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TESTIMONY OF ALEX KNOPP
COMMISSION ON FISCAL STABILITY AND ECONOMIC GROWTH
JANUARY 24, 2018

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[Alex Knopp previously served as Mayor of Norwalk from 2001-2005, as a member of the General Assembly from 1987-2001, a member on the Norwalk Common Council from 1983-87, and as legislative staff for members of the U.S. Senate and U.S. House in Washington, D.C. from 1975 to 1981. Alex Knopp has been a Visiting Clinical Lecturer at Yale Law School since 2006.]

The purpose of my testimony is to highlight for the Commission several reforms to the General Assembly's legislative process, organization and information resources that I invite you to consider including in your final report. I consider these reforms to be necessary preconditions to the successful implementation of the type of "Big Reforms" you are seeking to achieve fiscal stability and to promote economic growth.

I am focusing more on process reforms than on substantive policies because my experience as an elected official for 22 years in Connecticut has taught me that legislative procedures often have as much to do with successful legislative outcomes as does the merit of a policy. The legislative process is the way a good idea can die a thousand deaths so understanding why and how the process works and can be made better will aid the work of this Commission.

Improving the legislative process would also help to restore public faith in governing outcomes and rescue us from the cynicism that makes it more difficult to vote for hard choices or to enact productive but controversial measures. Restoring public confidence through greater transparency and accountability in the writing of budgets by democratic consent is what "going big" must also include.

A more practical reason for recommending these changes is that the prospects are challenging to say the least for actually adopting "big reforms" after your report is released on March 1 because we will be in

both a gubernatorial election year and a short legislative session. These proposals are what may be termed “low hanging fruit” (perhaps with one exception) that can be plucked by the General Assembly in the few session weeks left after the Commission’s report is issued. I view each proposal as a modest but necessary “First Step” toward the bigger policy goal it is linked to.

Here are the 8 proposals:

I. REPEAL THE “DOOMSDAY BOND COVENANT” PROVISION ENACTED IN SEC. 706 OF THE 2017 STATE BUDGET

The 2017 state budget in Sec. 706 includes for the first time in the state’s history a requirement that the Treasurer must include a covenant or pledge to bondholders in bonds sold after May 15, 2018. The pledge must promise that the state will not enact any laws taking effect from May 15, 2018 to June 30, 2028, that change the state’s obligation to comply with current laws governing the Budget Reserve Fund, the cap on General Fund and STF expenditures, the Volatility Cap, the statutory spending cap and the caps on GO and credit bond authorizations until the newly sold bonds are fully paid off.

Public financing often includes bond covenants inserted by the seller to protect the bondholder’s investment as a financial device to reduce the seller’s bond interest rate. Covenants include, for example, dedicating gas tax revenues and driver’s license fees to pay off Special Transportation Fund bonds or dedicating tenant rental payments to fund affordable housing construction bonds or guaranteeing that the state’s share of payments into the Teacher Retirement Fund shall not be reduced during the 25-year life of the bonds. In each of these cases, there is a specific and narrow nexus between the bond’s purpose and the covenant.

But in the case of the bond pledge required by Sec. 706, the covenant covers not just the dedication of a specific revenue stream (such as gas taxes or rents) nor the promise of a particular government practice (such as the maintenance of state pension contributions) but rather applies to all of the policies and practices found in the Budget Reserve Fund, the cap on General Fund and STF expenditures, the Volatility Cap,

the statutory spending cap and the caps on General Obligation and credit bond authorizations. In short, the Sec. 706 covenant applies to the most comprehensive set of budget cap laws ever passed in our state encompassing nearly the entire budget of the State of Connecticut!

If the General Assembly were to take the unlikely step of violating this pledge by amending these budget caps and laws at any time over the next ten years, the purchasers of the bonds would be able to enforce the covenant in court to demand immediate payment of their principal, interest and penalties, whether or not the state would be in a fiscal position to afford to fulfill its obligations.

