January 8, 2018

Dear Members of the Fiscal Stability and Economic Growth Commission:

We are writing to you as a diverse and experienced group of former state and local elected officials, public interest advocates and public policy professionals, all associated with 1000 Friends of Connecticut, to offer our perspectives as you take on the Commission's charge to "develop and recommend policies to achieve state government fiscal stability and promote economic growth and competitiveness within the state."

In light of Connecticut's ongoing fiscal crisis and the new challenges posed by the harmful federal tax revisions, the Commission is well suited to propose significant changes and reforms. However, we believe that the Commission's work will be successful only if it is willing to examine key structural issues of Connecticut's budget and governance practices with a fresh eye and to examine reform proposals that in the past have been discarded as desirable but also too difficult politically to adopt.

In particular, we do not believe that the Commission should adopt a narrow agenda on the assumption that it has been charged solely with making recommendations to cut taxes and dramatically reduce spending to create a smaller state government.

As we confront the current crisis, let us not forget that Connecticut has assets most states can only dream about: an enviable location; an educated and well trained workforce; world renowned educational and cultural institutions; a diversified economy; and a superior quality of life. Yet, we are inundated with a bleak and false one-dimensional narrative of failure, hopelessness and ruin. Building on all of our strengths while acknowledging our weaknesses, we must ask ourselves to imagine and then summon the political courage and leadership to take a new path toward broader based economic and income growth. The people of Connecticut will be looking to the Commission to fulfill its broader mandate to develop a strategic approach grounded in a commitment to long-term investments and to shared prosperity – shared prosperity that opens the doors of opportunity to all residents and secures the long-term economic health and wellbeing of the entire state.

Of course, we are supportive of efforts to eliminate wasteful spending and to make state and local government more efficient. Those are necessary tools in the battle to achieve fiscal stability and to prioritize infrastructure investments.

But this is not the time for short-term "kick the can down the road" proposals for austerity that only imperil a vibrant future economy that can attract and retain productive workers to support entrepreneurial businesses and small business job growth.

We urge you to address with specific recommendations four key areas of Connecticut's budget and governance structures: the need for revenue growth to fund critical public services; the need for property tax reform; the need to shift to a region-based shared services delivery model; and the need to protect the fiscal health of our municipalities and our K-12 public education system.

The Commission's task of addressing these four key challenges was made more daunting by the damage which the recently passed federal tax legislation will wreak on Connecticut's fiscal structure and its residents, and is further complicated by some ill-considered provisions buried in the bipartisan budget passed by the General Assembly in October that threaten the viability of many of our urban governments.

By capping the amount of state income and property taxes that are deductible for federal income tax purposes, the federal tax package severely penalizes taxpayers with total state and local tax bills in excess of $10,000. The consequence is a disincentive to taxpayers to support higher property taxes for education, infrastructure and other local needs, and higher personal income taxes for health, public safety, education, security of vulnerable children and adults, workforce quality and productivity, and other vital governmental functions that a majority of consumers in the state find important.

Several provisions in the state's bipartisan budget also erect high barriers to budgets that support – in the words of the legislative mandate of the Commission – "the interests of families and businesses and the revitalization of major cities" and "improve the attractiveness of the state for existing and future businesses . . ." New language in the state's spending cap places grants to distressed municipalities under the spending cap; previously they had been exempt. This new provision makes it very difficult to target additional assistance to the most distressed municipalities in the state. The new spending cap language effectively freezes high property tax rates in cities, making them unattractive to businesses, and relegating them as losers in the multi-state competition to attract businesses looking for vibrant, dynamic centers of innovation.

And a new "bond lock" requires the state to incorporate a covenant in its bonds that will effectively prevent, for the duration of the bonds, any meaningful budgetary adjustments necessary to respond to public needs and changing conditions. If nothing else, just in the coming months, the ramifications of the newly adopted national tax law will require a state response not yet clearly seen. The consequences of being unable to respond are potentially far more devastating even than those associated with the covenant embedded in the Teachers' Retirement bonds of 2008-2009. The Commission should accordingly recommend that the ill-advised "bond lock" be repealed, and that the new spending cap language be amended to exempt grants to distressed municipalities from the spending cap.

The structure of Connecticut's state and local revenue has been much examined recently but serious proposals to modernize the structure and create more equitable tax burdens have been ignored or evaded. The decision in the recently adopted state budget to defer for another year the tax incidence study, which provides a detailed analysis of tax burdens across businesses and households (see, for example, the 2017 Minnesota Tax Incidence Study), is emblematic of the state burying its head in the sand in the search for relevant data for tax reform. We ask that you recommend a restoration of the prior deadline for completing this critical study.

Property taxes are an integral part of Connecticut's revenue structure. Property taxes make up

44.9 percent of all taxes paid in the state. In contrast, total personal income taxes constitute 27.6 percent of all taxes paid, sales and use taxes 16 percent, and corporation business taxes 2.1 percent. Moreover, property taxes make up the greatest share of all taxes paid by business in the state: 33.7 percent -- a far greater percentage than the corporate income tax (8.9 percent) and sales tax (18.1 percent).

