

# **Commission on Fiscal Stability and Economic Growth**

## **MEETING MINUTES**

**Friday, December 15, 2017**

**1:00 PM IN ROOM 1D OF THE LOB**

### **I. CONVENE MEETING AND WELCOME BY CO-CHAIRS:**

**The meeting was called to order at 1:00 PM by Co-Chairman Patricelli**

The following Commission members were present:

Robert Patricelli (Co-Chair), James Smith (Co-Chair), Pat Widlitz (Vice-Chair), Bruce Alexander, Cindi Bigelow, Greg Butler, Roxanne Coady, David Jimenez, Jim Loree, Chris Swift

Absent were:

Paul Mounds

Co-Chairmen Patricelli and Smith welcomed all of the members of the Commission and thanked them for donating their time and energy to this important group. Recognizing Governor Malloy's busy schedule Co-Chairman Patricelli yielded to the Governor for his comments.

### **II. INTRODUCTION OF COMMISSION MEMBERS:**

#### **A. COMMENTS BY APPOINTING AUTHORITIES INCLUDING GOVERNOR MALLOY**

Governor Malloy thanked the members for their service and proceeded to describe what he feels is the charge of the Commission. It is his hope that this group will be responsible for developing and recommending policies to achieve state government fiscal stability and promote economic growth and competitiveness within the state. He went onto explain that this Commission will serve to give the private sector a greater voice in strengthening our state's fiscal foundation. He particularly requests that the group focus on efforts to fund our transportation system in a way that best makes the needed infrastructure investments so our communities can thrive, and help Connecticut adapt to a changing world that includes a new federal tax policy and less federal spending. According to the Governor, aligning the state's expenditures with those places (specifically urban areas) that can grow and drive our economy is key to improving Connecticut's overall competitiveness and is a worthy investment. The Governor explained that this is a time in the history of our state when leaders, particularly from the private sector, have to get more deeply involved in the process of government to help our elected officials find solutions to Connecticut's serious fiscal problems. He expressed his confidence that the Commission will be committed to making solid recommendations for achieving structural fiscal reforms that can guide the biennial budgeting process going forward and make Connecticut more competitive.

According to the Governor improving the longer-term outlook is crucial to enabling public infrastructure investment and stimulating both private investment and public private partnerships that re-ignite economic growth and create good jobs.

The Governor closed by adding that Connecticut has wonderful strengths upon which to capitalize, and he believes that the Commission members have great energy and enthusiasm around solving some of the challenges that currently exist.

## **B. REMARKS BY THE CO-CHAIRS AND VICE CHAIR**

The co-chairs proceeded to detail the adopted statute (PA 17-2, sec. 250) creating this Commission. The statute requires the group to study and make recommendations on issues regarding state revenues, tax structures, spending, debt, and administrative and organizational actions, including relevant municipal activities, to achieve consistently balanced and timely budgets that are supportive of the interests of families and businesses and the revitalization of major cities within the state, and materially improve the attractiveness of the state for existing and future businesses and residents. The co-chairs further explained that the Commission must submit a report of its findings and recommendations to the Governor and the General Assembly by March 1, 2018, the legislative committees that have cognizance over such matters shall hold public hearings on the Commission report by March 30, 2018 and one or more of the legislative committees that has cognizance must report at least one bill drafting the report's recommendations to be voted on during the 2018 regular session by the General Assembly. Vice Chair Widlitz noted that the Commission's longer term structural recommendations would provide a useful framework for future biannual budget planning. In short the leadership of the Commission ensured that over the next several months they will dedicate themselves to making sure this group makes solid recommendations for structural reform that considers the strategic priorities for the state such as transportation that will move the state forward in a positive direction.

**Following opening comments by the chairs, the members proceeded to introduce themselves.**

All of the members – who were each appointed by Governor Malloy and legislative leaders – are volunteers who are not compensated for their services and have expertise in public finance, economic growth, job creation, and public administration.

## **III. REMARKS REGARDING 'FISCAL STABILITY' AND INTRODUCTION OF BEN BARNES FROM JIM SMITH, COMMISSION CO-CHAIR, CHAIRMAN AND CEO OF WEBSTER BANK:**

Co-Chairman Smith proceeded to provide a definition of what the Commission members believe to be 'fiscal stability.' According to Mr. Smith fiscal stability of a state government is one that ensures reliable, sustainable funding of programs and essential services, and maintains a high quality of life. Fiscal stability creates an attractive environment for strategic public investment and attracts private investment that fuels economic growth. The principles of affordability and

competitiveness require a balanced budget, funded pensions, and acceptable debt levels, all of which encourage and support investment.

