Flat Lining: Connecticut's Disappearing Economic Growth

The Connecticut Economic Outlook: June 2015

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Executive Summary

Connecticut's economic growth over the last four years disappeared two weeks ago when the federal Bureau of Economic Analysis (BEA) released revised data for state output. Previous data from BEA had put Connecticut's growth 2012-2013 second only to Massachusetts in the northeast, well ahead of neighboring states. On the basis of that encouraging trajectory, CCEA (and others) projected strong job creation and output growth in 2015 and 2016. The new BEA data demolished the basis for those projections, cutting more than $4 billion off the earlier estimates for 2013, and estimating Connecticut's growth in 2014 at a paltry 0.6 %. This transformed the state's economy from a strong performer to being among the worst regionally and nationally.

Projections based on the new BEA series, which puts Connecticut's current output below the level of 2006, along with weaker growth nationally than earlier forecast, means that Connecticut is now unlikely to regain its previous peak, achieved at the end of 2007, in the foreseeable future. Job creation—total employment is still 22,000 below the previous peak in early 2008—will likely stall and may even now decline. The only encouraging factor is recently released data on household income, which seems to have enjoyed reasonably strong growth. If that translates into stronger aggregate demand, the future trajectory of the state's economy will be very modestly better.

This *Outlook* gives special attention to the dynamic impact of the decision to systematically reduce support for hospitals, which means that Connecticut now foregoes more than $200 million in federal reimbursements. Given the extraordinarily weak economic growth, the result of not taking so much federal money is dramatic: it may account for a goodly share of the lost growth. An earlier CCEA analysis argued that the current set of hospital-related policies is costing Connecticut more than 4,000 jobs, a quarter billion in household income, and worsening the state deficit. Indeed, that analysis suggested that the FY 2015 deficit would have been cut to less than $70 million but for the decision not to take federal dollars.

This *Outlook* also considers more broadly some of the budget choices now on the table, pending the Legislature's Special Session. Those choices worsen economic outcomes further. Moreover, in aggregate they appear to work against the significant investments Connecticut has been making to change its economic trajectory. The report concludes by pointing to two initiatives that could restore Connecticut's economic momentum: 1) revision of the hospital tax and associated policies; 2) a major infrastructure initiative focused on IT. The first would measurably improve performance in 2016 and 2017. The Holy Grail of IT is the having three mutually re-enforcing components: a high-capacity, high-speed fiber optic network, large capacity data storage, high performance computing, ideally the last two co-located. Connecticut has the cable network in the ground—speed of 100G—and a site that could accommodate colocation and be operational in less than a twelve months. These two initiatives would bend the curve.

Introduction

The optimist growth projections presented in CCEA's previous *Outlook* appeared too good to be true; they were.[1] The federal Bureau of Economic Analysis (BEA)[2] has now massively revised state economic data on which the CCEA *Outlook* relies; the new BEA numbers eliminated effectively three years of growth from Connecticut's recent real gross domestic product (RGSP). These revisions, which change the data going back several years, demolish the basis on which the previous *Outlook* relied, replacing them with data that reveal a Connecticut economy that is seriously underperforming. Indeed, based on the revised data, Connecticut's economy has gone from appearing to enjoying growth second only in the northeast to that of Massachusetts to being among the worst performers, seriously lagging its immediate neighbors—Massachusetts, New York, and even Rhode Island—and being among the weakest in the nation.[3] What appeared to be a strong recovery from 2012 after being among the most states hammered by the "Great Recession" – the recession of 2007–2009[4] – suffering a 7-9% decline, turns out to be have been an empirical mirage, a mirage BEA's revisions have exploded.

BEA Revisions

The BEA revisions for the past decade are meaningful, those for 2011 and 2012 significant, and for 2013 ***huge***. The new number, for 2014, shows Connecticut's economy delivering output nearly $4 billion smaller than previously reported for 2013, and below its output in 2006. The earlier BEA quarterly estimate for 2013Q4 was $236 billion at annual rates—the new numbers cut that dramatically, to $232 billion, nearly $4.2 billion, or 1.8%, of RGSP. According to previous BEA data, Connecticut grew 4.07% 2011Q4 to 2013Q4, second only to Massachusetts (4.21%), and well ahead of New York, New Jersey, Pennsylvania, Ohio, and other neighboring states. The revisions drop its 2014 growth into a tie with Vermont, below all but Maine and New Jersey in the North East. Such cuts in historical output translated into future stagnation and put downward pressure on retrospectively based forecasts on which the CCEA initial *Outlook* depends. And the result is that in 2015, Connecticut's output will in all likelihood still

[1] Because Connecticut develops no independent data, everyone evaluating the state's economic trajectory must rely on federal data, which is typically one or even two years behind. Available forecasts for Connecticut's economy, prior to the revisions, had projected strong growth; we were all wrong. But the most important takeaway is that Connecticut's failure to develop good "real-time" data deeply handicaps the ability of policy makers to frame their considerations on the basis of a solid understanding of current conditions.

