



# CCM Testimony on Fiscal Stability and Economic Growth

Presented by:

Mayor Neil M. O'Leary, CCM President

Joseph A. DeLong, CCM Executive Director

Tuesday, January 23<sup>rd</sup>, 2018

# Pension Liability

- Focus must be on reforming the pension systems, specifically looking at overtime, longevity, and COLA inclusions in many current pension systems, both state and local.
- Other states are looking at options, and Connecticut must examine what those options might be.
- Most towns in Connecticut are exploring options including a change from the use of a defined benefit plan, to a defined contribution plan.
- Pension reform must be a collaborative approach, especially in the area of public safety.



# Collective Bargaining

- Most states do not allow collective bargaining for pension and health care benefits.
- Solutions must be applicable to both the state and municipalities. (e.g., the state created new tiers for the State Employees Retirement System (SERS), but did not afford municipalities under the Municipal Employees Retirement System (MERS) the same.)
  - Cities and towns participating in MERS have an annual contribution as a % of pay that is 16% per employee (Contribution made from employer).
    - Unsustainable
- Binding arbitration must be evaluated and reformed.



# Fragmentation

- The state must remove barriers to collaboration and service sharing.
  - When multiple collective bargaining units are involved in developing a service sharing initiative, the bargaining units should be required to bargain as a coalition.
  - Nothing in a town's charter should be interpreted to preclude or prohibit service sharing.



# Unfunded Mandates from the State of Connecticut

- Enact a statutory prohibition on the passage of unfunded or underfunded state mandates affecting municipalities without a 2/3 vote of both chambers of the General Assembly.
  - Renters' Rebate – Towns are now responsible for half of the program, which amounts to \$8.5 million each year of the biennium.
  - Enterprise Zone Reimbursement – Eliminated by the State in FY18.
- Unfunded Mandate Threats
  - PTSD - provide workers' compensation coverage for police officers diagnosed with post-traumatic stress disorder.
- Bottom line: There should be a comprehensive review of all unfunded state mandates and their impact on the property tax base of municipalities. If the state cannot or no longer chooses to pay for the mandate, then municipalities and property tax payers should not carry the burden.



# Fragmentation (continued)

- Inefficient education funding combined with an archaic public education administrative structure contributes to fragmentation (i.e. 169 separate municipalities).
- School systems only partially regionalized add additional unnecessary layers of administrative costs.



# Fragmentation (continued)

- If incentives are deemed appropriate, there are examples of existing programs such as the Regional Performance Incentive Program (RPIP) and the Intertown Capital Equipment (ICE). Funding could be restored to these programs.



# State-Local Responsibilities

- The funding structure for local services must be reformed. Diversifying revenues is necessary to relieve the overreliance on the property tax.
- Education Cost Sharing (ECS) must be reformed. The legislature has in recent years bypassed the statutory formula, and instead listed in statute the aide amounts for each town and city in FY's 2010-2013 and 2014-2017. The educational grant process has become political (Source: CCJEF, CT School Finance Project).



## State-Local Responsibilities (continued)

- Mandates such as the minimum budget requirement (MBR), which limits reductions in education spending, must be re-examined in every district, focusing on declining student enrollments.
- Special education delivery and funding must be reformed. The state should assume responsibility for both financing and delivering services for special education.



# State Revenue

- The State of Connecticut has already established a State Tax Panel that recommended a number of revenue-neutral state tax reforms. Included were the following.
  1. Other than federally excluded income, tax all retirement income including military and teacher retirement income similar to the state's treatment of social security income.
  2. Ensure that the shared economy is taxed similarly to the traditional economy.
  3. Adopt the presumption that the Connecticut sales tax on final consumption be broadly applied to all goods and services sold at retail.
  4. Explore the possibility of discontinuing the practice of issuing new tax credits that erode the base of the corporate net income tax, and also evaluate existing credits as to whether they are achieving their intended objectives.
  5. Make adjustments to the calculations of the corporate income tax.



