Fairfield Taxpayer

You can ignore reality and you can deny reality, but you can't escape reality.

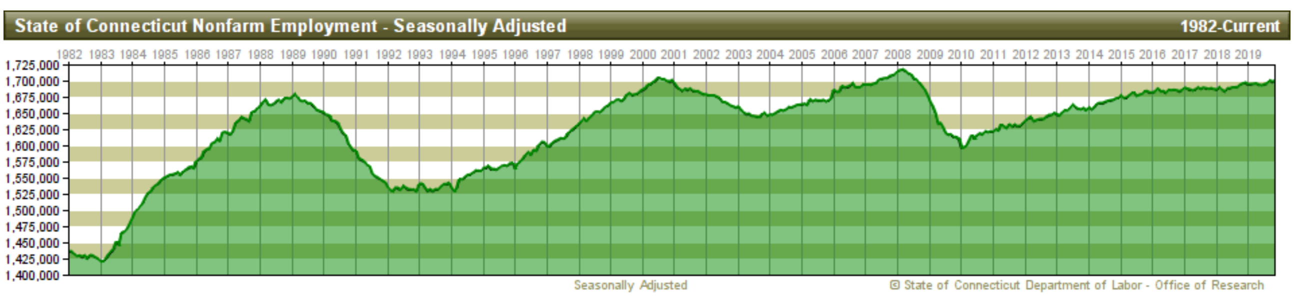
On January 19th, State Senator Osten (D-19th District) published an op-ed in which she states: "*There is some very good news happening in Connecticut right now*," and goes on to cite two recent reports from the State Office of Fiscal Analysis and the State Comptroller,[1] both of which she claims are "*full of good news*" about what she calls "*Connecticut's financial rebound*."

Specifically, Senator Osten says:

1. Private-sector job growth in CT "*is doing well*" while "*government jobs have been decimated*."
2. State spending has been increasing at only half the national rate;
3. State savings are at a record high;
4. The number of millionaires in CT is growing; and
5. The bond-rating agencies rank CT highly.

With all due respect, Senator Osten is clearly missing the forest for a few carefully selected trees, and that is a problem for Connecticut because she is the Chair of the Assembly's powerful Appropriations Committee. We respond below to each of her five claims.

1. **Private-sector jobs have indeed finally recovered from the Great Recession, but <u>it is far more important for Senator Osten to realize that CT has not had any job growth in more than 30 years</u>!** According to the State Department of Labor (SDOL), we basically have the same number of jobs today (1.70 million) that we had back in 1989 (1.68 million).

   Source: https://www1.ctdol.state.ct.us/lmi/ctnonfarmemployment.asp

   Over that same 30-year period, the nation added around 45 million jobs, New York State added ~1.6 million (including ~1 million in New York City alone), and Massachusetts added ~700,000. As for government versus private-sector jobs, the SDOL data go back only to 1991, but since then, **government jobs in CT are up** ~20,000 from ~216,000 to ~236,000.

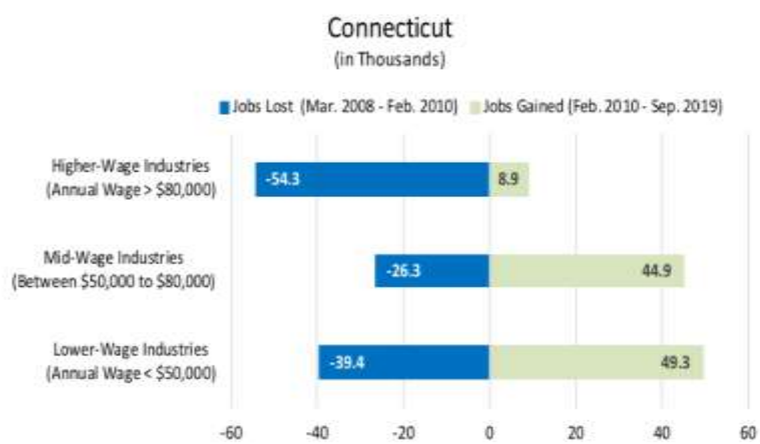
   Meanwhile, contrary to Senator Osten's claim, government jobs in CT have not been "*decimated*" since the Great Recession. As she notes, government jobs are down ~16,000 since January 2010, which represents only a 6.4% decline, and what she does not note is that **around two-thirds of that decline is attributable to fewer casino jobs** (now ~10,000 versus a peak of ~23,000) due to increased competition in the gaming industry. **Excluding casino jobs, government jobs are down only ~2%**.