[2] http://www.bea.gov/

[3] The June 10th BEA release with the revised state RSGP numbers is available at http://www.bea.gov/newsreleases/regional/gdp_state/2015/pdf/gsp0615.pdf

[4] See http://www.bls.gov/spotlight/2012/recession/pdf/recession_bls_spotlight.pdf for specifics regarding the 2007-2009, and prior, recessions. But Connecticut suffered nearly a four year decline, to the end of 2011; that put Connecticut near the bottom among all states.

be lower than a full decade earlier![5] Additionally, the current CCEA *Outlook* does not look out far enough to see when Connecticut will reach its previous peak output at the end of 2007.

With BEA's revisions, Connecticut average annual growth was only 1.7% over the last two years, an anemic rate below even weak national growth. Unlike the robust upward trend based on earlier data series, BEA's 2014 preliminary Connecticut RGSP for 2014 is $232.6 million in chain-linked 2009 dollars. The BEA's growth rate Connecticut RGSP, 2013 to 2014, is a truly meager 0.63%.

Slowing national economic growth, well below expectations earlier this year, compounds the downward pressures of the current forecast relative to previous *Outlooks*. The only upside to this pattern is that the Federal Reserve Open Market Committee (FOMC) may now extend low interest rate policies until the end of the year; even if it chooses to begin raising rates by the end of the year, it is likely such increases will be small. That, combined with petroleum prices likely remaining below $70 a barrel[6] into the foreseeable future, will provide modest but important help to Connecticut's struggling economy.

This *Outlook*, consistent with economic forecasts from virtually every corner, takes a pessimistic view of national growth, using a range of low growth rates. Even in the less pessimistic case, with marginal increases in the bank rate of only a quarter of a percent over two years, employment shrinks. Under the more pessimistic case, employment falls significantly. And these forecasts come before consideration of the current budget proposals, which, absent changes, will likely accelerate these negative outcomes.

Initial RGSP Outlook

Using two different approaches, CCEA anticipates Connecticut RGSP growing between 1.25% and 2.5%. Higher personal incomes drives increasing personal consumption, supported by Connecticut average weekly manufacturing earnings which rose over the last year 12.3% in current dollars midst lower energy prices. The personal disposable income that is a key income driver of demand may be curtailed by rising personal income taxes, which CCEA excluded from the limited retrospective model. In the more pessimistic case, growth comes almost entirely in 2015 before stagnating in 2016, as Chart 1 shows.

[5] Employment is still nearly 22,000 below the previous peak in early 2008, but has grown faster than output, which means in aggregate worker productivity is declining and argues that the quality of jobs has also deteriorated.

[6] http://finance.yahoo.com/news/goldman-sachs-cuts-crude-price-104105327.html

Initial Employment Outlook

Whichever approach CCEA takes, the analysis sees the long run in employment growth—now at 56 consecutive months[7]—ending. Full time equivalent employment (FTEs) appears to be peaking. Connecticut's RGDP growth remains too week to sustain current employment, let alone opening net new employment opportunities.

Chart 1: Connecticut RGSP Outlook ($1,000 at Annual Rates)

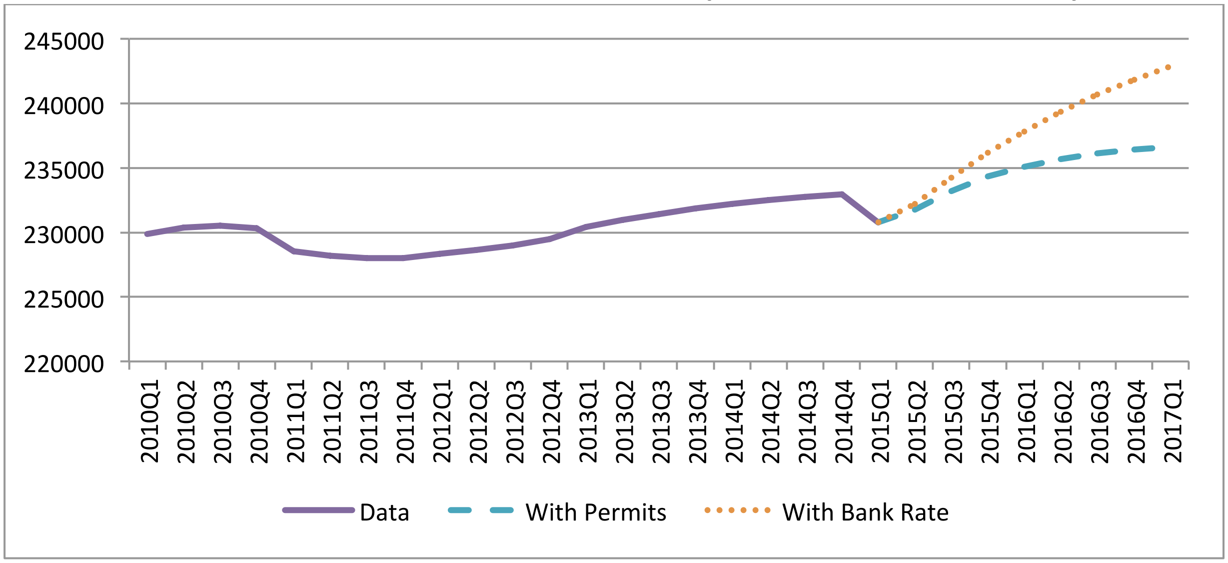
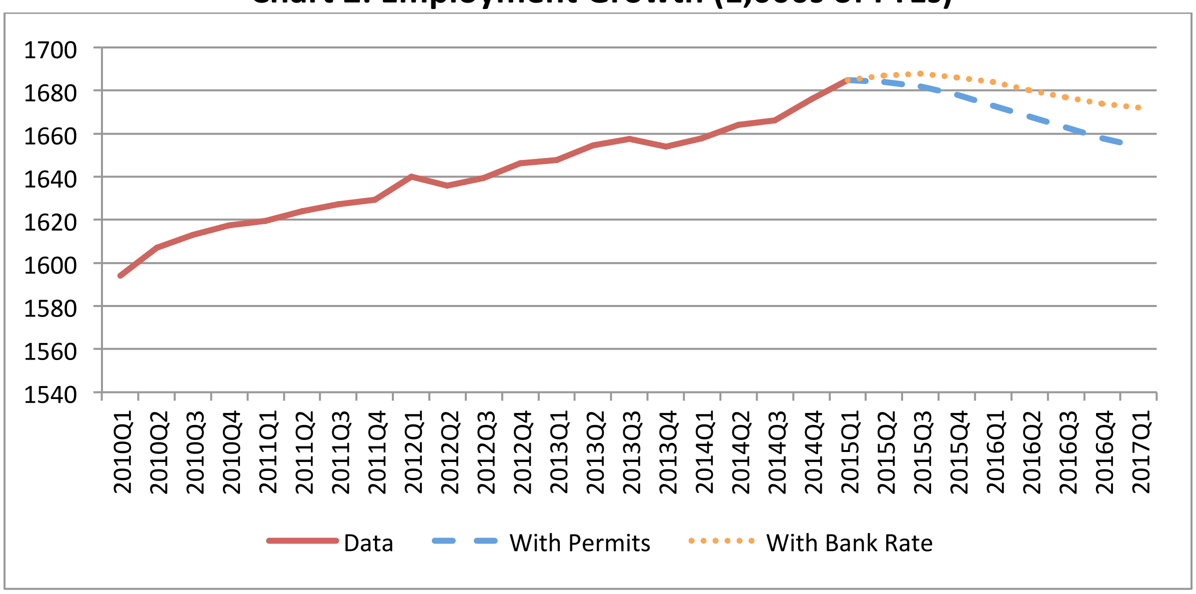


