

Commission on Fiscal Stability and Economic Growth

MEETING MINUTES

Wednesday, January 31, 2018

9:00 AM- 12:00 PM IN ROOM 2E OF THE LOB

I. CONVENE MEETING:

The meeting was called to order at 9:00 AM by Chairman Smith.

The following Commission members were present:

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

Absent were:

Bruce Alexander

Co-Chairman Smith welcomed all of the members of the commission and thanked them for continuing to donate their time and energy to this important group. He continued to offer a review of the work done by the commission thus far. He explained that this group has heard from a number of different parties over the last month including the Governor, various agency heads, city leaders as well as national experts, all in an effort to gather as much information as they can in anticipation of producing their final report. He thanked these groups for testifying and offering their support to the commission. He further commented that these presentations have painted a picture of the seriousness of the structural issues that plague Connecticut's economy and threaten the high quality of life or economic prosperity enjoyed by this state's citizens. Mr. Smith encouraged the legislature to act as soon as possible to address the issues discussed by and recommended by this group. "Kicking the can down the road" will not benefit the state's long term fiscal stability and will end up negatively affecting its citizens. Mr. Smith expressed hope that Connecticut has a bright future and this group is working hard to create long term fiscal stability and economic growth that will keep the state on a path to success for years to come.

Co-Chairman Smith closed his opening remarks by outlining the objectives for today's meeting as follows:

1. Review challenges facing Connecticut and pressures on the State's fiscal position
2. Discuss opportunities to stabilize Connecticut's pensions using structured asset transactions
3. Discuss perspectives on economic growth opportunities

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 . 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. REMARKS ON FISCAL STABILITY BY JIM SMITH, COMMISSION CO-CHAIR, AND QUESTIONS FROM THE COMMISSION:

Co-chairman Smith proceeded to offer a presentation concerning the state's current fiscal situation. Within his presentation Mr. Smith offered fiscal stability goals, areas of examination, and key objectives related to Connecticut's financial position. He explained that despite achieving a bipartisan budget, significant out year deficits remain. Fixed expenditure growth is accelerating and fixed costs now represent 52% of total General Fund expenditures in FY18. According to his presentation fixed costs are crowding out other areas of spending, including spending on children. Also included in his presentation is the fact that the unfunded pension liability has been growing steadily over the last decade, primarily due to insufficient contributions from the state. In fact, 66% of Connecticut's total pension liabilities are owed to retirees. In Mr. Smith's opinion escalating required pension contributions, especially for teachers retirements exacerbate the state's fiscal challenges. He closed his presentation by explaining that Connecticut's taxes are higher than US averages and at the same time, a series of tax increases has correlated with significant outmigration.

Mr. Smith's presentation can found by clicking on the link below:

http://cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180131/Smith,%20Patricelli,%20Millstein%20Presentation.pdf

Following Mr. Smith's presentation there were no questions from members of the commission.

IV. REMARKS ON STRUCTURED ASSET TRANSACTIONS FROM JIM MILLSTEIN, FOUNDER AND CEO OF MILLSTEIN & CO., AND QUESTIONS FROM THE COMMISSION:

Mr. Millstein proceeded to offer a presentation outlining one of the possible approaches known as structured asset transactions to address the state's unfunded pension plans and overall fiscal stability going forward. He went on to explain that the state may be able to use available assets and revenue streams to help fund pension and OPEB commitments. Among other things, his presentation provided a definition of structured asset transaction, an overview of monetization mechanisms and a list of potential assets that can be monetized.

Mr. Millstein's presentation can be found by clicking on the link below (it is within the same document as Jim Smith's presentation):

http://cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180131/Smith,%20Patricelli,%20Millstein%20Presentation.pdf

Following his presentation, there was a question and answer period from commission members as detailed below:

Chairman Patricelli and Mr. Millstein discussed the collateral impacts of engaging in structured asset transactions. For example in a sale or lease transaction it is probable that both the state and the cities would benefit from increased tax collections on property which was otherwise exempt and thus the cities are receiving PILOT money at a discounted rate from what the property was worth. Mr. Millstein's plan would increase stability for the cities/municipalities while also relieving the state of the need to pay more municipal aid.

Mr. Millstein then went on to detail the mechanics of how such transactions would take place by pointing out that many states that are currently utilizing this practice could be used as a model by Connecticut. He specifically pointed out that New Jersey has used structured asset transactions in dealing with their own lottery which took approximately nine months to finalize the deal with the state's legislature.

Commission member Coady questioned the process that would be used to determine which of the mechanisms would be used in Connecticut i.e. structured asset transfer, concession/lease, or full privatization or sale/leaseback. Mr. Millstein answered that this group could recommend which process to use and then discuss their recommendation with the appropriate committee in the legislature.

Commission member Mounds and Mr. Millstein discussed the structured asset transaction process which took place regarding the New Jersey lottery. It was again pointed out that the process that took place in New Jersey could be used as a model for Connecticut.