That's why I call Sec. 706 the Doomsday Bond Covenant-- because it commits the state's finances to an automatic irreversible course of self-destruction with no realistic built-in escape mechanism or effective emergency delay provision if the state over the next ten years were to attempt to better manage its finances by changing any of these restrictive budget laws and "caps".

What does this mean going forward?

First, the Doomsday Bond Covenant denies the state any ability to take advantage of smart budget reforms in responding to budget problems.

Consider this recent example of how a "bond lock" prevented the state from saving millions of dollars in its pension payments. When the Governor and the General Assembly sought to renegotiate the terms of the SEBAC pension and medical benefits agreement last year, it was able successfully to negotiate billions of dollars of savings in the budget and many billions over the lifetime of the SEBAC agreement.

But when budget drafters attempted to achieve similar types of savings in the underfunded Teacher Retirement Fund (TRF), it was blocked by the bond covenants arising from the state's bond sale in 2008 to raise \$2 billion to pay part of its share of a \$5.1 billion shortfall in the fund. These bonds included a state pledge not to reduce the state contribution into the fund over the 25-year life of the bonds. Unlike the SEBAC collective bargaining agreement, this bond pledge could not be broken

or amended without significant financial penalty. The state was “locked in” without flexibility or any realistic escape.

Second, the Doomsday Bond Covenant strips away the state’s flexibility to adapt its financial program to fit changing economic circumstances.

By freezing the pledged budget laws to the May 2018 text, the Covenant ties the hands of legislators for 10 years preventing them from reacting to new conditions, new crises and new opportunities.

Here is a partial list of major new financial and budget occurrences, some actual and some hypothetical, that probably were not envisioned when the bond pledge was adopted yet that undoubtedly require a significant new response that would not be possible if the Doomsday Bond Pledge were in force:

- The federal tax S.A.L.T. restriction
- The Amazon 2HQ inter-state competition
- Hartford “declares” bankruptcy
- “Plaintiffs’ verdict” in the CCJEF school funding case
- Insolvency of the Special Transportation Fund
- Juan F. Court orders hiring of 120 social workers
- The Fiscal Stability Commission issues “Big Reform”
Proposals requiring amendments to the Budget Caps

Third, the Doomsday Bond Covenant undermines democratic government in Connecticut by preventing legislators elected in the future and future General Assembly majorities over the next ten years from changing the Budget Caps and Budget Laws.

It is a standard rule of parliamentary procedure that a legislative body in office during one election cycle cannot bind a successor legislative body elected in a later cycle. The reason is obvious: elections are equal and therefore successor legislators have equal powers to prior legislators to amend any existing law. The custom is to use this simple introductory phrase in a new bill: “Notwithstanding any other provision of law...”

But the Domsday Bond Covenant denies legislators and General Assembly majorities over the next ten years any authority to amend the Budget Caps and Budget Laws because that power has been delegated by the Covenant to the bondholders. The Bond Covenant promises to the bondholders that no other "provision of law" can override the pledge that the 2018 terms of the Budget Caps and Laws will not be changed.

Fourth, the Domsday Bond Covenant arguably raises a serious question of law over whether it should be held to be an unconstitutional delegation of state legislative power to bond holders.

The Connecticut Constitution in Article Third, Section 1, states, "The legislative power of the state shall be vested in ... the General Assembly." But the Domsday Bond Covenant strips the power to change, amend or repeal the Budget Caps and Budget Laws specified in Sec. 706 from the General Assembly and hands it over to the bondholders who purchase state bonds after May 15, 2018.

Please ask yourselves these questions: Could the Treasurer be forced to include a pledge in future bonds that no additional judges shall be confirmed by the General Assembly between 2018 and 2028? Or pledge that the state shall not increase education cost sharing to any town by more than 1% between 2018 and 2028?

Of course not! But there is no difference in principle between these bogus pledges and the Sec. 706 required pledge.