[1] https://www.osc.ct.gov/public/pressrl/2019/December2019FinancialStatus.pdf
https://www.cga.ct.gov/ofa/Documents/year/FF/2020FF-20191120_Fiscal%20Accountability%20Report%20FY%2020%20-%20FY%2024.pdf

Senator Osten also notes that, in contrast, government jobs are up 19,000 in Massachusetts since January 2010, but she does not explain that, unlike CT, our neighbor is growing strongly. **Senator Osten may not realize that total nonfarm jobs in MA are UP 11% from their previous 2008 peak of 3.33 million, while total nonfarm jobs in CT are DOWN 1% from their 2008 peak of 1.72 million**.

Finally, Senator Osten does not address the negative trend in **the mix of jobs** in CT, which is shifting from higher-value-added positions to lower-value-added service jobs. Another recent report[2] from the State's Office of Policy and Management (OPM), which Senator Osten received in November, states:

"*Employment growth since the recession has . . . been skewed toward lower-wage industries, especially when compared to the jobs lost during the recession. Connecticut lost 54,300 jobs in higher-wage industries, but since only gained back 8,900. In comparison, Connecticut lost 39,400 jobs in lower-wage industries but gained 49,300 back*."



A REALITY WE CAN'T ESCAPE: CT's ongoing inability to create new, well-paying jobs in a state with a very high cost of living is a very serious problem.

2. State spending growth in recent years has indeed been lower than the national average, but this happened primarily for two reasons that should not give anyone confidence about CT's future.

   First, **for many years spending increased much faster than the national average**. Over the entire 1988-2019 period when CT failed to generate any net new jobs, State spending more than tripled (up 256%) from $6 billion to more than $21 billion versus only a doubling in the C.P.I. (up 116%). So, despite the spending slowdown in recent years, and despite no job growth, State spending has increased more than twice as fast as the rate of inflation (2.2x). Moreover, this huge increase in spending would have been far greater if the State had not kicked two huge cans down the road: the funding of retirement liabilities and proper maintenance and improvement of its infrastructure.

   Second, **after its long spending binge, the State has been forced by huge deficits to curtail spending.** Those huge deficits resulted from weak growth in tax revenues (remember, no job growth) combined with rising fixed costs, particularly the mounting costs of funding those deferred retirement liabilities. As Governor Malloy's Office of Policy and Management Secretary Ben Barnes stated in November 2014 with unusual candor: "*We have entered into a period of permanent fiscal crisis in state and local government, it seems*." Lest anyone think we are now "out of the woods," her own source (i.e., the non-partisan Office of Fiscal Analysis) states very clearly in the Executive Summary of its report: "***OFA is***

[2] https://portal.ct.gov/-/media/OPM/Bud-Other-Projects/Reports/Consensus_Revenue/OPM-2019-FAR-11-20-19.pdf?la=en

