

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

## **MEETING MINUTES**

**Wednesday, January 24, 2018**

**10:00 A.M.- 4:00 P.M. IN ROOM 2D OF THE LOB**

### **I. CONVENE MEETING:**

**The meeting was called to order at 10:00 AM by Co-Chairman Smith.**

**The following Commission members were present:**

Robert Patricelli (Co-Chair), James Smith (Co-Chair), Pat Widlitz (Vice-Chair), Greg Butler, Paul Mounds, Michael Barbaro, David Jimenez

**Absent were:**

Roxanne Coady, Bruce Alexander, Jim Loree, Chris Swift, Frank Alvarado, Cindi Bigelow, Eneas Freyre

Co-Chairman Smith began his opening remarks by acknowledging all of the continued hard work by the appointed commissioners. He thanked all of the interested parties for their input which they will continue to hear from at today's hearing. He noted that Connecticut's fiscal stability is under threat, with both public and private investment in the state lagging. He further commented that the state's fiscal stability is impacted by fixed expenses that are growing at a rate faster than that of revenues which has caused great deficits in the state budget that will continue to grow if structural reform is not addressed. He explained that this group has heard from a number of different parties over the last month including various agency heads, city leaders, labor organizations, as well as national experts, all in an effort to gather testimony and assimilate information. He thanked these groups for testifying and offering their support to the commission. He explained that the commission has been gathering testimony and analyzing information to prepare them for making their proposals. He noted that while the commission has taken in testimony they have not made any proposals yet.

### **II. REMINDER OF PUBLIC REMARKS OPPORTUNITY:**

Co-Chairman Smith reminded members of the public that they can submit their comments in writing at any time to [fintestimony@cga.ct.gov](mailto:fintestimony@cga.ct.gov). He further explained that members of the commission will give all comments consideration as they deliberate and prepare their final report prior to their March 1st, 2018 deadline.

### **III. YANKEE INSTITUTE FOR PUBLIC POLICY:**

Copies of written testimony/presentation material can be found on the commission's web page or by clicking on the links below.

[https://www.cga.ct.gov/fin/tfs/20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/Yankee%20Institute%20Presentation.pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/Yankee%20Institute%20Presentation.pdf)

[https://www.cga.ct.gov/fin/tfs/20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/Yankee%20Institute%20\(2\).pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/Yankee%20Institute%20(2).pdf)

[https://www.cga.ct.gov/fin/tfs/20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/Joe%20Horvath-%20Yankee%20Institute-Remarks.pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/Joe%20Horvath-%20Yankee%20Institute-Remarks.pdf)

Carlo Platt Libeau, Suzanne Bates, and Joe Horvath all of the Yankee Institute for Public Policy thanked the commission for inviting them to give their input on ways to help Connecticut thrive and prosper again. Their presentations centered on providing what they believe are the biggest stumbling blocks to Connecticut's growth and success as well as solutions to address these challenges. These challenges include outmigration and taxes, high debt and liabilities, municipal health, over regulation, and special privileges for government unions. The solutions outlined in Yankee's testimony included: limit collective bargaining to wages only, prohibit unelected bureaucrats from writing laws, end supersedence of labor contracts over state law, implement meaningful and long-term public pension reform, reform retiree healthcare, and enact Right-to-Work.

Following Yankee Institute's presentation and testimony there was a question and answer period which is summarized below:

Chairman Smith commented that he has learned from this presentation as well as others that have come before this commission that the state cannot cut or tax their way out of their current fiscal problems. Instead state leaders need to be innovative and serious about creating structural reform which can foster and stimulate economic growth. He pointed out that a large percentage, more than half, of every dollar of tax revenue that the state collects is used to cover fixed costs, leaving the state little money to use for infrastructure and other basic government needs.

Chairman Patricelli pointed out that if the state were a municipality it would be under an oversight advisory board due to its poor fiscal condition. He questioned the presenters as to whether any state was under any such kind of advisory board? Ms. Bates answered- Puerto Rico is under federal oversight.

Several commission members commented on the out of state migration which Connecticut is experiencing and the resulting loss of income tax revenue that the state is experiencing as a result of such migration. While the members expressed concern with this trend, they also stressed the importance of viewing this data in a competitive context.

Mr. Butler and Mr. Jiminez commented on the suggestions made by Yankee concerning changes that need to be made with labor organizations. They specifically commented on the recent SEBAC agreement and if any changes could be made now or in the near future before the current agreement expires. The presenters answered that yes, changes can be made now such as reforming binding arbitration/"the rules of the game."

Mr. Barbaro commented on the need to remove some of the burdensome state regulations on business in order to yield positive results for businesses.

#### **IV. CONNECTICUT BUSINESS & INDUSTRY ASSOCIATION (CBIA):**

Copies of written testimony/presentation material can be found on the commission's web page or by clicking on the link below.