Mr. Smith then gave a presentation to the Commission which can found by clicking on the link below:

[https://www.cga.ct.gov/fin/tfs/20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20171215/Jim%20Smith%20Presentation.pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20171215/Jim%20Smith%20Presentation.pdf)

Within his presentation he pointed out that despite achieving a bipartisan budget, a significant deficit remains in the out years. He explained that this is in part due to fixed spending cost growth accelerating- which now represents 53 cents of every dollar of expenditure for FY18. He also described the fact that State aid to 169 municipalities represents 27% of the FY18 budget and that personal income taxes and sales and use taxes, which are a major driver of revenue for the state, are projected to only grow 1% per year. According to the Bureau of Economic Analysis Connecticut's real gross state product still remains \$20 billion below the pre-recession high in 2007 and the state's job growth has lagged the country for a decade or more. Co-Chairman Smith concluded his presentation by stating that while Connecticut's fiscal picture is extremely challenging right now, he has great hope that structural fiscal reform can return fiscal stability and generate economic growth for Connecticut and that this Commission will strive to help attain this goal.

Following his presentation Co-Chairman Smith introduced Ben Barnes, OPM Secretary, and thanked him for taking the time to present to the Commission.

#### **IV. REMARKS FROM BEN BARNES, SECRETARY OF THE OFFICE OF POLICY AND MANAGEMENT:**

Prior to his presentation Secretary Barnes offered his opinion on the tasks that he feels the Commission should focus on in the coming months. He explained that the group is charged with examining and providing recommendations to promote both fiscal stability and economic growth. It is his opinion that while there is a direct relationship between these two principles there is no 'silver bullet' to accomplishing both goals. He explained that for example, he does not believe that simply lowering taxes will result in economic growth. Mr. Barnes feels that in some occurrences i.e. improving the transportation infrastructure carrying more debt to address these issues will result in long term economic growth for the state.

Following his opening comments, Secretary Barnes gave a presentation to the Commission which can found by clicking on the link below:

[https://www.cga.ct.gov/fin/tfs/20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20171215/Ben%20Barnes%20Presentation.pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20171215/Ben%20Barnes%20Presentation.pdf)

Within his presentation Secretary Barnes discussed the economic growth rates of general fund tax revenue, sales and use tax, personal income tax, and estimates and finals. In addition he provided information regarding general fund baseline increases for FY18 vs FY17 and structural revenue and expense issues outside the biennium that immediately add \$1.2B to the deficit in the out years unless the legislature acts where possible to reverse them.

Following the presentation there was a period of questions and answers between Commission members and Secretary Barnes. These discussions include but are not limited to the following:

Following the presentation, Commission member Jimenez and Secretary Barnes engaged in a dialogue regarding the status of the state's employee pension obligations and whether many of the issues have already been addressed thus minimizing the impact of further restructuring and influencing the amount of attention the Commission should give this issue. Secretary Barnes noted significant progress has been made in right sizing assumptions made in State Employee retirement system. Mr. Barnes also explained that the assumed rate of return for the teacher's retirement system was too high but and that additional actuarial reductions may be advisable in teachers retirement system, recently reduced from 8.5% to 8% but still considerably higher than the 6.9% in the state employees retirement system and that this would significantly increase the annual required contribution for the TRS. He also commented that the Commission should continue to monitor the ever-changing best practices for dealing with pension obligations.

Commission member Butler and Mr. Barnes discussed the attrition rate of state employees as well as the projected rate of return on teacher's retirement. Secretary Barnes commented that the attrition rate was approximately 900 employees per year when he began his job seven years ago and the rate is currently 1,200 per year- the rate is volatile according to him but still quite low relative to the private sector.

Commission member Swift and Secretary Barnes then discussed the idea of creating growth through incurring debt or borrowing. Mr. Barnes believes that borrowing at the current level of 10%-12% of the general fund level is sustainable, yet he feels that too much of the state's debt is dedicated to areas that are not going to improve Connecticut's overall economic well-being.

Commission member Cindi Bigelow commented that it is important for this group to examine the state's 'fixed costs' so that a game plan can be developed that is economically feasible for Connecticut going forward.

Commission member Widlitz warned members that developing a state budget is not like running a business. She further explained that a business does not have to worry about people who are homeless or children who don't have access to educational opportunities as the state does.

## **V. REMARKS REGARDING ‘CITIES AND TRANSPORTATION’ AND INTRODUCTION OF JAMES REDEKER FROM BRUCE ALEXANDER, VICE PRESIDENT OF STATE AFFAIRS AND CAMPUS DEVELOPMENT AT YALE UNIVERSITY:**

Mr. Alexander offered opening comments regarding the work stream he will be spearheading for the Commission - cities and transportation. Mr. Alexander mentioned research indicates that the strongest economies are in regions with vital urban cores. He noted that transportation is the backbone of our economy, particularly given our location between New York City and Boston. Investments in those two areas will grow the economy of the state and support increased state revenues as a result.

Following his opening remarks, Mr. Alexander introduced Commissioner Redeker of the Department of Transportation.

## **VI. REMARKS FROM JAMES REDEKER, COMMISSIONER OF TRANSPORTATION:**

James Redeker presented opening remarks to summarize the immediate capital needs of the Special Transportation Fund (STF) to maintain our current infrastructure situation. Mr. Redeker went on to explain Governor Malloy’s vision of ‘Let’s Go CT’ plan with \$100B of investments over 30 years, 60% of which is to allocated to bring infrastructure into a state of ‘good repair’. He stressed the need to solve the current crisis in the transportation fund to balance the budget, reduce the impact on projects in progress and continue to obtain bond funding to support infrastructure capital expenditures.