Commission member Jimenez questioned if a large cause of the current unfunded pension liability situation in the state is due to the many years of non-payments or under payments by the state? Mr. Millstein answered yes, that is a major cause of the problem the state faces today. He also pointed out that the current pension structure for new state employees is more in line with the ideal management of pension plans. The new structure puts less pressure on the state going forward.

Vice-Chairwoman Widlitz questioned if the state has many other options to consider if the state leaders choose not to utilize structured asset transactions as a method to create fiscal stability. Mr. Millstein commented that the budget gap is significant in Connecticut and is growing. This situation forces state government to either cut services, or raise revenue in ways that does not chase residents out of the state. The value in the method he suggests is that the state can use property that they are underutilizing and give it a new use that will benefit towns and the state. He also pointed out that his suggestion is not a "silver bullet" but a step in the right direction.

V. REMARKS ON OTHER AREAS OF INTEREST BY BOB PATRICELLI, COMMISSION CO-CHAIR, AND QUESTIONS FROM THE COMMISSION:

Co-Chairman Patricelli gave a presentation offering other areas of examination for the commission to consider. Within his presentation he discussed examining areas beyond unfunded pension and health liabilities including labor arrangements such as collective bargaining and binding arbitration, entitlements such as Medicaid and social services, municipal aid, local revenue sources, and shared services.

Co-Chairman Patricelli's presentation can be found by clicking on the link below (it is within the same document as Jim Smith and Jim Millstein's presentations):

http://cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180131/Smith,%20Patricelli,%20Millstein%20Presentation.pdf

Following his presentation, there was a question and answer period from commission members as detailed below:

Vice- Chairwoman Widlitz clarified that this group would not be making any final recommendations or decisions until they have heard from all interested parties including interested labor organizations.

Mr. Mounds questioned if the commission would be putting together recommendations dealing with the state's transportation system. Co-Chairman Patricelli answered that transportation recommendations would be forthcoming and considered by the group as a whole once more information is gathered.

VI. REMARKS ON ECONOMIC GROWTH BY JAMES LOREE, PRESIDENT AND CEO OF STANLEY BLACK & DECKER, AND QUESTIONS FROM THE COMMISSION:

Mr. Loree gave a presentation centered on economic growth. Among other things his presentation provided a brief recap of key points from his January 8th presentation on Connecticut's competitiveness, revisited the "strawman" vision to restore the state's competitiveness, discussed two key issues that he believes are constraining growth and offer solutions (tax policy and workforce skills imbalance), reviewed two of four targeted growth sectors with preliminary recommendations (advanced manufacturing and small and medium sized businesses), and identified two additional targeted sectors for inclusion prior to the commission's final report (healthcare and FinTech).

Mr. Loree's presentation can be found by clicking on the link below:

http://cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180131/Jim%20Loree%20Presentation.pdf

Following his presentation, there was a question and answer period from commission members as detailed below:

Commission member Freyre commented on the existence of an incubator in the ‘Silicon Harbor’ area of Stamford and offered to discuss this project with Mr. Loree after the meeting as he believes that it can offer an example of a successful project for the commission to consider going forward.

Ms. Bigelow and Mr. Loree engaged in a discussion surrounding tech/campus ideas such as the NYC Roosevelt Island and Cornell University project and the Massachusetts Challenge. They both commented on the success of these ventures and how if managed correctly are great methods for bringing state governments and academic institutions together to advance tech within a given state.

Co-Chairman Patricelli commented on the fact that over the last several weeks he has noticed that an issue that is continuously brought up by commission members is the need of attracting and keeping young people in Connecticut and the importance of creating vibrant cities as a means to do so- this will improve both the fiscal stability and economic growth of the state as a whole. The commission must continue to examine this important issue.

Co-Chairman Smith thanked Mr. Loree for his presentation which he views as not only ideas for the commission to consider but as a ‘road map’ for how to improve the state from an economic standpoint.

VII. OPEN DISCUSSION:

S.B. Chatterjee- a resident of Connecticut for over three decades- presented testimony to the commission centered around detailing the underlying systemic problems surrounding the city of Hartford and the need to change policies which have unintentionally hurt Hartford’s economy. Hartford is our state’s capitol and we must enact policies that make it a more vibrant and economically attractive place to live and work.

Michael Imber- bankruptcy and municipal distress consultant- presented testimony to the commission concerning the need to align government, educational institutions, business leaders, and the community at large in order to create a more economically friendly Connecticut. He also encouraged members to read the book *The Coming Job Wars* by Jim Clifton which provides a road map for accomplishing these lofty and worthy goals.

VIII. ADJOURNMENT:

The meeting was adjourned at 12:15 PM by Chairman Smith.

Respectfully submitted,

Tom Spinella

Commission Administrator