

Commission on Fiscal Stability and Economic Growth

MEETING MINUTES

Monday January 8, 2017

9:00 AM AT THE GREENBERG CONFERENCE CENTER AT YALE

I. CONVENE MEETING:

The meeting was called to order at 9:00 AM by Co-Chairman Patricelli

The following Commission members were present:

Robert Patricelli (Co-Chair), James Smith (Co-Chair), Pat Widlitz (Vice-Chair), Bruce Alexander, Frank Alvarado, Cindi Bigelow, Greg Butler, Roxanne Coady, Eneas Freyre, David Jimenez, Jim Loree, Paul Mounds

Absent were:

Chris Swift

Co-Chairmen Patricelli and Smith welcomed all of the members of the Commission.

II. REMINDER OF PUBLIC REMARKS OPPORTUNITY

Co-Chairman Patricelli reminded the public for the opportunity to submit public testimony at fintestimony@cga.ct.gov.

III. REMARKS ON COMPETITIVENESS BY JAMES LOREE, PRESIDENT AND CEO OF STANLEY BLACK & DECKER, AND QUESTIONS FROM THE COMMISSION

Jim Loree thanked Governor Malloy and the Legislature for forming the commission, he summarized his history of living and working in Connecticut. Noting that historically Connecticut had been very strong, but then growth slowed with higher tax rates and commented that on balance quality of life remains high. He said he was proud to call Connecticut home and highlighted that Stanley Black and Decker was founded in New Britain 175 years ago and is still the site of the global headquarters with four manufacturing plants in Connecticut. They are also starting an Industry 4.0 Advanced Manufacturing Center in Hartford with an incubator. They have 55K employees in 60 countries and a proof that you can be headquartered in Connecticut and be profitable.

Jim went on to say that Connecticut business leaders and residents have an obligation to action now, that it is critical to put Connecticut on a solid path. He noted that band aid solutions of the past are not going to be sufficient on a go forward basis and that leaders need to come together to solve these problems. Loree emphasized that none of them want to leave the state however they not interested in staying if we don't address these problems. He urged that Connecticut needs to

fix its fiscal situation and make Connecticut more competitive while making it a first choice for businesses to grow and develop and attract the workforce of the future.

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

https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180108/Jim%20Loree%20Presentation.pdf

Within his presentation Jim Loree discussed Connecticut's Competitiveness and how it has evolved over time. The presentation provided a reality based perspective on the current state of Connecticut's competitiveness. For example, Connecticut was ranked 8th in the Beacon Hill Institute's State Competitiveness report in 2001, which deteriorated to 21st in 2008 and now 43rd in 2016 and noting that Connecticut was in the 3 out of 4 bottom quartiles among four separate Competitiveness reports. Loree went on to share a 'strawman' vision to restore Connecticut's competitiveness noting that the Commission will recommend short-term, medium-term and long-term actions that will enable improved competitiveness and higher growth.

The presentation went on to note that Connecticut scores very poorly across fiscal rankings and that GDP growth rates in Connecticut, which once outpaced the United States prior to the great recession, have not recovered and are growing much slower in the recent recovery period as our competitiveness has diminished. Loree gave examples of CT's high taxes compared with other states, five consecutive years of outmigration and how migrants into CT earn less than those who leave by \$30,000 per year. Loree continued noting the high concentration in taxation with 36% of all personal income tax coming from 10 towns, most of which are in Fairfield county. Loree discussed how Connecticut's legacy liabilities are precariously high and trending higher as compared with other states saying that CT's debt service ratio of 13.3% is the highest in the US; 3x the US mean and Connecticut's pension contribution and debt service liability of 26.5% of revenue is the highest in the US as well.

Loree noted that the Commission needs to make recommendations to put the state back on firm footing. He said that once we have a roadmap for fiscal stability, once we have a commitment and a roadmap then we can turn on the growth engine and drive towards the targeted 3% GDP growth rate. Loree concluded that he didn't want to come across as too pessimistic, but this presentation is a reality based competitive view on Connecticut and demonstrates the need for structural change.