Chart 2: Employment Growth (1,000s of FTEs)

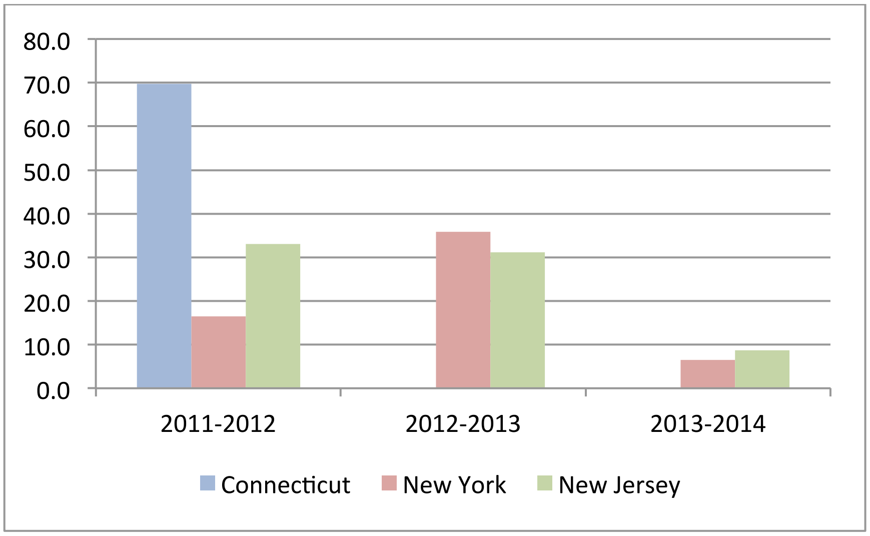


[7] See http://www1.ctdol.state.ct.us/lmi/ctnonfarmemployment.asp

Residential Building Permits

Residential building permits, which CCEA uses in one of its economic models, is a weak signal. Unlike its performance during 2011, Connecticut housing permits during the last two years have grown by 0.2%-0.0% compared to Tri-State growth, as Chart 3 shows.

Chart 3: Residential Permit Recovery in the Tri-State Area: Annual Growth Rates 2011-2014



In 2011, Connecticut led in expanding permits in the initial recovery year but has hold that position over the two more recent years. Connecticut housing permit growth from the initial plateau has been almost inconspicuous. In short, it has failed to build on its lead. Over the three year period, New Jersey has taken the lead with 89.6% growth in units permitted compared to Connecticut's 70.1% and fast approaching New York's 68.5% growth. Measured in permit value over the three years, Connecticut with 60.6% growth trails New York at 70.4% growth and New Jersey at 88.2%.[8] These comparative results flow from an ongoing population agglomeration process that has been a global hallmark virtually from the beginnings of the industrial revolution. Including Boston as a growth pole, Connecticut has growth poles in on both ends of its major transportation and communication (IT) corridors. Connecticut is clearly positioned geographically to benefit from such shifts, but doing so requires policies that capture a visible share of that growth.[9]

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[8] U.S. Bureau of the Census, Residential Permits.

