Good afternoon Representative Rojas, Senator Fonfara, Senator Frantz and members of the Finance, Revenue & Bonding Committee. I am Lori Pelletier and I am proud to serve as President of the Connecticut AFL-CIO on behalf of over 900 affiliated local unions who represent more than 220,000 working men and women in every city and town of our great state. Thank you for the opportunity to submit testimony today on legislation to close the carried interest loophole and require enhanced transparency, accountability and legislative oversight of the First Five Plus Program at the Department of Economic and Community Development (DECD) and other programs providing businesses with financial assistance from the state.

**HB 7313 An Act Imposing a Surcharge on Income Derived from Investment Management Services**

The Connecticut AFL-CIO supports this legislation.

The title of this bill is misleading. It does not impose a surcharge on hedge fund managers’ investment income. Rather, it taxes those earnings for what they really are – as income, not capital gains. If you work at a company, you earn a salary and receive a paycheck, which is taxed as ordinary income. If you buy a stock and then sell it for more than you paid, that’s a capital gain which is taxed at a lower rate. But if you are a hedge fund manager or the head of a private equity firm, investment is your job. The "carried interest loophole" is an unfair tax code that allows hedge fund managers and other executives at investment firms to pay lower capital gains tax rates on their wages, rather than regular income tax rates. HB 7313 eliminates that practice and taxes all income at income tax rates.

Closing the carried interest loophole would generate between $520 million and $535 million annually for the state and narrow Connecticut’s $1.5 billion deficit by more than one third. It
would also help stabilize Connecticut’s unbalanced revenue structure in which the wealthiest families pay half the effective tax rate than the poorest families.

The finance industry has changed. It used to contribute more to our economy by creating jobs and lending capital for small businesses. Every dollar of earnings or borrowing used to be associated with a 40-cent increase in investment. Since the 1980s, though, less than 10 cents of each earned or borrowed dollar is invested. Today, financiers focus more on wealth creation through manipulating and timing markets rather than by lending and creating jobs. Why should Connecticut continue to give hedge funds preferential treatment if the industry does not create middle class jobs it did in the past? Hedge fund financiers should pay the same tax rate as other millionaires and billionaires in their tax bracket.

For years, bipartisan efforts to close the carried interest loophole at the federal level have failed. Even both 2016 presidential nominees publicly expressed support for closing the loophole, but Connecticut opponents continue to perpetuate the myth that wealthy hedge fund managers will leave Connecticut if they must pay income taxes on their full incomes. Several studies have demonstrated that millionaire migration has been grossly exaggerated. Most people, including millionaires, do not move for tax reasons. They don’t want to take their kids out of school and they want to stay connected with friends and family. Nevertheless, HB 7313 takes all of that into account by requiring the provisions to be implemented in concert with neighboring states. By creating a regional compact with Massachusetts, New York, Rhode Island and New Jersey, as this bill does, hedge fund managers will be discouraged from leaving the state because they will have to pay income taxes on all of their income throughout the region.

We urge the committee to pass this common sense bill.

**HB 7316 An Act Concerning Evaluation of Business Assistance and Incentive Programs**

The Connecticut AFL-CIO supports this legislation.

Governor Malloy’s “First Five Program” was created in 2011 and later expanded and renamed “First Five Plus.” The program gives DECD authority the flexibility to construct any financial assistance agreements totaling tens of millions of taxpayer dollars in loans, grants, tax credits, abatements and other forms of “assistance” for large-scale business projects it alone identifies. In return, these businesses must pledge to either create two hundred new jobs within two years or invest $25 million dollars and create 200 jobs within five years. Corporate beneficiaries of the First Five Plus Program are:

1. CIGNA
2. NBC Sports
3. Alexion Pharmaceuticals
4. ESPN
5. Paracentrics
6. Sustainable Building Systems
7. Deloitte
8. Bridgewater Associates
9. Charter Communications
10. Navigators
11. Pitney Bowes
12. EDAC Technologies Corporation
13. Synchrony Financial
DECD has showered huge, profitable corporations with generous financial packages totaling more than $256 million, but taxpayers still do not have any independently verified data about how these investments have benefited our state or our economy. According to its August 2016 First Five Plus Return Investment Analysis, DECD reports that after five years, it believes the program is clearly meeting expectations.\(^1\) Without any oversight, or at least the oversight provided in HB 7316, taxpayers have no choice but to take DECD’s word for it.

Taxpayers have reason to be concerned. Just a few weeks ago the Auditors of Public Accounts released a report that found DECD inadequately monitored the Small Business Express Program. The report found a lack of attention to record keeping, inadequate administrative controls and failure to adhere to assistance agreement requirements.\(^2\)

Recent news reports about two First Five Plus recipients are also alarming. ESPN, which entered the program in 2011 with more than $24 million in loans, grants and sales tax exemptions\(^1\), announced last month that it would by laying of dozens of employees.\(^3\) This announcement comes after the company laid off more than 300 workers in 2015. Last month Alexion Pharmaceuticals also announced it would be laying off workers. More than 210 jobs, 7% of Alexion’s global workforce, will be lost.\(^4\) What kind of return have Connecticut taxpayers gotten on these investments?

HB 7316 would require the DECD Commissioner to make detailed reports annually to the Auditors of Public Accounts and the General Assembly about all business assistance or incentive programs, including the number of jobs created, the borrowing cost to the state and the impact of such programs on state revenues. It would also provide taxpayers a voice in the oversight process by requiring the General Assembly to hold annual public hearings on the contents of these reports.

At a time when vital public services are being slashed, more than 1,000 state employees who deliver those essential services have received pink slips and the Governor’s proposed budget calls for painful sacrifices from the poor, working and middle class, it’s time to stop doling out corporate welfare.

Governor Malloy has repeatedly claimed the reason revenues continue to lag is because we have not created enough good-paying middle class jobs. Yet giving $22 million to Bridgewater Associates, the largest hedge fund in the world, does nothing to improve the lives of middle class residents or create the kinds of jobs that we need for long-term, sustained economic growth. We would make better investments in our economy by raising the minimum wage, enacting HB 7313 and raising income taxes on individuals earning more than $500,000 per year. Such actions allow hard working men and women the ability to earn fair wages they can spend in their local economies and provide the state resources it needs to invest in public services that create a significant competitive advantage Connecticut businesses enjoy – a highly skilled and educated workforce.

Legislation like this bill was vetoed by Governor Malloy last year. Public Act 16-183 passed both chambers unanimously. By vetoing the bill, Governor Malloy prevented any entity other than the executive branch from evaluating whether these investments are promoting high quality economic development. It’s time to shine a light on taxpayer funded investments. We urge the committee to pass meaningful oversight of business assistance and incentives.

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\(^1\)http://www.ct.gov/ecd/lib/ecd/First_Five_Summary_Analysis.pdf
\(^3\)http://www.hartfordbusiness.com/article/20170306/NEWS02/303069968/1004?utm_source=eneews&utm_medium=HBJToday&utm_campaign=Monday
Thank you for the opportunity to provide written testimony today.