Out of respect for the state constitution and our traditional democratic practices, the Domsday Bond Covenant should not be allowed to remain on the statute books.

I regard the Domsday Bond Covenant in Sec. 706 as possibly the worst piece of legislation enacted in Connecticut since the state's constitutional convention in 1965 both because it could completely halt the government in its tracks and because it unconstitutionally transfers the state's lawmaking and budget-making powers for the next ten years, taking them out of the hands of elected lawmakers and putting them into the hands of bond holders.

I urge this Commission in the strongest terms to propose the repeal of the Domsday Bond Covenant in Sec. 706 or, at the very least, to delay its effective date until its ramifications can be more clearly understood and its appalling defects can be corrected.

II. CREATE A NEW LEGISLATIVE JOINT BUDGET COMMITTEE TO ENABLE THE GENERAL ASSEMBLY TO ESTABLISH AGGREGATE STATE BUDGET REVENUE AND SPENDING PRIORITIES

Our recurring budget crisis is proof that the budgeting procedures currently employed by the General Assembly are insufficient to enact the type of long-range budgeting that is required to achieve fiscal stability and economic development while protecting Connecticut's quality of life and public education system.

The General Assembly provided itself with powerful new budgeting tools in 1970 when it created the Office of Fiscal Analysis and the Office of Legislative Research. These professional nonpartisan offices equipped the legislative branch with a modern capacity to adopt and manage a state budget and to partner on a more equal basis with the Executive Branch.

But a major budget function left unaddressed is the absence of any formal legislative committee tasked with establishing the aggregate spending and revenue priorities during the adoption of the biennial budget. Currently, the Appropriations Committee adopts spending programs and the Finance Committee adopts revenue policies, each making thousands of individual decisions without a formal guiding budgetary framework—but no one Committee adopts aggregate budget priorities.

Instead, there is an informal process that sets these priorities: the majority legislative leadership and the Appropriation and Finance Committee co-chairs generally will meet and agree on how much variance from the Governor's submitted budget each committee's final "package" will include.

A better practice to enhance the long-range budgeting capacity of the General Assembly is to establish a Joint Budget Committee to put in place a formal legislative process for adopting overall spending and revenue targets for the budget. By including both public hearings and floor votes for the approval of these aggregate targets, this new process would provide important new transparency and new accountability to ensure that the new aggregate targets would effectively bind the thousands of individual decisions made subsequently by the Appropriations and Finance Committees.

A similar quandary confronted the U.S. Congress as late as the early 1970's when the "national budget" consisted of adding up the 13 individual appropriations bills passed each year with no legislative entity responsible for determining budget priorities. The reform adopted by Congress and implemented in 1974 was the creation of a new budgeting structure consisting of House and Senate Budget Committees, an annual Budget Resolution enacted to set aggregate spending and revenue targets and the Congressional Budget Office (similar to our OFA).

The Connecticut General Assembly needs a powerful new tool of budget process to set binding aggregate spending and revenue targets before the Appropriations and Finance Committees begin their work sorting through the individual bills and policies under their jurisdiction.

This proposal differs from two other legislative process proposals offered to this Commission at your two previous hearings. First, at your January 8 meeting, there was a discussion about reversing the current sequence of final budget action in the General Assembly in which now Appropriations acts first and Finance acts second. I don't think changing the sequence will solve any real problem or contribute in a meaningful way to fiscal stability. Second, a proposal was made at yesterday's public hearing to replace the Finance and Appropriations Committees with a so-called Ways and Means Committee. I can't imagine combining the workload of Appropriations and Finance while keeping their public hearing schedules.

