



## WHO SHOULD YOU VOTE FOR ON AUGUST 14<sup>TH</sup> (Wait...What...There's an election in August?)

On Tuesday, August 14<sup>th</sup>, registered Democrats and Republicans can vote in the Primary Election to determine which candidates will represent their party in the General Election in November. Unaffiliated voters can vote only if they change their registration to one of the two major parties by August 9<sup>th</sup> (by mail) or by noon on August 13<sup>th</sup> (in person at Town Hall). If you do vote – which you can do by absentee ballot if you will not be in town – you will be one of only about 200,000 Democrats and 100,000 Republicans among the State's 2.1 million registered voters who bother to do so.

The most important office at stake is Governor. There are two Democrat candidates (Ned Lamont and Joe Ganim) and five Republican candidates (Mark Boughton, Tim Herbst, Steve Obsitnik, Bob Stefanowski and David Sterman). They all claim to have plans to improve the State of CT, but most of their "plans" are simply wish lists of things they claim they will do if elected, with little or no credible explanation of how those things can actually be done. Some examples straight from their websites:

- Eliminate the income tax; eliminate the gift and estate taxes; eliminate taxes on social security and retirement income; cut corporate tax rates.
- Make state government smaller and more efficient; reduce costs by billions while improving services.
- Repair and improve our crumbling infrastructure; eliminate congestion on our highways; reduce NYC travel times to 30 minutes from Stamford, 45 minutes from Bridgeport and 60 minutes from New Haven.
- Strengthen our education system; close the achievement gap; change the school funding formula so every child has access to a first-class education.
- Reinvest in our cities to make them centers of jobs and commerce; stimulate growth; create jobs.

Fairfield Taxpayer does not endorse candidates, but we do endorse positions on any issues for which we feel we have done enough work to express an informed opinion. We urge you to support the gubernatorial candidate who you feel best addresses the **four major, interrelated issues** described below, the complexity of which demand far more than partisan slogans and campaign rhetoric.

**Although the challenges our State faces are daunting, please choose a candidate who you think best addresses these issues with credible plans and solutions that do not insult our intelligence.**

1. **Budget Deficits** – CT still provides more public services than it can afford to pay for with predictable, recurring revenues, in part because it pays state employees a substantial premium over what they could make in the private sector (primarily in the form of overly generous healthcare and retirement benefits). The non-partisan Office of Fiscal Analysis is projecting deficits of \$2.0 billion and \$2.6 billion in our \$20 billion annual budgets for the next two fiscal years, 2020 and 2021. About half of the State's spending is considered fixed (including \$2.8 billion for state employee and teacher pensions, \$2.3 billion for debt service and \$2.9 billion for Medicaid). So, the \$10 billion in non-fixed spending (including \$3.6 billion for education and \$3.8 billion for social services) would have to be cut by 20%-25% to balance the budget without raising revenues. Any candidate who is proposing to cut the size of State government should explain where the cuts will come from and how quickly they can be implemented.

Meanwhile, on the revenue side of the budget, any candidate who is proposing higher revenues as part of his solution should explain when and where that increase will come from, such as: higher personal income taxes (currently \$9-\$10 billion); higher sales taxes (\$4-\$5 billion); higher federal grants (\$1-\$2 billion); higher corporate income taxes (\$1 billion); higher other taxes (\$3.5 billion), like hospitals, gasoline, cigarettes, gaming, etc.; or perhaps new taxes like highway tolls, marijuana, or sports betting. Finally, any proposed increases in certain tax revenues should be netted against any cuts the candidate proposes to make in other taxes.

**Within the context of these realities, any candidate who claims, for example, that CT's personal income tax can be eliminated, even over an eight-year period, or who promises not to raise any taxes, is insulting our intelligence because there is simply no way either of these is possible, barring an economic miracle, without slashing state spending beyond what is possible.**

2. **Unfunded Retirement Liabilities** – CT has unfunded retirement liabilities estimated at around \$100 billion that are probably the highest in the nation on a per capita basis (using rational rate-of-return assumptions<sup>1</sup>). For decades, the State simply failed to adequately fund pension and healthcare benefits for retirees, and then greatly exacerbated the problem by making unrealistic commitments to fully fund these pension plans (“SERS” for State employees and “TERS” for teachers) by 2032, and by using a less-conservative amortization methodology (“level-percentage-of-payroll” rather than “level-dollar”), which meant that, barring a miracle in terms of investment returns and/or general economic growth, the annual pension cost would inevitably spike upwards as we approached 2032.