[9] Both Massachusetts and New York are growing strongly, according to the latest BEA numbers. Given that growth in both states is highly concentrated in the Boston and New York metro areas, the differential between Connecticut's paltry growth rate and those metro areas is much larger than state differentials. While unable to capture a reasonable share of that growth, Connecticut at the same time has a record number of residents employed, necessarily many of them commuting out-of-state and typically paying little or no Connecticut income tax. One notable weakness is the failure in Connecticut to develop a strong IT infrastructure, central to much current business development, dependent on information processing.

Budget

Several budget proposals put additional downward pressures on economic performance. In fairness to those involved in the budget process, they too may have been blindsided by BEA's recent revisions, and neither the Legislature nor OPM have well-developed capacity to do sophisticated dynamic economic analysis.[10] Compounding these uncertainties has been the budget process itself with proposals and counter proposals still in play between the Legislature and the Governor. The intent of this section is to comment from an economic, not an accounting, perspective, on various proposals still in discussions. Complexity in these matters arises from likely and predictable reactions of those most directly impacted and from built-in provisions for expansions or matching cuts in federal transfers. In particular, curtailing federal transfers to the State necessarily has multiple adverse impacts on aggregate demand. In addition, the hostility of the business reaction to initial budget proposals has been fierce, including threats from large business with Connecticut headquarters to pull out of the state. These companies are too large and too disciplined to take such treats idly.

This *Outlook* discussion flows from an analysis of current policy and the possible future policies; given that the Legislature will meet in Special Session and consider revisions, changes in policy would necessarily result in different outcomes. Thus the discussion projects the likely impact of budgetary provisions on the pessimistic scenario laid out above. First some background.

Background

Bill Cibes, Secretary of Policy and Management for Governor Weicker, has laid out clearly that, on a comparative basis, according to a national analysis from Ernst & Young, Connecticut's business tax burden, in aggregate, has been among the lowest nationally and thus presumptively business friendly. In laying this out, he highlights reasons for some head offices locating in Connecticut.

- The state and local tax burden on business in Connecticut, as a share of private sector gross state product was tied with South Carolina for second lowest among all states (3.4% of gross state product and 27% below the national average).
- Connecticut business taxes were 28.9% of total taxes levied by the state compared to average business taxes shares of 45.2% across the country.
- During 2012-2013, 6 states reduced business taxes, 44 increased them.

[10] DECD does have this capacity, but as far as we can determine it has not been used. In several exchanges with OPM, exchanges in which OPM challenged the CCEA analysis on the impact of the changes in the hospital tax, no competing dynamic analysis was presented. OMP relied explicitly on bookkeeping to support the position that the approach taken was not costly to the state's economy and its budget. We have offered to provide DECD the details of our analysis for evaluation and to facilitate replication of our analysis.

- In those same years, Connecticut tied with New Mexico for the smallest increase in business taxes among U.S. states at 1.1%, compared to an average of a 4.3% increase in business tax in other states.
- The two most burdensome taxes on Connecticut business are property taxes (30%) and sales taxes (19%). Corporate income taxes in Connecticut are only 7.5% of business tax burden in Connecticut, compared to 7.9% nationally.

The Governor's Initial Proposals

To support the expansion of a $17.4 billion general fund in 2014-15 to $18.7 billion in 2016-17 the Governor's February 27, 2015 budget called for significant tax and other revenue increases. Of the $914.4 million in initially proposed tax increases for fiscal years 2016-2017, $811.2 million comes from businesses under various guises: corporate tax increases of $427.6 million; health provider tax increases of $339.2 million; insurance companies' taxes of $45.4 million; alcohol beverages tax of $3.6 million; and public utilities taxes of $1.4 million.[11] Remarkably, of the 14 individual tax measures impacting businesses four, generating $252.5 million, were to be retroactive to the beginning of 2015.[12]

Businesses always view the retroactive imposition of taxes as particularly hostile. How is one supposed to operate a business without a clear understanding of the tax environment, currently and going forward? Absent that, one never knows where a business and its owners stand financially. Attempts to impose such taxes undermine confidence in government because they suggest a government attitude of "What you earn is not really yours until the government says you can keep it!" Not surprising, business reactions to the budget were hostile.[13]

Current Proposals

CCEA's assessment of the current status of the state budget adjusts earlier proposed provisions as follows to the administration's latest stances:

- The legislatively approved budget proposal to increase the computer services and data processing tax from 1% to 3% by 2017 is dropped as antithetical to future new-age business interests;
- Intra-corporate sales, where through ownership a company sells computer services to itself, become exempt from even the 1% computer services and data processing tax;
- The new 1% web design and maintenance tax remains as part of the budget;
- Connecticut has delayed joining 24 other states in adopting a rule on combined reporting of earnings that forces multistate corporations to report combined profits

[11] Dannel P. Malloy, Connecticut FY 2016 – FY 2017 Biennium Governor's Budget Summary, p. A-5.
[12] Reliance on retroactive tax increases is especially problematic; it underlines the fiscal uncertainty that firms face. Nothing is more antithetical to enterprise than uncertainty; it makes it impossible to anticipate future developments.
[13] The widely reported comment by OPM Secretary Ben Barnes that Connecticut is in a permanent fiscal crisis dramatically underlined the indeterminacy of future tax burdens. He essentially declared Connecticut the State of Uncertainty.