However, property taxes often escape attention when revenue restructuring is considered because state grants to towns for property tax relief are made through appropriations. Because of the magnitude of the impact of property taxes, any effort to support "the interests of families and businesses and the revitalization of major cities" and "improve the attractiveness of the state to existing and future businesses" requires that the Commission recognize and recommend remediation of the flaws in the property tax system.

Moreover, the Commission should take care not to make recommendations that adversely impact the state's ability to adequately fund public services. A distressing tendency in recent years is to look only at the overall size of the state budget, and to overlook individual appropriations which provide services our residents find to be critical. A recent example is the bipartisan budget itself. After its enactment -- which resulted in severe cuts to Medicaid; aid to municipalities; children's health care; and higher education -- buyer's remorse set in, and there were calls for restoration of funding so as not to harm critical programs that contribute to the quality of life that both residents and businesses find attractive.

A recent survey by the Connecticut Economic Research Center, for example, found that a majority of those polled responded that the following outcomes, in priority order, were important to receive state funding:

- Health of Connecticut's residents
- Safety of people and property
- Student achievement in elementary, middle and high schools
- Security of Connecticut's vulnerable children and adults
- Quality of Connecticut's environment
- Quality and productivity of the workforce
- Vitality of businesses and individuals
- Value of state college or university education
- Statewide mobility of people, goods, information and energy

In the recent past, Connecticut's public policy decisions and budget priorities have relied all too often on austerity and sharp reductions in public services as their chief problem solving tools. Ironically, instead of sowing the seeds of economic growth, this process seems to be sowing the seeds of an ongoing economic downturn and a race to the bottom. Connecticut cannot simply cut its way out of this budget predicament. Until the state commits to reprioritizing and investing its resources in ways that build prosperity for all, we will speed headlong into a downward economic spiral.

Connecticut cannot prosper without the right building blocks: investment in economic growth; incentives emphasizing workforce development; progressive win-win proposals to mitigate the impact of past failures to adequately fund pensions and other post-employment benefits for past, current, and future employees; rational education funding; accessible and affordable healthcare; affordable housing that promotes mobility and reduces racial isolation; and adequate transportation systems that facilitate the movement of goods and people. Fiscal stability cannot be achieved without serious reform and job growth cannot be incentivized solely by an austerity strategy.

Groundless political rhetoric to the contrary, there can be no doubt that one of the most important responsibilities facing the Commission is to recommend top-to-bottom reforms in the state and local revenue structures. The presentations made to the Commission on December 15 by OPM Secretary Ben Barnes, Co-Chair Jim Smith and Transportation Commissioner James Redeker all point to the fact that Connecticut needs to increase its revenue going forward no matter how much symbolic budget cutting or painful service elimination is approved.

The Commission must make it clear that fiscal stability and job growth will not be achievable under a revenue system in need of reform. Increasing badly needed revenue does not necessarily mean increasing tax rates. Instead, we need to modernize Connecticut's obsolete tax structure to take into account changes in the federal tax structure and the need to adapt to the new digital economy. A foundation for change might be found in some of the proposals considered by the Tax Study Commission in 2015-16, such as a business activities tax to replace the corporate income tax, and broadening the base of the sales and use tax to include goods and services currently exempt. An increase in the gas tax and the introduction of electronic congestion pricing on major highways could support investment in transportation systems. We need alternatives to protect legislative flexibility and shield cities and towns from draconian cuts in state aid.

To accomplish significant long-term spending reform, we call on the Commission to speed up the current glacial pace of developing effective incentives for moving towards a region-based shared services delivery model for local governments. Based on the findings of the M.O.R.E. Commission and the successful programs adopted by the Capitol Region Council of Governments as well as other regional councils of government in Connecticut and the shared service initiatives here and in many other states, including New York, Massachusetts, Pennsylvania, Maine and elsewhere, we believe it is incontestable that additional incentives and legislative reforms could enable municipal governments to deliver services at significantly reduced costs. What is lacking is a serious program of state-funded incentives to encourage cities and towns to adopt a shared-service delivery model. Instead, the high costs of our current obsolete and expensive local delivery system are simply passed on to state taxpayers who must foot the high tax bill for preserving the status quo.

We ask the Commission: What policy and fiscal changes do you recommend to accomplish the shift toward region-based shared service delivery that are sufficient to reduce state budget outlays over the next decade?

Connecticut's future depends on strong leadership to build the fiscal infrastructure to support economic growth; create a prepared workforce with the skills needed in today's economy; open pathways for our children; and honor our commitment to better the lives of retirees, the working poor, and the young. That is the challenge before the Commission. It should seek alternatives other than simply cutting the state budget and imposing increased hardships on our residents and our businesses.

Thank you for your consideration of our views. We look forward to the opportunity to submit proposals and to participate actively in the Commission's investigation and review of major fiscal and economic challenges.

Regards,
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