# State Revenue (continued)

- Local Governments in Connecticut are not large compared to other states.
- State and local government employment as a percentage of private sector employment ranked 41<sup>st</sup> smallest compared to other states in 2015.

State and local government employment as a percentage of total private sector employment

State	Percent of Private Sector Employment						Rank
	2010	2011	2012	2013	2014	2015	
New York	14.2%	13.4%	13.0%	12.7%	12.4%	12.1%	19
Maine	13.1%	12.8%	12.7%	12.5%	12.4%	12.0%	30
U.S. Average	13.4%	12.9%	12.6%	12.3%	12.1%	11.9%	
New Jersey	13.1%	12.4%	12.2%	12.1%	11.9%	11.5%	36
Connecticut	12.2%	11.8%	11.7%	11.6%	11.5%	11.3%	41
New Hampshire	11.9%	11.6%	11.4%	11.2%	11.2%	10.8%	45
Massachusetts	10.5%	10.3%	10.2%	10.0%	10.0%	9.7%	47
Pennsylvania	10.9%	10.5%	10.1%	10.1%	9.9%	9.6%	48
Florida	11.3%	10.8%	10.4%	10.0%	9.6%	9.3%	49

Source: U.S. Bureau of Economic Analysis



# Transportation

- CCM created Project BEST (Bringing Every Stakeholder Together), which convened diverse interests including business, labor, education, and social service representatives. The ideas below were adopted by Project BEST.
- Any solutions must include dedicated revenue (ie. Lock Box) to ensure that funding is not taken for other purposes.
- At the January 12<sup>th</sup> meeting of the Naugatuck Valley Council of Governments, 19 out of 19 participating municipalities approved of tolls (with lock box), and 17 out of 19 participating municipalities approved of a \$.04 increase in the gas tax (with lock box).

Transportation & Infrastructure			
1. Integrated Planning	2. Funding Mechanisms	3. Multi-Modal Transportation	4. Collaboration
<ul style="list-style-type: none"> <li>• Public engagement</li> <li>• Long-term master plan</li> <li>• Cost-benefit analysis – improvement or not</li> </ul>	<ul style="list-style-type: none"> <li>• Lock box</li> <li>• User fees</li> <li>• PPP</li> </ul>	<ul style="list-style-type: none"> <li>• Connectivity                             <ul style="list-style-type: none"> <li>– Freight</li> <li>– People</li> </ul> </li> <li>• Complete streets where appropriate</li> <li>• Prioritize congestion relief when choosing projects</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure COGS, local gov., and all stakeholders are at the table</li> <li>• MPO's/COGS</li> <li>• Regional chambers</li> <li>• Promote &amp; publicize existing stakeholder group meetings                             <ul style="list-style-type: none"> <li>– Social media</li> <li>– Blogs</li> <li>– Other</li> </ul> </li> <li>• Need to identify key leaders and work w/ them</li> </ul>



# Workforce

**JOB EROSION VS. JOB RECOVERY:**  
**ALL SIX NEW ENGLAND STATES**  
**SEPTEMBER 2017 DATA**  
**“CT IS NOW LAST IN NE JOB RECOVERY!”**

	<u>CT</u>	<u>ME</u>	<u>MA</u>	<u>NH</u>	<u>RI</u>	<u>VT</u>
JOB PEAK (000)	1,713.3	620.9	3331.6	651.9	495.7	309.6
JOB TROUGH (000)	1,594.2	590.2	3190.6	621.2	455.9	294.9
ABSOLUTE LOSS (000)	119.1	30.7	141.0	30.7	39.8	14.7
<b><u>% LOSS: EROSION RATE</u></b>	<b><u>7.0%</u></b>	<b><u>4.9%</u></b>	<b><u>4.2%</u></b>	<b><u>4.7%</u></b>	<b><u>8.0%</u></b>	<b><u>4.7%</u></b>
CURRENT JOBS (000)	1,684.9	621.2	3637.7	678.9	495.1	317.6
JOB GAIN FROM LOW (000)	90.7	31.0	447.1	57.7	39.2	22.7
<b><u>% GAIN: JOB RECOVERY RATE</u></b>	<b><u>76.2%</u></b>	<b><u>101.0%</u></b>	<b><u>317.1%</u></b>	<b><u>187.9%</u></b>	<b><u>98.5%</u></b>	<b><u>154.4%</u></b>