III. RESTORE EFFECTIVE LEGISLATIVE OVERSIGHT OF STATE SPENDING PROGRAMS AND ADMINISTRATIVE AGENCIES BY RE-ESTABLISHING THE LEGISLATURE'S OFFICE OF PROGRAM REVIEW AND INVESTIGATIONS AS A STATUTORY OFFICE AND THE LPRI AS A STANDING COMMITTEE

A core mission of the modern General Assembly has been oversight of administrative agencies and other state governing functions. In 1971, the legislature established by statute (as opposed to its own rules) the Legislative Office of Program Review and Investigations; and it established the LPRI Committee as a bi-partisan committee. The Office and Committee were designed to investigate and conduct oversight rather than to originate legislation. The public act was vetoed by the Republican Governor Thomas Meskill. By overriding the veto with a bipartisan super-majority, the General Assembly expressed its intent to become a coequal branch with the Executive with its own oversight and investigative authority.

Regrettably, under the pressure of scrounging savings by cobbling together a nickel here and a dime there, the Legislature eliminated the Office of PRI in the revised FY 2017 state budget. The PRI Committee was closed on January 4, 2017 and the PRI Office closed on January 6, 2017.

I ask you as business leaders of some of Connecticut's largest companies whether you would voluntarily abolish your offices of internal controls and performance reviews. Surely your managerial capabilities would be undermined and your ability to improve future performance would be diminished if you did so.

By abolishing the LPRI Office and the PRI Committee for meager savings, the General Assembly has unilaterally disarmed itself of any serious capability to investigate and evaluate the thousands of programs funded by the state budget. They need to be restored to make sure that programs funded in our "new normal" era of tight budgets are constantly reviewed for their cost-effectiveness, efficiency and impact.

IV. REINSTATE IMMEDIATELY THE STATE TAX INCIDENCE STUDY THAT WAS DEFERRED IN THE RECENT BUDGET IN

2017 AND ENHANCE ITS ABILITY IN THE FUTURE TO MODEL THE INTERPLAY OF DIFFERENT TAX POLICY ALTERNATIVES THAT MAY BE ADOPTED IN RESPONSE TO THE PUNATIVE FEDERAL TAX RESTRICTION ON THE S.A.L.T. DEDUCTION AND OTHER REVENUE ALTERNATIVES

Looking at the long-range fiscal projection charts presented to this Commission by Secretary Ben Barnes, Co-Chair Jim Smith and Transportation Commissioner Jim Redeker in December, by Member Jim Lowe in January, and by CT Voices for Children later today (with the support of the Yale Law School Legislative Advocacy Clinic), it strikes me as impossible not to conclude that the sheer arithmetic of these projections demonstrates that additional revenue will be needed to meet our essential obligations no matter how much spending might be cut.

Avoiding this reality because of the anti-tax political climate simply leads to short-term, can kicking, and ridiculous revenue proposals, like the endless expansion of gambling or the legalization of marijuana as a revenue source.

On top of these troubling long-range forecasts comes a new threat caused by the impact of federal tax changes that clobber the S.A.L.T. deductions for Connecticut. According to the Office of Legislative Research:

“In 2015, 41 per cent of the federal tax returns filed in Connecticut claimed an average SALT deduction of \$19,665, nearly double the \$10,000 limit. This puts Connecticut second among all states and the District of Columbia in the percentage of filers claiming the deduction and the average SALT deduction for 2015...” [OLR Report 2018-R-0028 (emphasis added)].

In response to several key factors, among them the long-range budgetary impact of fixed costs, the opportunity to modernize Connecticut’s tax structure to match a service-based and Internet economy, and repelling the new threat raised by the federal tax changes, it now appears certain that predicting and assessing the impact of new types of revenue in terms of base broadening, rate changes, exemption

cancellations, tax expenditure reductions and electronic road tolling will be front and center both in the deliberations of this Commission and during the coming session.

Unfortunately, at the very moment that the sophisticated analysis contained in a new tax incidence study would be most needed, the Legislature in the 2017 budget defunded the \$200,000 for the next tax incidence study and delayed it until 2020.