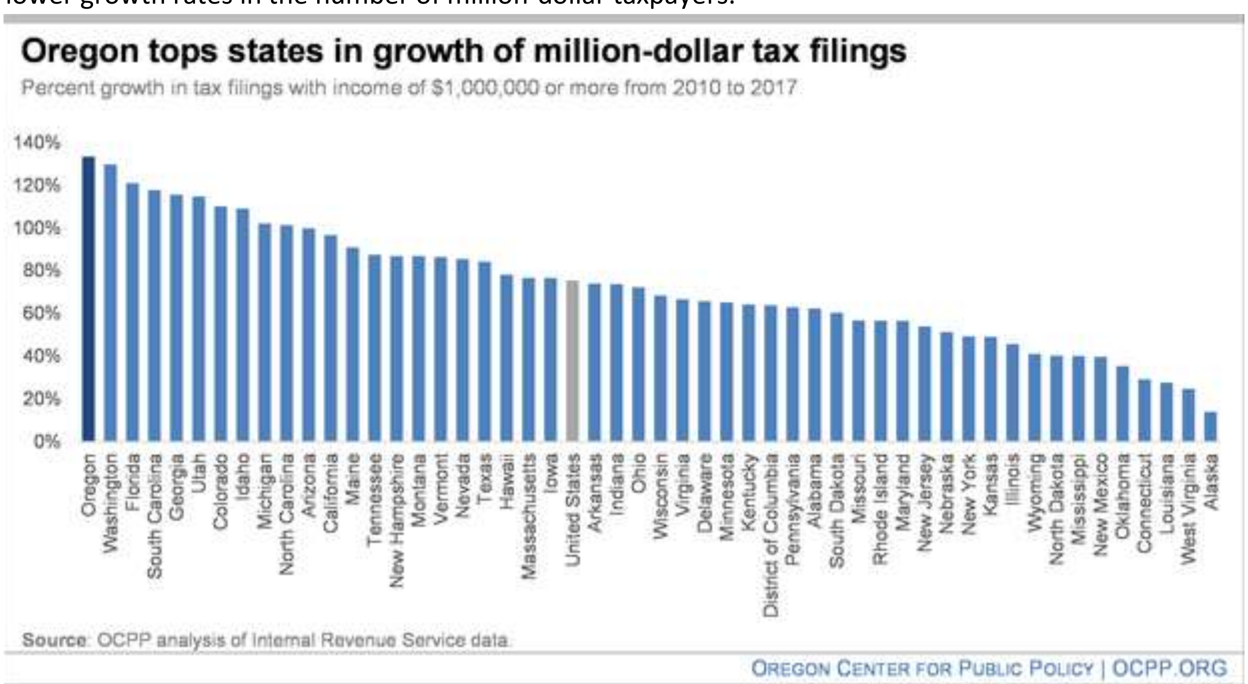
projecting deficits in FY 22 ($757 million), FY 23 ($1.2 billion) and FY 24 ($917 million)." Although the country is currently experiencing the longest time period between recessions in its history, and although the stock market is at or near historic highs, it is important to note that these official deficit forecasts assume that we will not have a recession and that the stock market will keep rising.

A REALITY WE CAN'T ESCAPE: CT's serious ongoing fiscal challenges can only be solved with even tighter control of spending as a precondition for generating the stronger economic and job growth we so desperately need; continuing to raise taxes on the people and business that are still here will have the opposite effect.

3. As Senator Osten notes, State savings are projected to reach a record level of ~$3 billion in FY21, and that is definitely a good thing, even though it is disingenuous for Senator Osten to claim that Democratic legislators deserve credit for this achievement. The so-called Rainy Day Fund has surged because the stock market has been booming, because there was a $1.3 billion revenue windfall due to federal tax law changes, and because the only bi-partisan budget in memory in FY18 created a "Volatility Cap" that required revenue above a certain threshold to be transferred to this fund. The fund can be used to cover future deficits (subject to various conditions), and coincidentally, the OFA estimates that ~$3 billion will be needed to offset two years of revenue loss from a moderate recession.

A REALITY WE CAN'T ESCAPE: CT will probably need all of its savings to offset its projected loss of revenues in the next recession.