Following his opening comments Commissioner Redeker gave a presentation to the Commission regarding the current status of the Special Transportation Fund (STF) and the Department of Transportation’s operating and capital budget impacts.

A copy of the presentation can be found by clicking on the link below:

[https://www.cga.ct.gov/fin/tfs/20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20171215/Jim%20Redeker%20Presentation.pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20171215/Jim%20Redeker%20Presentation.pdf)

Following the presentation there was a period of questions and answers between Commission members and Commissioner Redeker. These discussions include but are not limited to the following:

Commission member Bigelow and Commissioner Redeker engaged in a discussion concerning the possibility of putting tolls on state highways. The Commissioner commented that Connecticut is the only state in the area without tolls and the 1997 reduction in gas tax has resulted in a cumulative loss equivalent to \$4 billion to the STF. Tolling has been urged by the Governor but not moved forward on. Mr. Redeker further explained that two federally funded

congestion studies on tolling were done this year and that revenue estimates related to these studies have predicted that this project could generate up to \$750 million in revenue a year – tolling every interstate limited access and some other state roads. Mr. Redeker explained that it is too late to consider tolls to generate much needed revenue to solve the current situation today. There is a crisis right now and some of the things that are being considered such as tolling will take years to implement. He believes that we need a short term solution to get through the next few years and that the state leaders should consider a four cent increase to the gas tax as soon as possible otherwise the state will fall further behind in making vitally important transportation infrastructure investment.

Mr. Butler questioned the common understanding that if the state institutes tolls there is a corresponding deduction in federal highway money. Mr. Redeker answered that is incorrect and a common misconception.

Ms. Bigelow questioned what the cents per gallon on the gas tax are for surrounding states. The Commissioner answered that the current rate are 25 cents in CT, 34 cents in RI, 24 cents in NY, 24 cents in MA, and 37 cents in NJ. He also pointed out that every one of those states also has toll revenue. He also stated that in his opinion it is very logical to raise the gas tax, in states where a gas tax went forward for transportation, 90% of elected officials who voted for it were reelected.

Co-Chairman Patricelli and the Commissioner discussed potential projects that could relieve congestion on Highways I-95 and I-84. The Commissioner noted that there is enough right-of-way to add a lane to de-block areas of congestion on I-95 and I-84. Mr. Redeker stated that the Let's GO CT! blueprint suggested decongestion of I-95 and I-84 and called for widening or adding additional lanes in many cases to a consistent three lanes for much of the state. He further stated that DOT has determined that a statewide widening plan is not necessary today and the same can be accomplished by widening just some highly congested areas.

Co-Chairman Smith and Commissioner Redeker continued to discuss the bleak status of the operating and capital budgets of the transportation system in the state. The Commissioner pointed out that the DOT is currently not filling job vacancies due to lack of funds and that federal funding comes with strings – i.e. bridges have to meet certain standards to receive federal money so more funds are needed to keep projects up to standards. Also by 2020 federal dollars for transportation projects are expected to decrease by 80% leaving Connecticut in an even worse situation financially to improve its transportation infrastructure.

Commission member Jim Loree and Mr. Redeker deliberated on projects which would be 'game changing' ideas to improve the competitiveness of the state. The Commissioner mentioned replacing the Hartford viaduct– which would unleash many acres for development. The Hartford rail line opening will also be a game changer.

Mr. Jimenez and Mr. Redeker proceeded to discuss the rate of return thus far on many of the projects that the Governor has put forth during his two terms. The Commissioner explained that a lot of the improvement projects are longer term projects and in a lot of cases the funds are not

in place to start construction for these thus the rate of return for such projects has not been realized.

## **VII. COMMISSION DISCUSSION:**

Co-Chairman Patricelli raised a procedural idea related to considering an increase in the gas tax ahead of another Commission proposals. Several members commented that they needed time to consider this idea in order to deliver a final comprehensive package at the end of the Commission's work.

Mr. Swift urged the group to consider holding a meeting or discussion on technological advances as they relate to transportation improvements in the state. He further commented that in five years a large portion of cars in the state will all be electric and we will need to figure out new revenue streams based on such technological advances.

## **VIII. OPEN SESSION:**

Co-Chairman Smith invited non Commission member comments. Hearing none he explained that any ideas that any Commission member or member of the public would like to share regarding the work of this group can be done so by emailing [fintestimony@cga.ct.gov](mailto:fintestimony@cga.ct.gov). He also explained that the documents from today's meeting can be found on the Commission's web-site at the following link:

[http://cga.ct.gov/fin/taskforce.asp?TF=20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth](http://cga.ct.gov/fin/taskforce.asp?TF=20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth)

## **IX. ANNOUNCEMENT OF NEXT MEETING:**

**TO BE HELD MONDAY, JANUARY 8, FROM 9:00 AM - 12:30 PM IN THE GREENBERG CONFERENCE CENTER AT YALE UNIVERSITY IN NEW HAVEN**

## **X. ADJOURNMENT:**

**The meeting was adjourned at 4:40 PM by Co-Chairman Smith**

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**Respectfully submitted,**

**Tom Spinella**

**Commission Administrator**