As DRS Commissioner Kevin Sullivan has concluded:

“Tax incidence analysis is an important tool. It is a way to look at the distribution of overall and separate tax impact. It offers guidance to policymakers but does not, in and of itself, offer judgments relative to tax policy.”

Instead of tolerating the erasure of vital tax incidence data and other useful information needed as a prelude to wise and effective tax policy, let's restore without delay the new Tax Incidence Study and make sure it incorporates the most current algorithms to better model the interaction of the new revenue types now under consideration for their impact on families and businesses.

V. CONDUCT AN EDUCATION “NEEDS WEIGHTING COST STUDY” AS A KEY ELEMENT IN ADOPTING AND THEN REGULARLY ADJUSTING A “RATIONAL” AND EFFICIENT EDUCATION FUNDING FORMULA TO SUPPORT BETTER EDUCATIONAL OUTCOMES

State and local spending on K-12 public education remains one of the state's biggest expenditures but unfortunately the General Assembly still makes decisions without sufficient data and evidence as to how to better employ this massive state spending program to close more effectively the nation's largest achievement gap.

All of us should agree that the state needs to make funding decisions for education based on evidence, data, best practices research and what is the cost of resources necessary to achieve a desired level of student outcomes. But all too often, school funding has been driven by

considerations other than by educational evidence, including political considerations. I confess that when I served in the General Assembly I always sought to maximize education revenue for my city.

This was the important conclusion reached in 2016 by the trial judge in CCJEF v. Rell, who held that “beyond a reasonable doubt, Connecticut is defaulting on its constitutional duty to provide adequate public school opportunities because it has no rational, substantial and verifiable plan to distribute money for education aid and school construction.” *CCJEF v. Rell*, Memorandum of Decision, Honorable Thomas G. Moukawsher, No. X07-HHD-CV-145037565-S (Sept. 7, 2016). The Supreme Court last week did not directly dispute this factual conclusion but held only that it did not rise to the level of a state constitutional violation.

The Supreme Court’s disappointing decision last week does not mean that the search for a fair, sufficient and effective school funding formula should end.

The need for an education cost study can best be understood in the context of explaining the design of most state education funding formulas in the country, including Connecticut, which feature a “foundation grant” and “needs weights” and a “wealth discount.”

Almost every state education funding formula has a similar design called a “Foundation Approach.” The Education Department determines the “foundation amount” that represents the estimated cost of educating a general education pupil who does not have any additional or special learning needs in a town that spends at an acceptable percentile of spending in all towns, such as the 80th percentile in Connecticut. The Foundation amount in Connecticut is \$11,525 per student in both the current formula and the new formula that takes effect in FY 2019. The Foundation amount per student is then multiplied by the number of resident students in the district to get the basic grant amount.

The basic 100% grant amount per pupil is then modified by adding Weights for various types of “need factors.” Two of the most important

student need factor “weights” are the adjustment in the foundation amount for the number of students growing up in poverty and the number of students who do not speak English at home and therefore are considered as “English Language Learners [ELL].”

The question for this Commission is: how should the General Assembly determine the proper size or magnitude for these weights?

Let’s focus on the ELL need “weight”. The Latino population in Connecticut is our state’s fastest growing demographic group and will be the source of Connecticut’s newest residents, employees, students, homeowners and taxpayers. Providing Hispanic-speaking students with a quality learning environment to become English-language proficient either in a dual language classroom or in other ELL settings is both an opportunity and a challenge for the state’s K-12 system.

There are 34 states that fund ELL programs through an added weight in their primary education funding formula. In 2017 Connecticut did not add any English Learner Weight. In FY2019 the state’s new funding formula will add a 15% Weight per ELL student (15% added to the cost of a foundation student at 100%). This change in 2017 was done without any prior formal research by legislators and reversed the decision made in 2012 by a prior group of legislators who eliminated the ELL Weight altogether that had been added to the ECS formula by yet another group in 2006!