4. Senator Osten notes that "*according to state tax returns, the number of Connecticut residents declaring incomes in excess of $1 million per year has grown by 8 percent since 2014*." She does not explain that, thanks to a booming national economy and stock market, only Louisiana, West Virginia and Alaska have lower growth rates in the number of million-dollar taxpayers.[3]



[3] https://www.ocpp.org/2019/11/19/oregon-tops-nation-growth-million-dollar-incomes/

Senator Osten also notes that "*Connecticut also has one of the highest concentrations of millionaires and billionaires per-capita (top 3) of any state in America . . .*" Unfortunately, Senator Osten does not seem to understand that CT is losing ground to other states as more and more resourceful people and companies are deciding to generate jobs and economic growth somewhere else, and that **even rich states can fail in a highly mobile society when there are many others that offer high qualities of life and a far more favorable personal and business economic environment**.

A REALITY WE CAN'T ESCAPE: Creating a pro-growth, pro-business environment in CT will require a very different governing mindset than the prevailing attitude in Hartford, which is that CT is still a rich state "suffering" from extreme income and wealth inequality, and that everyone should simply pay more taxes so that we can continue to add more public services and pay state employees and contractors even more generously.

5. Senator Osten claims that Wall Street "*ranks CT highly*" because the "*three biggest bond rating agencies — Standard & Poors, Moody's Investors Service, and Fitch — have recently assigned various "A" ratings to Connecticut's general obligations bonds*." She does not explain that CT currently has the lowest bond ratings (A1-Moody; A-S&P; A+-Fitch) among the 50 states except for Illinois and New Jersey. In its December report on CT, Moody's said as follows: *"Connecticut ranked 49th for employment growth [from 2008 to 2018], with lower-wage jobs accounting for much of the growth. An inefficient transportation infrastructure remains a hindrance. The hobbled economy places the state at a disadvantage when competing with other states for business and residents. Connecticut's economy will remain hampered by a declining and aging population that gives the state one of the weakest population and labor force profiles in the country. The demographic trends weigh on the state budget, as the pool of taxpayers fails to keep up with the costs of servicing the state's large pension burden."*[4]

A REALITY WE CAN'T ESCAPE: CT's bond ratings are still among the worst in the country.

Finally, Senator Osten should study carefully this table (from the November OPM report), which compares CT's results very unfavorably to those of other New England states (and even more so the country) since the Great Recession, and which is accompanied by the following comments:

Growth in Various Economic Indicators (2010 to 2018)

	Employment	Population	Home Sales	Home Prices	Real GSP
Connecticut	4.8%	-0.2%	18.9%	2.9%	-2.1%
Maine	6.0%	0.8%	30.7%	23.7%	5.4%
Massachusetts	13.1%	5.1%	18.6%	33.8%	18.1%
New Hampshire	9.2%	3.0%	26.7%	27.3%	13.8%
New Jersey	8.3%	1.2%	35.4%	10.0%	7.4%
New York	13.3%	0.6%	12.6%	20.3%	13.2%
Rhode Island	8.4%	0.4%	26.4%	26.7%	4.4%
Vermont	5.8%	0.1%	26.1%	14.9%	6.8%
United States	14.4%	5.7%	27.7%	50.2%	19.5%

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, IHS

"*The* ***housing market*** *similarly remains below its pre-recession peak. Median prices on existing homes fell 9.9% from about $324,891 in the second quarter of 2006 to about $292,811 in the second quarter of 2019. Total home sales remain 39.2% below the pre-recession peak*."

[4] https://www.ctnewsjunkie.com/archives/entry/20191217_moodys_ct_budget_reserves_transportation/

*"Connecticut's **real gross state product** (GSP), which is a measure of all goods and services produced in Connecticut . . . continued to fall even after the end of the recession and **currently stands below 2006 levels**. Connecticut's total population also fell by 0.4% between 2013 and 2016 but held steady from 2017 to 2018*."

In summary, if Senator Osten reads her reports more carefully, as presumably the Chair of the Appropriations Committee should, she will find that they are not "*full of good news*," and that Connecticut is still a failing state with some very serious structural problems to solve.