nationwide, the apportion those earnings by state.[14] The delay avoids the initial retrospective application of tax laws, but the delay rather than cancellation remains difficult for head offices located in Connecticut due to the tax provision's invasion of normally confidential corporate allocations to head offices (the sticking point for GE);

- The health provider tax provisions to raise an additional $339.2 million in new revenues and $750 million in total over two years appear to remain in place despite their damage to the budget itself, cuts in Federal transfers, undermining Connecticut's already weak growth, and dangers to the health and welfare of citizens; and,
- To offset reductions in revenue the Governor is proposing an across the board cut in state agency spending of $224 million from the proposed budget. This provision should not be confused with $224 million cut in current expenditures.

This *Outlook* focuses on one particular element in the budget to underline the damage poorly conceived policies—done without dynamic analysis—do to Connecticut's economic health.

Health Provider Tax Increases

The budget imposes healthcare provider (hospital) taxes of $339.2 million. These taxes, in conjunction with increasingly limited state transfers to hospitals, are especially problematic because federal reimbursements help cover state spending on healthcare. Initially federal reimbursement was 50% of the transfers; it has now risen to 67%. The hospital tax began reasonably enough four years ago, framed in response to federal policies and incentives under ACA. The State would tax the hospitals; the State would then return the tax *plus* $50 million dollars to the hospitals to cover the cost of unreimbursed care.[15] Then the federal government would give the State a 50% reimbursement—$200 million. So hospitals continued getting help to cover the cost of providing care to everyone who needed it;[16] the State enjoyed $150 million in net new revenue. But then OPM, with Legislative approval, began cutting support to hospitals—now by more than 75%--effectively increasing the tax on hospitals 800%.[17] This also meant dramatically reducing federal reimbursements; the current budget foregoes more than $200 million in federal dollars.

CCEA put these numbers together—the hospitals extracting a net cost after state transfers of more than $250 million from clients, the state enjoying higher bookkeeping revenue, but securing only $67 million in federal return—to see how they played out in the economy and in

[14] Dan Haar, "Malloy's Changes: A Better Budget, A Hidden Benefit and Utter Chaos," *Hartford Courant*, June 12, 2015.
[15] Under federal law, hospitals must provide care, regardless of ability to pay. Connecticut has long covered these costs with payments to hospitals.
[16] The hospitals actually took a $33 million reduction in support when this package was first implemented; a significant cut but which, in the face of the huge deficit the State then faced, was not unmanageable.
[17] When first adopted, the hospitals lost $33 million in support; under the current budget they loss $256 million, just shy of an eightfold increase.

net tax revenue. The results are bad across the board: job losses, falling household income, reduced tax revenues.[18]

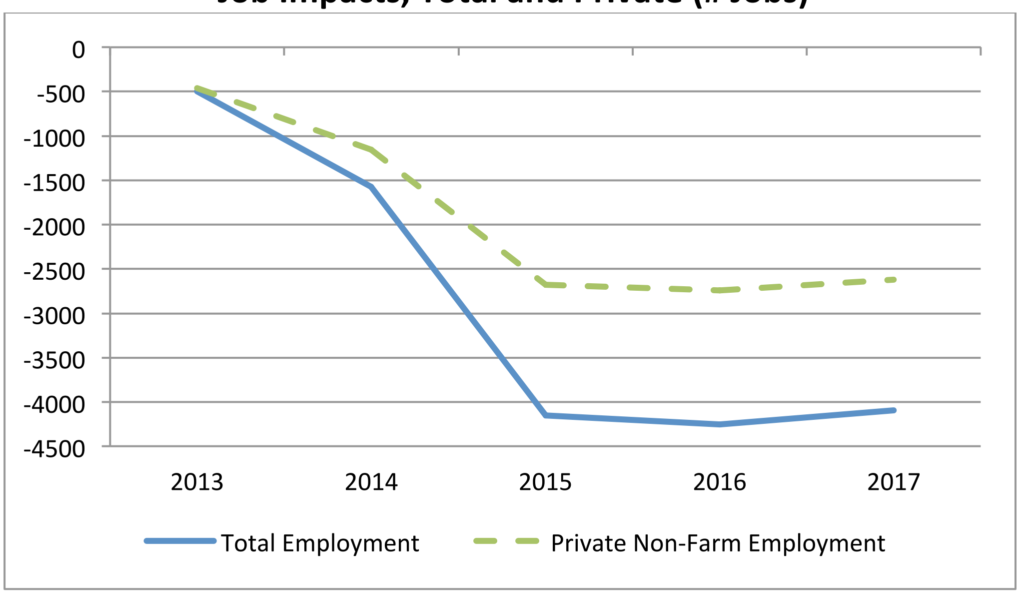
Jobs Impacts

Impacts are particularly adverse on jobs in both the private and public sectors in Chart 4 below reveals. Total job losses exceed 4,000 annually from 2015-2017. That is jobs are adversely impacted by the failures to maintain promised levels of funding under the hospital tax program. The majority of the jobs lost, in excess of 2,600 in each of the three years, are in the private sector.