I assume that Commission members-- both as business leaders who need employees proficient in language and as taxpayers concerned about state budgets-- want to know whether the 15% is the right Weight to add?

We can’t answer the question merely by undertaking a comparative analysis of the practices of other states. You would find that the added ELL Weight varies widely: 20% for Alaska, 11.5% for Arizona, 20% for California, 18% for Hawaii, 22% for Iowa, 39.5% for Kansas, 9.6% for Kentucky, 22% for Louisiana, 50% or more in Maine, 99% in Maryland, up to 34% in Massachusetts, 25% in Nebraska, 50% in New Jersey, New Mexico, New York and Oregon, 10% in Texas and 45% in Vermont.

So is Connecticut's new 15% the right Weight? The only way to answer this question to the best of our abilities is to conduct a Connecticut-specific cost study.

The same confusion and ad hoc formula alterations that determine the ELL Weighting have also been applied in Connecticut to determine the Poverty Weighting, which in the former and new ECS formula stands at 30% (i.e. added to the foundation amount of 100%) based on eligibility for free and reduced price lunch.

The new Connecticut formula for FY2019 adds for the first time an additional 5% "concentrated poverty" weight for every low-income student residing in a district where low-income students account for over 75% of the district's enrollment.

I favor this higher Concentrated Poverty Weight for overcoming the impact of attending school in a district of concentrated poverty, just as I favor adding an ELL Weight. But are these the right Weights or should they be even more? We don't really know.

A comprehensive education cost study of these Weights (and of the Foundation amount as well) should be a research tool that employs rigorous evidence-based methods to determine the actual added cost to educate each and every ELL student, each and every low-income student, and so on for other demographic and socioeconomic needs. Cost studies have been performed in some 30 states procured by legislatures, courts and executive agencies. Without such a series of cost studies, the allocation of millions of dollars is being done in a blind fashion with insufficient regard for successful outcomes.

As an additional element, the Cost Study should be considered as an ongoing obligation of fiscal analysis so that it is updated regularly to constantly correlate costing studies with educational outcomes relevant to the specific costs. This will enable the legislature to maintain an up-to-date formula rather than let multiple years, even decades in some cases, elapse before it is updated.

**VI. RECOMMEND THAT THE GENERAL ASSEMBLY ESTABLISH
A NEW SELECT COMMITTEE ON REGION-BASED SHARED**

SERVICES TO PROMOTE AND FACILITATE THE IMPLEMENTATION OF INITIATIVES BY GROUPS OF MUNICIPALITIES, BY BOARDS OF EDUCATION AND BY COUNCILS OF GOVERNMENT

The establishment of a “special” legislative committee to address a critical issue of policy and administration that crosses traditional jurisdictional lines of existing standing committees is an important and appropriate device for legislative leadership to signal that it seeks to place a laser-like focus on moving the new issue forward, including relying on a hybrid procedure that avoids the pitfalls of multiple committee referrals and of “orphan ownership” status.

Since the end of the M.O.R.E. Commission, there has not been a standing legislative entity responsible for promoting legislation to expand shared service region-based initiatives.

In the past, leadership has established both “standing” and “select” new committees to generate interest in new legislative initiatives. That’s why since just 1987 we now have committees on Commerce, Aging, Children, Higher Education and Employment, Housing and Veterans Affairs. In addition, the jurisdiction of the former Energy Committee was expanded to Energy and Technology as telephone deregulation and IT issues took center stage in the 1990s.

It’s time for a new legislative committee to carry on the work of the M.O.R.E. Commission in step with the regional initiatives now underway in many of the COGS, as more fully described by the excellent and comprehensive testimony yesterday of leaders from CRCOG, NECOG, CCM, COST and others.

As one possible model, a new Select Joint Committee on Region-Based Shared Services could be formed from co-chairs and ranking members or their designees of the Planning and Development, Finance, Appropriations, Government Administration and Elections, Housing, Labor and others to be co-chaired by a Deputy Speaker and a Deputy Minority Leader who would be empowered to recommend new enabling statutes and other legislation directly to the floor of the House and Senate for action without the death-knell of multiple referrals.