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

Cindi Bigelow noted that as a citizen you think the state is doing OK, however then you get in the details it is very sobering. Bigelow asked how to get legislators to understand the severity of this. Jim Smith noted that the Commission will make bold recommendations to get Connecticut's fiscal house in order to drive competitiveness and return to growth. He noted that competitiveness and affordability will be a guiding principal for the Commission's recommendations.

Commission member Greg Butler noted that some of these benchmarks may be worse than we're suggesting highlighting education (where CT was ranked 4th) wherein if you peel back the onion,

white suburban kids are very well education, but large tracks of Connecticut's population are being desperately underserved. Jim Loree agreed noting that the inner-city education system is bankrupt while in the suburbs (Farmington, Glastonbury or Simsbury) you get a first class education.

Commissioner David Jimenez suggested that the states who are winners are not at the top by accident. They have strong strategies, make good decisions and have strong governmental design and action. He suggested looking for a common theme among the states doing well on competitiveness noting that the Commission should address problems by showing how other states have addressed them.

Commissioner Pat Widlitz explained that it is easy to talk about cutting expenses and programs, however when you have constituents, when you are on the other end of the phone with people who are desperate for services, it is very hard to make those decisions. She noted that obviously Connecticut has a problem and we need an overall solution that incorporates competitiveness and that you don't ignore people.

Paul Mounds asked a question if the age of the workforce in public vs. private was considered in presentation about state employee pension benefits. Loree noted that a wealth of analysis has been done on the state and they didn't start from scratch, but they did not have the time to delve deep into that and mentioned they would attempt to find data to answer the question. Paul Mounds went on to note the duplication of services at the state and local municipal level, stating that we need to get the cities and municipalities to be part of the solution for the state.

Before transitioning to the next item on the agenda, Bruce Alexander noted that this Commission is the start of an important dialog which needs to continue. He noted that there is a need for a real discussion of the issues and education of the issues is key. Mr. Alexander formally welcomed everyone to the Yale campus, noting that this is an area of importance to the school and they are extremely supportive. He went on to acknowledge everyone who attended the meeting, including many leaders and state legislative members who were in attendance.

Bruce Alexander invited Indra Nooyi, Chairperson and CEO of PepsiCo and Farooq Kathwari, Chairman, President and CEO of Ethan Allen to make comments to the Commission members. Indra Nooyi commented that she was not there as the CEO of PepsiCo but as a concerned citizen of the great state of Connecticut. She noted that Connecticut citizens want to know what the problems are and that the information contained in Loree's deck should be widely communicated. She noted that business owners in the state want to be part of the solution and that the 'race to the bottom' is unacceptable, and that it is our 'duty to take it personally, not to use politics, and take it to the people'. She noted that she was willing to do whatever it takes to help get the state back to the vision that Jim Loree has laid out for competitiveness and economic growth. Farooq Kathwari explained his history of coming to the United States and working for Ethan Allen. He noted that Ethan Allen (established 86 years ago) was a known and desired brand and how they had to evolve over time, including moving the headquarters from New York City to Danbury Connecticut in 1973 which at the time had lower taxes, a dedicated workforce and the benefit of people taking pride in what they do. Mr. Kathwari noted that Connecticut is a known brand but has lost its desire. He concluded that Connecticut's biggest asset is the people and their hard work and that Connecticut must take this great known brand and make it a desired again.

IV. INTRODUCTION OF CATHERINE SMITH FROM CO-CHAIRMAN BOB PATRICELLI

Co-Chair Bob Patricelli introduced Catherine Smith from the Department of Economic and Community Development (DECD)

V. REMARKS FROM CATHERINE SMITH, COMMISSIONER OF THE DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT

Commissioner Smith provided opening comments including some of her background including attending Yale School of Management. She explained the DECD's strategy and investments that they have made and gaps that needed to be addressed, including many that were covered in Jim Loree's competitiveness presentation. She noted that a lot of progress had been made to support economic development but there were clearly many things they still need to improve.