[https://www.cga.ct.gov/fin/tfs/20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/CBIA%20Presentation.pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/CBIA%20Presentation.pdf)

Joe Brennan- President and CEO of CBIA gave a presentation entitled "Fixing Connecticut" to the commission. Within his presentation he offered perspectives on Connecticut's economy dating back to the last thirty years while touching on lessons learned from the past several recessions that the state has faced. He also offered comments on the current state of the economy including- economic growth lags, anemic job growth, lack of confidence, and the positive manufacturing signs. He then offered a recovery prescription for the state- economic competitiveness must be a top priority, Connecticut's economy can no longer be a zero sum game, and change can come quicker than expected if the right policy decisions are made.

Following the presentation a question and answer period took place which is summarized below:

Following Mr. Brennan's presentation Mr. Butler and the presenter engaged in the possibility of state agencies taking a more entrepreneurial approach to economic growth. Mr. Brennan suggested the possibility of state agencies such as DECD seeking outside assistance in this venture due to regulatory constraints they face as state agencies.

Ms. Widlitz and Mr. Brennan discussed the need to create a predictable tax structure in order to attract and retain business. They discussed the creation of bond covenants in the recently passed state budget which aims at lessening volatility yet may have the adverse result of restricting the state from using certain funds for completing much needed infrastructure projects.

#### **V. DEPARTMENT OF SOCIAL SERVICES:**

Copies of written testimony/presentation material can be found on the commission's web page or by clicking on the links below.

[https://www.cga.ct.gov/fin/tfs/20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/Department%20of%20Social%20Services%20Presentation.pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/Department%20of%20Social%20Services%20Presentation.pdf)

Social Services Commissioner Bremby thanked the commission for inviting DSS to participate in the discussion on improving the state's fiscal stability and economic growth. His presentation focused on the current status of Connecticut's Husky Health Program (Medicaid and children's health insurance programs). He focused on providing information on cost drivers, reform

agendas, outcomes, and recommendations for the future state of this important social service program.

Following the presentation Co-Chairman Patricelli and Smith both commented that given the fact that the state's Medicaid program is one of the largest elements of the state budget it would be helpful to be supplied an analysis of cost trends of the program in future years. They also discussed possible legislative changes that can be made to the program to make it more efficient.

A discussion also took place regarding the need for an analysis of eligibility levels and cost sharing in Connecticut as compared to other surrounding states as they relate to Medicaid programs.

Mr. Mounds commented that the last thing this commission should consider is make suggestions that would have the negative effect of preventing families in the state from being able to receive insurance. He also stated that a strong social service safety net is a key economic driver to ensuring that we have economic growth. He further questioned how the non-authorization of funds will affect community health centers- which many of the state's most needy citizens rely on to receive their healthcare.

## **VI. 1,000 FRIENDS OF CT:**

Copies of written testimony/presentation material can be found on the commission's web page or by clicking on the links below.

[https://www.cga.ct.gov/fin/tfs/20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/1000%20Friends%20Of%20Connecticut%20Presentation.pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/1000%20Friends%20Of%20Connecticut%20Presentation.pdf)

[https://www.cga.ct.gov/fin/tfs/20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/1000%20Friends%20of%20CT%20Testimony%20\(2\).pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/1000%20Friends%20of%20CT%20Testimony%20(2).pdf)

Members of the property tax working group of 1,000 Friends of Connecticut gave a presentation to the commission concerning a recommended path to achieve fiscal stability and economic growth and competitiveness through restructuring the property tax. Within their presentation 1,000 Friends provided data that the state's economy is demonstrably among the most productive in the nation and the world. According to the group the metropolitan areas that are the centers of knowledge and innovation will be major engines of economic growth and competitiveness in the future. But a key basis for economic growth of competitive metro areas is the creative synergy occurring in their central cities, as a result of face-to-face interaction among knowledge workers.

They went on to explain that the common wisdom is that cities in Connecticut do not provide a vibrant innovative ecosystem. According to 1,000 Friends property taxes are an integral part of the overall- unbalanced- state tax structure, not a separate, isolated element of the state's revenue system. A "balance state tax structure" requires correcting inherent flaws in the property tax system- there are two main flaws with the property taxes in Connecticut according to the presenters: vertical and horizontal inequity. The group specifically called the commission's attention to the obstacles to business competitiveness caused by the gap between the objective

underlying costs of providing (non-educational) services in central cities, and the capacity of the city to raise revenue to pay for those costs. They recommend implementing a state grant formula to close the gap.

During and following the presentation commission members and the presenters engaged in several discussions. A summary of those discussions is provided below.

Commission members questioned how reducing the vertical inequities in the tax system will support the interests of Connecticut families. 1,000 Friends recommend that the state provide aid directly to disadvantaged taxpayers, by creating a refundable property tax circuit breaker to homeowners and renters, and maintaining or increasing the EITC.

A discussion ensued around providing sufficient funding to enable municipalities to provide an adequate education for students within their jurisdictions to support the interests of families and businesses, and support economic growth and competitiveness. The group pointed out that because of the great need for adequate education for all, they urged the commission to recommend that the state create and implement a principled educational cost-sharing formula to provide the foundation for an adequate education for every PK-12 student in the state.