Fortunately, the commitment to fully fund SERS by 2032 was renegotiated with the unions last year, so its annual cost to taxpayers will increase “only” about 60% from \$1.4 billion to around \$2.25 billion over the next five years and then level off. Unfortunately, the commitment to fully fund “TERS” by 2032 is not as easy to fix because it was one of the covenants made to bondholders when the State issued \$2.4 billion in pension obligation bonds (POB) in 2008, the proceeds from which were put into TERS in the belief that the Treasurer could generate a higher investment return than the bonds would cost.<sup>2</sup> These POBs cannot be refinanced until 2025, at which time the amortization period for the unfunded liability could be extended beyond 2032, as was just done for SERS.

Unless something is done,<sup>3</sup> according to the latest estimates from the Office of Policy and Management, the annual cost of TERS (assuming no change in the 8% assumed return and a 7% actual return), will rise from \$1.4 billion to \$1.6 billion over the next five years, and then double to about \$3.2 billion in 2032. If returns are significantly less than 7%, the annual cost could exceed \$7 billion in 2032. It is important to note that the cost of pension benefits for active employees (a.k.a., the “normal” cost) is only about 20% of the total annual cost of pension benefits, known as the ARC

<sup>1</sup> The teachers’ pension fund still optimistically assumes it can earn steady 8% returns on its assets, and even the 6.9% return now assumed for the state employee’s fund may be too high. The lower your rate-of-return assumption, the higher your unfunded liability, and thus the higher your annual cost requirement. For example, cutting TERS return assumption in 2017 from 8.5% to 8.0% increased the annual ARC by \$200 million.

<sup>2</sup> Investment returns have actually been slightly greater than the debt-service costs, thanks largely to the fortuitous fact that most of the POB proceeds could not be invested until after the markets crashed in September 2008.

<sup>3</sup> Among the possibilities is to inject State assets (e.g., the State Lottery business or real estate) into the pension funds to raise their funding levels and thereby reduce the annual cost of amortizing their unfunded liabilities. However, it is inevitable that the amortization period for TERS will also have to be extended far beyond 2032.

(Actuarially Required Contribution). The other 80% is related to contractual rights of employees who are no longer active. Finally, in addition to pensions, we have an unfunded liability for retiree healthcare benefits (a.k.a., "OPEB," Other Post-Employment Benefits), which is about one-fifth of the \$100 billion total.

**Within the context of these realities, any candidate who claims, for example, that our unfunded liability problem can be solved simply by getting tough with the unions and demanding more concessions from active employees is insulting our intelligence, because doing so would have very little effect on the total annual cost of retirement benefits.**

3. **Infrastructure Needs** – CT also faces huge unfunded costs, equal in magnitude to our \$100 billion in unfunded retirement liabilities, to maintain and improve its neglected infrastructure, without which it cannot hope to compete with other states at retaining and attracting businesses and residents. This hidden liability exists for the same reason that the State failed to fund its retirement liabilities – over the years, it kept postponing prudent infrastructure maintenance and improvements to pay for more and more public services and for more and more generous compensation for the State workers who provide those services, all in the hope that strong economic growth would bail us out.

**Within the context of these realities, any candidate who claims, for example, that he can solve our infrastructure problems quickly (sometimes by invoking the magic words, "public-private partnerships"), is insulting our intelligence.**

4. **Weak Economic Growth** – It is an astounding fact that **CT has not generated any job growth in 29 years** – total non-farm jobs today of 1.7 million are the same as they were in 1989!! Without stronger economic growth, CT's tax base, both incomes and property values, will continue to decline. Entire books could be written about why CT's economy has stagnated for a generation, and about what can be done to stimulate higher growth. Some of the gubernatorial candidates have some good ideas, but any realistic path to higher growth is likely to be long and hard. It would be easier if the State did not have \$30 billion in existing General Obligation (GO) and non-GO debt outstanding (not including the municipal debt of distressed towns like Hartford that the State has begun to bail out), plus \$100 billion in unfunded retirement liabilities, plus another \$100 billion liability for needed infrastructure spending. It would be easier if the cost of living and doing business (including energy costs) in CT were not among the highest in the nation. It would be easier if CT had any cities that were worthy of that title rather than several troubled, large towns, like Bridgeport (population 146,000) and Hartford (population 123,000). It would be easier if our infrastructure could be fixed and improved faster than the many years it will take. It would be easier if the after-tax costs to many CT taxpayers of state and local government were not about to increase substantially because of the new restrictions on their deductibility for federal income tax purposes. CT has some wind at its back thanks to strong growth in defense spending that is creating job growth in that sector, and strong financial markets that (along with a one-time IRS requirement to recognize deferred hedge-fund income) generated much higher income tax revenues for 2017 than was expected. However, the path to sustained higher economic growth will be not be easy.

**Within the context of these realities, any candidate who claims, for example, that he can generate significantly higher economic growth in the next several years is insulting our intelligence, but it is also true that we should elect a Governor with the best specific plans to stimulate growth.**