Following her opening comments, Commissioner Smith 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/20180108/Commissioner%20Catherine%20Smith%20\(DECD\)%20Presentation.pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180108/Commissioner%20Catherine%20Smith%20(DECD)%20Presentation.pdf)

Commissioner Smith's presentation detailed Connecticut's strengths including education organizations like Yale and UCONN, which is getting higher in rankings. She noted DECD's focus on six industries and highlighted details from Manufacturing and Insurance. She noted that Connecticut is the second highest (next to Hawaii) in energy costs. She noted that growing talent is extremely important which was highlighted as the number one item that businesses say get in the way and second is infrastructure. Commissioner Smith also noted many business support and incentive programs and highlighted measuring returns and viability for economic growth saying the DECD is not just handing out incentives but targeting to measure return on investment for the precious capital they have to work with. She noted that 90% of DECD work is focused on in state companies to keep, maintain and grow them. She noted they are also working on international recruitment including work with CT innovation programs.

VI. REMARKS AND INTRODUCTION OF KEVIN SULLIVAN FROM JIM SMITH, CHAIRMAN OF WEBSTER BANK

Commissioner Smith noted to the Commission members that they will be consolidating the question and answer sections of both Commissioners Smith and Sullivan's presentations after Commissioner Sullivan's presentation for time constraints.

Jim Smith commended Catherine Smith for measuring results of their investments and gradually narrowing the focus of the investments to that of which will make a difference. He went on to note that it must be frustrating to see all of the great individual efforts but at a macro level not be growing. Jim Smith explained that we have to operate differently than if we were in a position of strength. He noted that if our investment dollars are being diverted for the matters of the past, paying 25 cents on the dollar paying down debt or unfunded liabilities, we're operating with one arm tied behind our back. Jim reinforced that fiscal stability comes before economic growth and

the underlying theme that the principles of competitiveness and affordability will drive the recommendations of the Commission. He said if we're not competitive then we won't be successful and we need to know what is competitive to drive investment. Jim concluded his remarks noting that with current revenue and expense growth projections, adding \$500M to the deficit every year results in a \$3B hole by 2020 and that the Commission will need to consider bold recommendations to drive better results.

Jim Smith, as the leader of the fiscal stability work stream, introduced Kevin Sullivan, the Commissioner of the Department of Revenue Services to make his presentation to the Commission.

VII. REMARKS FROM KEVIN SULLIVAN, COMMISSIONER OF THE DEPARTMENT OF REVENUE SERVICES

Commissioner Sullivan made very brief opening remarks, noting that what the Commission is focused on is very important. He noted that Jim Loree's presentation on competitiveness was the best of what has been seen in a very long time.

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

[https://www.cga.ct.gov/fin/tfs/2017/205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180108/Commissioner%20Kevin%20Sullivan%20\(DRS\)%20Presentation.pdf](https://www.cga.ct.gov/fin/tfs/2017/205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180108/Commissioner%20Kevin%20Sullivan%20(DRS)%20Presentation.pdf)

Commissioner Sullivan opened his presentation saying that Connecticut doesn't have a revenue problem, except in the case of transportation noting that we do have a revenue problem there. He recommended the Commission members be realistic but not pessimistic and highlighted the need for a good base to build from as we move forward. Commissioner Sullivan noted the steady state of Connecticut's tax collection revenues, explaining that this is not good news with growing expenses. He also explained that those steady state revenues included three tax increases which should have been a burst of revenue but instead are 'clunking along'. He explained that our tax code is designed for prior economies and not the economy we live in today.

Commissioner Sullivan discussed tax principles and how volatility is a huge consideration. He went on to discuss the personal income tax and that in the last five weeks the state has collected almost \$1B more than anticipated for this period of time and that all of it was one-time revenue of repatriation and planning for new federal tax code. He went on to discuss the sales tax, business tax, other state taxes and property taxes. Commissioner Sullivan explained the total annual cost of \$6.5B for tax expenditures with \$2.9B of which coming from sales and use exemptions. Commissioner Sullivan recommended the Commission consider the recommendations that were made in the Business Tax Policy Task Force explaining the need for dynamic fiscal, economic and social policies, not focusing on short term expenditure needs and demands. Commissioner Sullivan concluded discussing a number of issues facing the state and options. He emphasized that tax policy shouldn't drive economic and fiscal policy, that it should be the other way around.