Personal Income Impacts

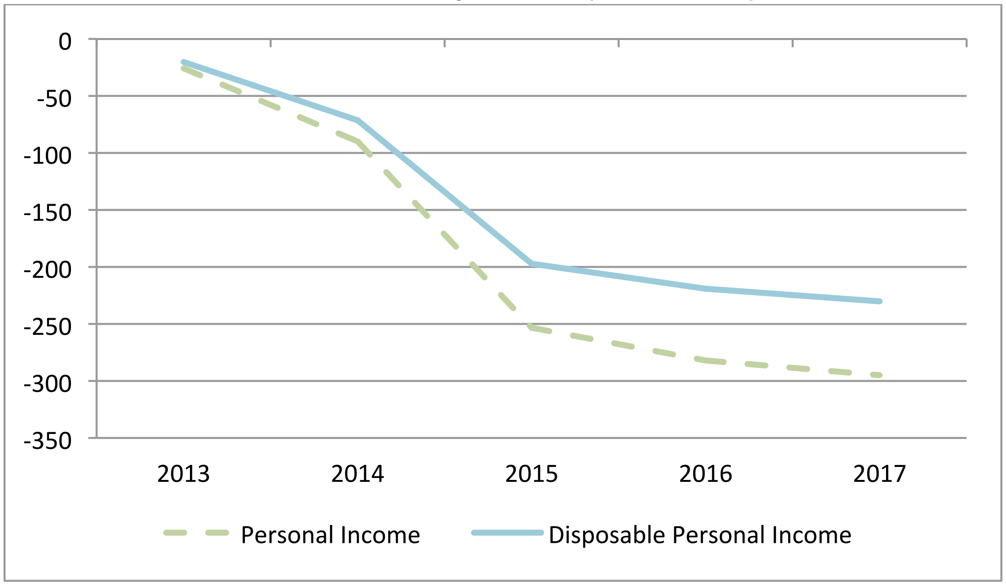
Foregoing the $200 million in federal reimbursements also necessarily reduces personal incomes. Annually, they fall by quarter of a billion dollars or more from 2015 onward, reaching a loss of nearly $300 million in 2017. Households and government share in the losses, with personal disposable incomes (excluding federal, state, and local taxes) falling $197 million to $230 million from 2015-2017. See Chart 5 below.

Chart 4: Changes in Hospital Taxes:
Job Impacts, Total and Private (# Jobs)



[18] Think of Connecticut's economy as a household; some members earn income, from selling jet engines, insurance policies, or sports broadcasting; one member brings in significant federal money by providing services (healthcare) the federal government deems important. Falling to secure all the federal dollars available means a smaller household income, however it is divided among members. A smaller income for the household means less ability to pay for food, clothing, shelter, vacations, retirement, or taxes. The result is unavoidably bad across the board.

Chart 5: Changes in Hospital Taxes: Personal Income Impacts: Total and Disposable ($ Millions)



The differences between the two income measures, $35 to $57 million annually 2015-2017, are reductions in government revenues, mostly in lower income tax revenues, of which about 23-24% fall to Connecticut.

RGSP Impacts

The proposed hospital net revenue tax further cuts RGSP growth relative to what otherwise would have happened by $327 million in 2015 and $339 million in 2016, amounting to 0.15% cut in RGSP. This is equivalent to a quarter of BEA's puny 0.6% growth for 2014 and 12% of CCEA's growth expectations for 2015. Reframing the hospital tax could thus measuredly and significantly increase Connecticut's growth rate in 2015 and 2016.

Impacts on the State Revenues

The total net economic impacts on the state revenues are adverse as the next to last line of Table 1. These estimates are only partial and thus conservative because the CCEA REMI model captures only two sources of losses to state revenues. The last line of the table offers the estimate of the net improvement in the state budget using just bookkeeping measures. The difference between the two methodologies approaches a quarter of a billion dollars in 2016-2017, underlining the need to include economic modeling in the formulation of budgets. Note that the analysis argues that the FT fiscal deficit would have fallen to less than $70 million but for the hospital tax. That underlines dramatically how damaging has been the result of relying on bookkeeping rather than dynamic economic analysis to shape policy.

The CCEA analysis is a powerful reminder that the failure to include rigorous analysis can lead —and in this case did we believe—to serious policy errors, costing jobs, cutting household, and, by worsening the deficit, constraining the capacity of governments to deliver the services that its citizens and enterprises need and deserve.

Table 1: Changes in Hospital Net Revenue Tax: Impacts on State Government Net Revenues (Millions $)

	2013	2014	2015	2016	2017
Cuts in state income taxes	-1.4	-4.4	-12.9	-14.5	-15.0
State sales tax cuts	-4.0	-9.2	-20.2	-21.4	-21.7
Total of the two tax revenues	-5.4	-13.5	-33.1	-35.9	-36.7
Changes in transfers to the state less accounting gains	0	-26	-103	-108	-108
Cuts in state revenues	-5.4	-39.8	-136.4	-144.3	-145.0
Claimed Net Benefit to the General Fund	38	64	100	105	105

In sum, changes in the hospital net revenue tax and related policies, conservatively estimated, cost Connecticut 4,000 jobs, a quarter billion in household income, and deeper budget deficits. How could the Governor and the Legislature choose to impose such a self-destructive tax? The answer is that simple bookkeeping makes the tax look like a winner, as Table 1 shows in the final two lines. Only when the tax is evaluated dynamically, looking at how it interacts with hospital operations, federal health care policies and transfers to the state, jobs, household incomes, and ultimate tax revenue back to the State will the true—and bad—outcomes emerge. Neither the Office of Policy and Management (OPM), that puts the initial budget together, nor the Legislature has the ability to do such an analysis. They fly blind; unsurprisingly, they crashed.