SOURCE: BLS, DATACORE PARTNERS LLC, REFLECTS 3/17 CT DOL DATA REVISIONS  
 \* RECOVERY RATE IS DEFINED AS PERCENTAGE OF JOBS RECOVERED VS. THOSE LOST ON A PEAK TO TROUGH BASIS



# Workforce (continued)

- The State of Connecticut must show a commitment to sustained funding of workforce development initiatives once established.
  - The State Department of Labor Incumbent Worker Training Funds has had their funds zeroed out.
  - The Manufacturing Innovation Fund, run through DECD, is set to run out of funding in June.
  - Connecticut's Subsidized Training and Employment Program (STEP-UP) has no administrative dollars attached to it to support its continuation.
- Urban development is directly linked to skilled workforce retention
- Align vocational and job skills training programs with Connecticut's employer needs. (e.g, The Eastern Connecticut Manufacturing Pipeline Initiative)



# City of Waterbury – Restructuring of its Finances

- Beginning in 2000/2001 the City of Waterbury, via the Powers of the State Oversight Board, has implemented key structural changes to end the cycle of ever growing pension & OPEB costs and associated unfunded liabilities.
- Additionally, budgetary development policies were implemented to ensure the annual adoption of a structurally sound budget that includes funding to meet both current service obligations and appropriate funding for the amortization of past service cost unfunded liabilities.



# Waterbury's Pension Benefit Structural Changes

- The City is required to fully fund annual actuarially recommended contribution.
- Revised pension ordinance in 2003:
  - Pension benefit formula based on last 2-years of final average base pay; Service credit multiplier reduced from 2.5% to 2.0%.
  - Normal retirement established at age 55 with 25 years or age 65 with 15 years (Except Public Safety employees).
  - General employees contribute 7.5% of base pay/ Public Safety employees contribute 9.5% of base pay.
  - No COLA (State of Connecticut does include annual COLA).



# Waterbury's OPEB Benefit Structural Changes

- Grandfathered employees required to pay what actives pay for medical benefits upon retirement.
- Non-grandfathered employees required to pay 102% of premium equivalent if they choose to continue health benefit coverage with the City post-retirement.
- Implemented Medicare Enrollment Initiative requiring all covered lives above the age of 65 to enroll in Medicare A&B.
  - Net of premiums, reduced health care costs \$10 million in first full year of enrollment (FY July 1, 2016 to June 30, 2017).
  - OPEB Liability reduction valued at \$240 million or 22%.



# Waterbury's Financial Planning and Assistance Board – “State Oversight Board”

- Waterbury's, “State Oversight Board”, was created to review the financial affairs of the City of Waterbury.
- Key Powers of the Oversight Board (2001- 2006).
  - Review and approve/disapprove the City's Annual Budget.
  - Approve or reject all collective bargaining agreements for a new term.
  - Required the City to implement efficiency and productivity measures in regard to the City's operations and management
  - In April 2002, City issued \$97.5 million in deficit financing bonds, maturing in 2022.
  - Mandated full funding of annual required pension contribution.
  - Structural changes were implemented providing for the financial stability of the City.



# 15- Years Later: Waterbury Continues to Meet its Obligations

- General Fund balance maintained annually at 5% expenditures (\$20 million).
- Self-Insured internal service funds maintain full funding of short & long-term accrued loss liabilities.
- Very controlled budget development & spending management practices.
  - Budgeted general fund expenditures have been held to an average of 1.4% per year during the O’Leary Administration.
- “AA-” Rating from S&P reaffirmed – November 2017. Fitch & KBRA both upgraded rating to “AA-”, November 2017.
  - All report stable outlooks.