January 24, 2020

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<u>It's a New Year for Connecticut's economic health</u>

By CATHERINE OSTEN

The start of every new year brings time for thoughtful reflection and optimistic anticipation. The same holds true for those of us in state government, especially for people like me who deal with state budget revenues and expenditures every day.

There is some very good news happening in Connecticut right now: Connecticut's non-partisan budget office recently issued a 52-page report that you probably haven't heard of, but should. It's full of good news. The same can be said of State Comptroller Kevin Lembo's monthly financial report to the governor and legislators; that's full of good news, too. Recent national financial surveys also reflect well on Connecticut's financial rebound.

Here are some highlights:

- Connecticut's Budget Reserve Fund, which acts as our state "savings account" and is sometimes referred to as our rainy day fund, is at its highest level in state history: $2.8 billion, or 14 percent of our annual expenditures. Financial advisors suggest it be at 15 percent; we'll reach that in June. For an analogy, the average household income in Connecticut is $75,000 a year, so that's like you having $11,250 in your savings account. When former Gov. Jodi Rell left office 10 years ago, she left incoming Gov. Dannel P. Malloy with no budget reserve fund. It was zero. Democratic legislators have since grown the state savings account to its largest level in Connecticut's 232-year history. And not only does Connecticut have its largest budget reserve in history, *it's also twice as large as most U.S. states*. The median state rainy day fund balance in America is just 7.6 percent, according to the National Association of State Budget Officers.

- The comptroller's report makes an important distinction when it comes to Connecticut's job-growth numbers — specifically, the difference between private-sector job growth (which is doing well) and government-sector job growth (which has gone backwards for many years). Private-sector jobs in Connecticut have rebounded since the end of the Great Recession, growing by 119,000 since January 2010. But government jobs in Connecticut have been decimated, falling by 16,000. Over that same time period, the state of Massachusetts, which Connecticut is often compared to, added 19,000 government jobs. That's a 35,000 job difference in government jobs alone. My point is that Connecticut's private and government job numbers are often rolled into one, so please remember that when you read news report about Connecticut's job growth.

- From 2008 until this year, Connecticut's overall budget has grown by just 2.4 percent per year (mostly due to fixed cost increases like Medicaid, debt payments and long-delayed pension payments), while the discretionary part of our budget grew at a minuscule seven-tenths of 1 percent per year. According to NASBO, the 33-year historical state average across America is a 5.6 percent spending increase per year. Under 10 years of Democratic leadership, Connecticut's budget has grown at less than half the rate of the average American state.

- Connecticut is *growing* millionaires, not losing them, as some people claim. According to state tax returns, the number of Connecticut residents declaring incomes in excess of $1 million per year has grown by 8 percent since 2014. Connecticut also has one of the highest concentrations of millionaires and billionaires per-capita (top 3) of any state in America (for comparison, states that Connecticut is often compared to for economic growth like North Carolina, South Carolina, and Kentucky, are ranked 41st, 43rd, and 47th, respectively).

- Finally, in the world of high finance, Wall Street often tells American states what they can and cannot do, and when they can and cannot do it. Right now, Wall Street is loving Connecticut because the legislature has taken steps to stabilize our finances. America's three biggest bond rating agencies — Standard & Poors, Moody's Investors Service, and Fitch — have recently assigned various "A" ratings to Connecticut's general obligations bonds.

To summarize: State savings are at record highs, budget increases are half the national average, private-sector job growth in Connecticut is doing well, the number of millionaire Connecticut residents is growing, and Wall Street ranks us highly.

There are still financial hurdles to face, but as we head into the new year, Connecticut's decade-long focus on fiscal austerity is now happily paying dividends.

Sen. Cathy Osten, D-Sprague, is Senate Chair of the Appropriations Committee.

January 19, 2020

https://www.courant.com/opinion/op-ed/hc-op-osten-connecticut-economic-health-0119-20200119-ac6hhe3kvrhzbmwymtbtt44yge-story.html