The damage goes beyond just the economics. This set of policies clearly must impact access to and quality of care hospitals are able to deliver; there is surely a significant and perhaps growing human cost that the economic analysis does not capture. And weakening our hospital infrastructure feeds back on our major—and thus far successful—effort to make biomedical research a major sector in Connecticut's economy. But this research is fundamentally dependent on clinical work; Pfizer moved nearly 1,500 researchers from Groton to Cambridge, MA precisely because of the need for a close relationship with a large complex of hospitals. Undermining our hospital infrastructure unavoidably will take a toll on our efforts to build a stronger, more dynamic, and growing biomedical sector.

The hospital tax and its associated policies inflict systematic, widespread damage on Connecticut's economy and undermine its competitive health. The Governor has already indicated the need for a special Legislative session to reconsider business taxes that generated unprecedented public criticism; he ought to put the self-destructive hospital tax on the table as well.

Initial Estimates of Current Budget Proposals

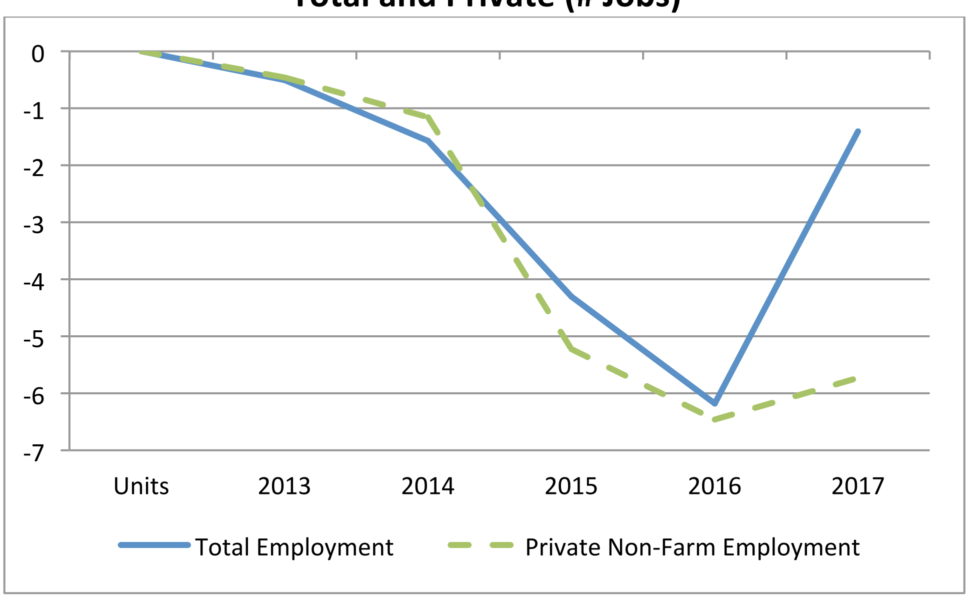
CCEA has carried out an initial cut at estimating the impacts of the current budget proposals by adding the remaining proposals to the analysis of the changes to the hospital net revenues tax. CCEAs ability to undertake this analysis has been limited by the level of detail within REMI. It is also an annual model so that taxes coming into force during the year are accommodated as a share of the number of months of the year they are effective. Net of the cutbacks in federal transfers to the state that would have occurred had the initial arrangements with the hospitals remained and budgeted increases in state expenditures are included in the simulation.

The resulting budget impacts are somewhat worse than the earlier results out to and including 2016 but better thereafter suggesting that on net the remainder of the budget further undermines the economy. Impacts on the economic indicators are briefly illustrated below. Within these estimates the Governor's commitment to reduce state expenditures by $224 million is taken to be permanent.

Jobs Impacts

Impacts continue to be particularly adverse on jobs through 2014-2016 in both the private and public sectors as Chart 6 demonstrates, with some lessening of the damage in 2017.

Chart 6: Changes in Current Budget Proposals 2015- 2017: Job Impacts, Total and Private (# Jobs)