The goal for this Commission ought to be to encourage the creation of a legislative entity to vigorously investigate, promote, oversee and recommend region-based policy initiatives to realize potential services savings and increase efficiencies.

VII. REQUIRE THAT THE GENERAL ASSEMBLY ADOPT NEW BIENNIAL BUDGET PROCEDURES TO TREAT "TAX EXPENDITURES" DESIGNED TO INCENTIVIZE CORPORATE ECONOMIC ACTIVITY COMPARABLY TO LINE-ITEM AND DEPARTMENTAL APPROPRIATIONS

According to the most recent Tax Expenditure Report issued by OFA, the total annual cost of tax expenditures could be as high as \$6.5 billion. If the consumer-oriented sales tax "exemptions" on food, clothing under \$50 and similar consumer exemptions amounting to \$2.9 billion are subtracted, there still remains a gigantic amount of revenue that needs to be reviewed anew before new taxes are imposed.

It makes sense to examine whether these expenditures benefit fiscal stability and economic development before the state looks to raise additional revenue. That's why I agree with Commissioner Sullivan's identification of a key issue for this Commission as stated in his presentation on January 8: "Revise & reduce tax expenditures per 5-year economic strategy with clear performance standards."

The Center for Budget and Policy Priorities has summarized the case for treating tax expenditures with the same level of scrutiny as we now apply to appropriations:

"Each year states spend tens, maybe hundreds, of billions of dollars through 'tax expenditures.' Tax expenditures are tax credits, deductions, and exemptions that reduce state revenue. They can include everything from poverty reducing tax credits, to middle-class benefits, to corporate subsidies. Tax expenditures cost state treasuries money in much the same way as direct spending for schools, health care, or road construction. And like direct spending, tax expenditures are a tool states can use to accomplish policy goals.

"There is a key difference, however, between direct spending and tax expenditures. States typically require extensive documentation of how much direct spending they do each year, and their budget processes entail evaluation of each item. Tax expenditures usually receive far less scrutiny. For the most part, policymakers do not regularly examine tax

expenditures, nor do states document their effectiveness the same way they do for on-budget expenditures.

"This is a serious problem. Most tax expenditures are written into the tax code and thus will continue indefinitely — regardless of how costly they may become over time — unless the legislature acts to discontinue them. (Appropriated expenditures, by contrast, typically last only as long as the one- or two-year budget cycle.) Without information on a particular tax expenditure's costs and benefits, lawmakers cannot make an informed decision on whether its continuation is in the state's interest.

"More broadly, if policymakers, the media, and the general public lack information about tax expenditures, they cannot fully participate in decisions about how to allocate state resources. In fact, in many states the policy debate encompasses little more than *half* of the state's total expenditures because expenditures made through the tax code are not part of the conversation."

As a recent Connecticut example, during the budget debate in the fall of 2017 when legislators were severely challenged to close deficits without large new revenue infusions, the budget included a large new \$50 million program of "tax expenditures" to allow companies to apply to use their "stranded" or unused earned tax credits for investment purposes other than the original activity that earned the credit, i.e. a "stranded credit" earned for R&D might be repurposed as a credit for infrastructure expansion.

Estimates were that this funded program would create 2,250 jobs at a cost of \$22,000 per job.

Would that tax expenditure program have been adopted so easily if it had required a new appropriation of \$50 million and left to a commissioner's discretion to award applicants? Or a new \$50 million program to increase education funding to towns? Or to appropriate \$50 million to expand human service worker training programs?

This is the kind of revenue expenditure that has an impact comparable to an appropriation-- here a revenue impact of \$50 million-- with perhaps significantly less scrutiny than a line-item program would have attracted.