VII. OPEN DISCUSSION AND QUESTIONS FROM THE COMMISSION

Commissioner Jim Smith asked about the \$6.5B of Connecticut tax expenditures compared with surrounding states and how much of that would that not be exempt if we were trying to be competitive? Commissioner Sullivan explained that it is not dramatically different than surrounding states, but a wide variability across the states exist. Sullivan noted that California found a way to tax food. He explained it is more a question of if you believe broader base and lower rates are more planful and fairer, then you start to pare back the list.

Roxanne Coady thanked Commissioner Catherine Smith thank you her report and applauded innovation brought to DECD. Commissioner Coady noted that there hasn't been much net job growth in CT and asked if Commissioner Smith had a sense of what is causing those jobs to disappear? Catherine Smith noted they are seeing is modest job growth, aligned with modest GDP growth. Companies have choices of where they put the next job, might be putting them in a different location.

Cindi Bigelow spoke about business incubator and noted Connecticut's significant decline businesses under five years of age. Commissioner Smith noted CT Innovations work and DECD's work with Yale and UCONN to keep entrepreneurial activity in Connecticut. She noted that net small business formation is rising.

Frank Alvarado asked about homestead policy and Florida primary residences asking about the 30% exemption of property value from taxation. Commissioner Sullivan recommended making it clear we exempt 30% of property value from taxation, which he noted is a policy decision. He mentioned an alternative is to exempt less and said the question should be what is the purpose of the exemption?

Greg Butler asked Commissioner Sullivan if he suggests that Connecticut index the fuel tax and the impact on volatility. Sullivan noted he meant a negative index on the fuel tax which could be adjusted to maintain revenue with price volatility.

Greg Butler asked DECD Commissioner Smith about the first five program and how do they know if the companies would create these jobs without the program. Commissioner Smith said that the companies tell them they wouldn't without it. She explained they attend site finder meetings and know companies have a choice and tell the DECD down to the penny why Connecticut is not competitive.

Paul Mounds asked Commissioner Sullivan about the funding stream associated with the PILOT program and whether those streams have experienced volatility. Sullivan noted a small portion of the state sales tax goes back to cities and town and that two pilot programs are back of the general obligations and that the revenue streams are relatively uneven.

Paul Mounds went on to ask DECD Commissioner Smith if she had the tools needed to compete with other states. Commissioner Smith responded that from the incentive side the state is in good shape and that she was concerned with urban centers which are becoming more important. She noted that young millennials are the fuel for the future and the need to get creative including the Innovation Places Program to add to the mix of tools.

Pat Widlitz noted that she appreciated Commissioner Sullivan comments on legislative process, noting that it makes no sense for business or household to be told how much money needs to be raised after budget is created. She explained that there is really no tax policy because it's backwards. Kevin Sullivan responded noting that the role of the finance committee should be a much stronger one and that it would be more useful to have a tax plan done that was 'the plan' which should be, to some degree, used to try and refuse bills to come out the floor that had not been anticipated from a revenue stream.

Co-Chairman Patricelli regarded both Commissioners Catherine Smith and Kevin Sullivan as collaborators who have made a tremendous sacrifice for their service to the state. He asked them both, as collaborators, if they had one piece of advice for the Commission, from an aspirational standpoint what would it be? what would it be? Commissioner Smith said this is the time to be bold, and that the voices of this group is so different than voice of legislators in the past. She explained the opportunity to think bigger and better, to think out of the box and that the Commission will be a great service to the state. Commissioner Sullivan recommended finding a way to extend the timeline of the mandate so that the Commission members can be persistent. He recommended being bold.

Co-Chairman Jim Smith concluded by thanking all of the Commission members for their efforts and the time they've put into it highlighting the quality of the presentations and knowledge that goes into them. He thanked Jim Loree for his presentation on Competitiveness, Bruce Alexander for hosting the meeting at Yale. He offered a special thanks to Commissioner Catherine Smith and Commissioner Kevin Sullivan for the time they spent preparing their presentations for what is relevant noting that the Commission members will get the best possible information they can for making recommendations.

IX. ANNOUNCEMENT OF THE NEXT MEETING

**TO BE HELD WEDNESDAY, JANUARY 31, FROM 9:00 AM - 12:00 PM AT THE
LEGISLATIVE OFFICE BUILDING IN HARTFORD**

X. ADJOURNMENT

The meeting was adjourned at 12:46 PM by Co-Chairman Smith