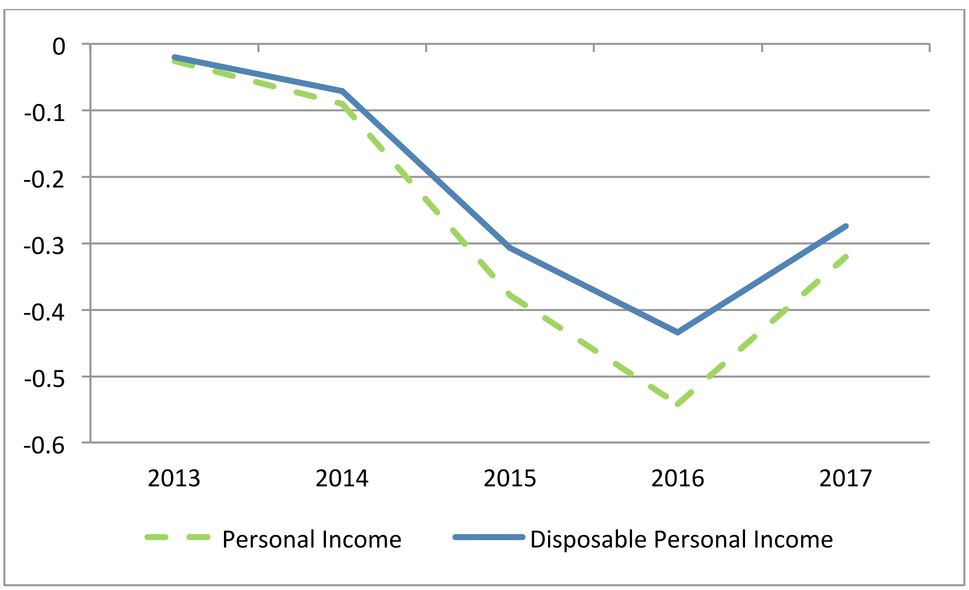
Aside from 2014, total adverse job impacts are more severe in the private sector but positive for the public sector, especially in 2017, when government expenditures continue to expand beyond the $224 million in cuts agreed thus far.

Private sector job losses exceed 6,400 annually in 2016. That is jobs are adversely impacted by the failures to maintain promised levels of funding under the hospital tax program in conjunction with other cutbacks. Public sector employment generally expands, but only significantly enough to offset private sector cutbacks in 2017.

Personal Income Impacts

These cutbacks curtail personal incomes. Annually, personal incomes fall $378 million in 2015, reaching a shortfall of nearly $542 million in 2016. Households and government share in these loses, with personal disposable incomes falling $307 million to $434 million from 2016-2017, implying a decline in personal income taxes of $108 million in 2016, of which about 23%-24% would be borne by the state.

Chart 7: Changes in Hospital Net Revenue Taxes:
Personal Income Impacts: Total and Disposable ($ Millions)



RGSP Impacts

Relative to what otherwise would have happened, the aggregate budget adjustments, including the hospital tax, further cuts RGSP growth $341M in 2015 and $515M in 2016, equaling a 0.21% cut in RGSP growth, more than a third of BEA's paltry 0.6% Connecticut growth for 2014 and 16% for 2015. The state is paying a steep price for ill-conceived policies.

Conclusions

The BEA revisions have dramatically undercut both CCEA's optimistic projects from the February *Outlook* and thrown down the challenge in remarkably vivid data on how Connecticut will restore its economic health and build its competitiveness. The initial budget was presented long before we understood the profound weakness in Connecticut's economic record. Now, in the face of those depressing BEA numbers, the damage even the current revised budget does through its manipulation of the hospital tax, return transfers, and federal reimbursements, combined with other proposed budget elements, look to inflict major damage on Connecticut's economic future, and may even undermine specifically the bioscience initiative.

In the past four years, Governor Malloy, with legislative support, has taken some great initiatives that have promised to change Connecticut's economic trajectory. The Bioscience initiative, which then anchored Jackson Labs with a world-class research building, the agreement with UTC to permit use of stranded tax credits that, with the new research facilities in East Hartford, anchors Pratt-Whitney and aerospace in the state for a generation, and supporting ESPN in developing a state-of-the-art digital broadcasting facility in Bristol, deserve recognition. And the recognition that addressing Connecticut's poor infrastructure is central to its long term competitiveness and economic health is also of real importance—but that the failure to include prominently (or at all) IT infrastructure has been surprising and peculiar. Communication infrastructure is profoundly important and deeply linked with creating value with improved transportation infrastructure.

In the short-run there are clearly two initiatives that could propel Connecticut's economic momentum. First, obviously, is the revision of the hospital tax and the associated policies on returns to the hospitals and thus the ability to secure large federal reimbursements. As the analysis discussed above underlines, that in itself would measurably improve economic performance in 2016 and 2017. The second initiative is a major infrastructure initiative, but one never mentioned in recent discussion: IT infrastructure. The Holy Grail of IT is the having the three components of a high capacity, high speed fiber optic network, large capacity data storage, and high performance computing, ideally the last two co-located. Because IT has "gravity"—in the Internet Age in turns location may actually be more important, not less—developing these elements could put Connecticut at the epicenter of IT activity in the northeast. Critically, the state has in the ground a world-class fiber optic network with speed of 100G—which can go to 400G with new switching technology—and has a site that can accommodate both massive data storage and high performance computing with both relatively low cost electricity and plentiful water for the necessary cooling. Leading global IT center developers have evaluated the site and grade it world-class. Thus the Holy Grail of IT could be up and running with twelve months. The immediate development of this site ought to be the focus of the Governor, the Legislature, DECD, and anyone who cares about Connecticut's economic future.

Connecticut is not condemned to a permanent fiscal crisis. Governor Malloy has laid the groundwork for powerful future growth—growth that current policies are now threatening. The Legislature, in its Special Session, has the opportunity of reframing current policies and insisting on a "laser like focus" on IT infrastructure that will build on that groundwork. In the Internet Age, every business is information-dependent; Connecticut, with its locational advantage, can respond powerfully to that challenge.