The use of "stranded credits" may yet turn out to fulfill its sponsors' expectation of job creation and be a good idea but it is only fair that the expectations and results be measured comparably against other

important budget requirements in an era of diminished public resources.

VIII. AMEND THE NEW STATE SPENDING CAP TO RESTORE THE PRIOR EXEMPTION FOR STATE AID FOR ALL DISTRESSED MUNICIPALITIES AND IN ADDITION INCLUDE MUNICIPALITIES NOT OTHERWISE EXEMPT THAT ARE RANKED "TIER II, III OR IV" BY THE MUNICIPAL ACCOUNTABILITY REVIEW BOARD.

In 2017 the General Assembly created the Municipal Accountability Review Board [MARB] in Sec. 367 of Public Act 17-2 to safeguard the solvency of municipalities experiencing fiscal distress by authorizing dramatic interventions in municipal finances and operations but in the same public act it dramatically revised the state sending cap definitions to make it more difficult to continue to provide higher levels of state financial aid to distressed municipalities.

It is perhaps fitting that the same public act that may lead to significant future impacts on municipalities also created this Commission with a mission to elevate in future state policy new reforms to achieve the fiscal health and economic revitalization of municipalities.

In light of the probable draconian impact of the new federal tax SALT limitation on municipal finances, I urge you to use your new opportunity to re-open and to re-examine the negative impact of the inclusion of state aid to distressed municipalities under the new definition of state spending adopted last year and to consider how to treat aid to the most distressed municipalities operating under the supervision of the MARB known as "Tier II, II or IV municipalities."

Connecticut's most fiscally distressed cities face a double bind: they will face severe new limitations on raising property tax revenue for essential services such as local education and infrastructure due to the federal limit on SALT deductions; and, on the other hand, the state will be limited by the new definition of state spending in the spending cap from providing substitute revenue to fill any gaps created by the federal tax law changes.

As a result, the spending cap will now pit state aid to distressed municipalities against critical municipal budget programs, thus forcing lose-lose trade-offs of either reducing essential services at the local level or adopting punitive non-deductible increases in local property taxes.

This dilemma will be especially severe in Connecticut where there is no county revenue to mitigate the negative impact of state aid reductions directly on local governments.

The testimony this afternoon from CT Voices for Children will address how economic modeling demonstrates the unacceptable and perhaps even catastrophic impact of this severely restrictive cap in future years on urban priorities.

But I also ask you to re-examine the spending cap impact from the point of view of protecting the “legislative process” from undemocratic minority rule. Let me make clear that I voted for both the constitutional and the statutory spending caps in 1991 because I believed then and do now that it was important for achieving the twin goals of state fiscal stability goal and public credibility to make sure that new spending enabled by the income tax on earned income did not exceed the growth of income defined broadly in Connecticut.

But the reason I have grown wary of the impact of automatic tax-and-expenditure limitation devices like the spending cap on the ability of legislative bodies to carry out effective governance during periods of shifting economic conditions is that such devices are actually and often used in practice not to effectuate the will of a legislative majority or majority public opinion but rather to empower a legislative minority to impose its will on the majority to enact blatantly ideological or even extremist policies supported only by a minority of public opinion.

The reason this bizarre outcome occurs is that, under most parliamentary circumstances, only the legislative minority has the sufficient number of votes to create the supermajority usually needed to waive or suspend a tax-and-expenditure restrictive “supermajority” provision. Under the normal parliamentary rules, the majority vote determines the outcome but under the super majoritarian rule of most TELs, only the legislative minority—which by definition has lost the

most recent statewide election-- is empowered to provide the decisive vote!

Unless the status of aid to distressed municipalities is restored as exempt, I fear that the new more restrictive cap definition, the mechanics of the Sec. 706 Doomsday Bond Covenant and the impact of federal tax changes will be a "3-strikes and you're out" threat to the fiscal stability of our cities and may undermine your other efforts to strengthen our urban economies.

Thank you for your attention.

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