Several commission members also questioned where funding will come from in a stable revenue structure to support the required state appropriations for these suggested proposals? Members of 1,000 Friends suggested revamping the Teacher Retirement System, expanding the base of sales and use tax to additional goods and services, continuing to seek automatic application and remission of the sales and use tax on sales in other states for goods and services used in Connecticut, eliminating most tax expenditures, transitioning from the corporate income tax to a commercial activities tax, and increasing the rate of the sales and use tax.

Commission members further questioned how to bend down the cost curve for healthcare- not just the government employees, but for all residents. Members also asked the working group to share ways to increase efforts to seek additional revenue from the national government.

## **VII. CONNECTICUT VOICES FOR CHILDREN:**

Copies of written testimony/presentation material can be found on the commission's web page or by clicking on the links below.

[https://www.cga.ct.gov/fin/tfs/20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/CT%20Voices%20For%20Children%20Presentation.pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/CT%20Voices%20For%20Children%20Presentation.pdf)

Executive Director, Ellen Shemitz gave a presentation to the commission entitled "The State Economy, the State budget, and the State of our Children." In regards to the state of the economy and the state budget Ms. Shemitz discussed long term economic trends, slowing revenue, increased liabilities, and future implications. In connection with the state of our children her presentation discussed disparate impact, upside down taxes, and shifting priorities. She also provided an analysis of the impact of austerity. She concluded her presentation by offering solutions to the commission that would foster economic growth and fiscal stability.

During and following the presentation commission members and the presenters engaged in several discussions. A summary of those discussions is provided below.

The co-chairs and Ms. Shemitz discussed the projected fiscal imbalance within today's budget and how this would affect CT Voice's mission. According to Voices absent changes to current taxes and tax rates, the rapid growth of non-functional costs will result in \$2.9 billion annual fiscal imbalance by 2030 resulting in heavy cuts to current services.

Commission members and Ms. Shemitz then discussed the recovery of the state's economy since the most recent recession and how too many families have been left behind. Ms. Shemitz explained that gaps between black and white wages have unfortunately increased since the Great Recession and that the disparities in child poverty rates is higher in Connecticut than national averages.

Several commission members engaged in a discussion regarding the devastating effects of poverty. These negative effects include increasing the chance a child suffers toxic stress which can lead to lifelong problems in learning, behavior, and both physical and mental health.

Members then questioned how much the state spends on the "children's budget" vs "non-functional" costs. The presenter provided figures that proved that the state spends a considerable amount more on non-functional costs than on our children.

Ms. Shemitz also discussed with members how changes at the federal level of government threaten to widen the opportunity gap in Connecticut.

A discussion then took place regarding the bond cap and the bond lock. Ms. Shemitz explained that beginning in May 2018, the bond lock requires the state to promise as part of its bonds not to change the spending cap or volatility cap for the next ten years. Members then commented that even a unanimous legislature could not repeal the bond or volatility caps or redefine the constitutional spending cap. Comments were also made about how these policies could tie the hands of future legislators, preventing much-needed investment in infrastructure or economic development.

Ms. Shemitz then closed her presentation with a discussion on pathways to creating greater opportunity for our state's children. It is her feeling that we cannot cut our way out of our current fiscal situation. We need to make strategic investments to grow our way out of structural deficit and we need to prioritize inclusive economic growth that opens doors of opportunity.

## **VIII. PUBLIC COMMENTS AND RECOMMENDATIONS:**

### **Bruce Becker, Becker and Becker Associates**

Mr. Becker offered two main suggestions concerning improving the economic competitiveness position of the state. Firstly reducing the cost for mechanical work in Connecticut. According to Mr. Becker this cost is greater in Connecticut than its neighboring states- specifically New York. Secondly the state should focus on creating improved environmental sustainability particularly by removing roadblocks to purchase electric vehicles in the state (i.e. Tesla) and also moving

away from a dependency on fossil fuels and focus more on meeting the needs of those who would like to live in an urban community.

**Kathleen Burns, Executive Director, Connecticut Marine Trades Association**

Ms. Burns provided testimony to the commission concerning the need to reduce or eliminate the sales tax rate on boat purchases so that the boating industry in the state can be competitive with its neighbors while producing more tax revenue for the state.

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

[https://www.cga.ct.gov/fin/tfs/20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/CT%20Marine%20Trades%20Association%20Testimony.pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180124/CT%20Marine%20Trades%20Association%20Testimony.pdf)

**IX. ANNOUNCEMENT OF NEXT MEETING:**

The commission will meet next on Monday, January 29, 2018 from 9:00 am –12:00 pm at 150 York Street, New Haven, CT for a public hearing on transportation and cities.

**X. ADJOURNMENT:**

**The meeting was adjourned at 4:20 PM by Chairman Patricelli.**

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**Respectfully submitted,**

**Tom Spinella**

**Administrator**