a platform for rebuilding our economy, creating jobs, and generating opportunities for our communities and residents.

Policies that nurture businesses and improve competitiveness are the fuel needed to drive economic growth and opportunity. We must continue attracting residents and businesses, taking full advantage of the competitive advantages New York and Massachusetts are giving us through their tax policies.

The level of bipartisanship, the willingness to collaborate, and the readiness of key legislative voices to speak out on critical economic and fiscal issues that defined much of the 2021 legislative session provided broad optimism for the future.

Let's continue focusing on Connecticut's unique strengths and rebuild stronger and better than ever.



What's the greatest advantage to running a business in Connecticut?

ABOUT THE SURVEY

METHODOLOGY & DEMOGRAPHICS

CBIA mailed and emailed the 2021 Survey of Connecticut Businesses to more than 3,000 top executives throughout the state from August 4 through September 8.

We received 625 responses, with a response rate of 20.4% and a margin of error of +/-1.4%.

Survey respondents have run their business operations in Connecticut for an average of 54 years, with a range of less than one year to 150 years.

The majority of surveyed firms are small businesses—82% employ less than 50 people, with 9% employing 50-100 workers, 6% between 100 and 249, 2% 250 to 499, while 1% of respondents employ more than 500 employees.

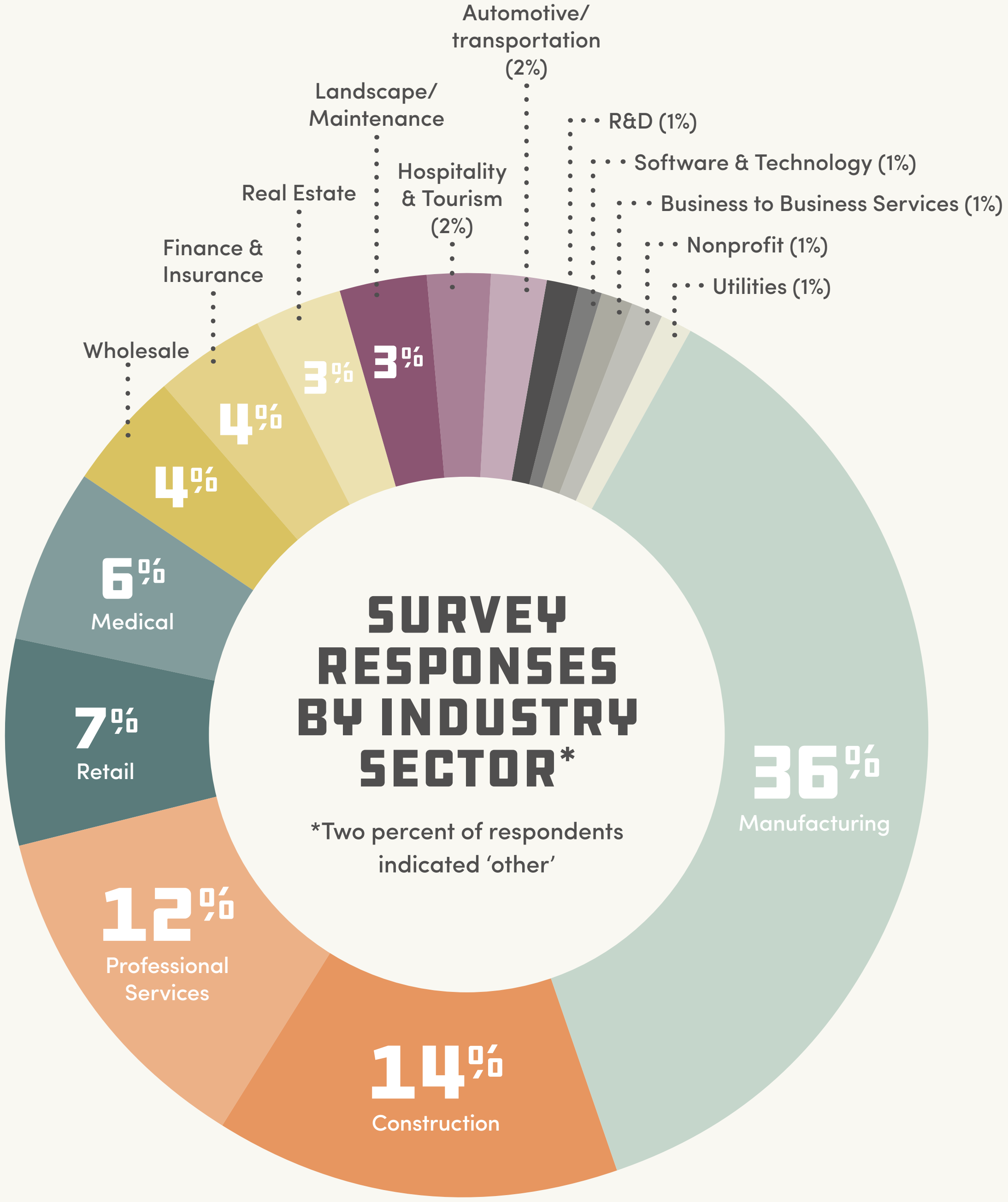
Twenty-one percent of respondents represent privately held companies, 18% are S corporations, 14% are incorporated, and 22% are family-owned.

Other represented business entities include limited liability corporations (12%), woman-owned (8%), veteran-owned (3%), minority-owned (1%), publicly held (1%), and foreign-owned (1%).

Manufacturing companies represent 36% of all survey respondents, followed by construction (14%), professional services (12%), retail (7%), medical (6%), wholesale (4%), finance and insurance (4%), real estate (3%), landscape/maintenance (3%), automotive/transportation (2%), hospitality and tourism (2%), research and development (1%), software and technology (1%), business to business services (1%) nonprofit organizations (1%), and utilities (1%).

Thirty-nine percent of respondents have their primary location in Hartford County, followed by New Haven (24%), Fairfield (16%), Middlesex (8%), Litchfield (4%), New London (4%), Tolland (3%), and Windham (3%) counties.

All percentages referenced in this report are rounded to the nearest whole number and those used in charts and tables may not always total 100%.


Automotive/ transportation (2%)
Landscape/ Maintenance
Hospitality & Tourism (2%)
Real Estate
Finance & Insurance
Wholesale
R&D (1%)
Software & Technology (1%)
Business to Business Services (1%)
Nonprofit (1%)
Utilities (1%)
3%
3%
4%
4%
6%
Medical
7%
Retail
12%
Professional Services
14%
Construction
36%
Manufacturing
SURVEY RESPONSES BY INDUSTRY SECTOR*
*Two percent of respondents indicated 'other'

ABOUT MARCUM

Marcum LLP is one of the largest 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.

MARCUM
ACCOUNTANTS ▲ ADVISORS

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

ABOUT CBIA

CBIA 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 consulting services through our CONNSTEP affiliate, ReadyCT workforce development initiatives, business and HR resources, energy purchasing solutions, and more.

For more information about CBIA and its affiliates, visit cbia.com.