Fairfield Taxpayer

WHO WILL YOU VOTE FOR ON NOVEMBER 6th?
"IT'S __________, STUPID!"

- **Bill Clinton famously filled in the blank with the words, "The Economy."**
- **How will you fill in the blank to choose the candidates you will support?**
- **Whatever issue(s) you consider most important at the national level, you must also decide what matters most to your choices for State offices.**
- **Fairfield Taxpayer believes that <u>the key issue for all State offices in 2018 is CT's weak economy</u> – unless CT can generate stronger economic growth, its tax base, both incomes and property values, and the quality of its public services will all continue to decline.**
- **After <u>30 years with no job growth</u> and facing daunting fiscal challenges, it will not be easy to generate stronger growth. We will have to cut overall spending, raise some taxes and lower others, reduce the annual cost of unfunded retirement liabilities, and improve our infrastructure (e.g., I-95 congestion and Metro North reliability and travel times).**
- **Most important, we need different priorities and a different culture in our State Capitol that understands the critical importance of creating a business-friendly environment that can attract, retain and grow businesses and jobs.**
- **We urge you to vote for the State candidates you think are most likely to reverse CT's economic decline because <u>as CT goes, so goes the vast majority of its towns, including Fairfield and our property values</u>.**

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<u>For those who are interested, here are some related excerpts from the websites of the Democratic and Republican candidates for Governor.</u>

Turning CT around and fixing our budget problems requires creating jobs and spurring economic growth . . While much of the country has recovered from the Great Recession, CT has not, thanks to decades of bad decisions from career politicians on both sides of the aisle . . Decades of fiscal mismanagement by career politicians have led to flat wages, lost jobs, and a sense that CT has lost its way . . Our middle class has been squeezed by endless tax hikes and the rising cost of housing and healthcare . . politicians from both parties have defaulted on promises made to CT's workers by failing to fund their pensions . . A key to revitalizing CT's economy is to have a 21st-century transportation system . . Nearly 4 out of 5 miles on CT's major roads are in either poor or mediocre condition . . Traffic congestion in the state's largest urban areas is worsening . .
https://www.nedlamont.com/issues

CT is in Economic Free Fall . . CT is fifth to last for economic growth . . CT has the highest total tax burden in the nation . . CT's Tax Freedom Day ranks #50 . . Despite five tax increases since 1992, CT has a growing, $3.5 billion budget deficit and a pension plan that is underfunded by $74 billion . . CT is the only state with both a gift and estate tax, which drives retirees from the state . . More people are leaving CT than any other state except West Virginia . . In the last 10 years, we have lost $6 billion in adjusted gross income from people moving to Florida alone . . CT's housing prices are falling relative to the nation, eroding residents' net worth . . the state's labor force participation rate has declined, placing an ever-increasing burden on fewer numbers of wage earners . . CT is in absolute crisis . .
https://www.bobforgovernor.com/issues/

For those who are interested, here are the details on Connecticut's four interrelated challenges

1. **Weak Economic Growth** – It is an astounding fact that CT has not generated any job growth in 30 years – total non-farm jobs today of 1.7 million are the same as they were in 1988!!

   Without stronger economic growth, CT's tax base, 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. Any realistic path to higher growth is likely to be difficult because we are already so far in debt with: **~$37 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); **~$100 billion** in unfunded retirement liabilities; and a **~$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 (the largest, with a population of only 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.

2. **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 would make in the private sector for a similar job. 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.

   Meanwhile, on the revenue side of the budget, the money currently comes from **personal income taxes** (currently $9-$10 billion); **sales taxes** ($4-$5 billion); **federal grants** ($1-$2 billion); **corporate**

income taxes ($1 billion); and **other sources** ($3.5 billion), like the Lottery, hospitals, gasoline, cigarettes, slot machines, etc.

Cutting state employee compensation sounds like one obvious solution but doing so will not be easy because of a ten-year labor agreement with “SEBAC” (the bargaining agent that represents virtually all State-employee unions) that was negotiated by Governor Malloy and approved by the Assembly in 2017 in a strict party-line vote. Under this agreement, unless the unions agree to re-open the contract, **salary costs are locked in until fiscal 2022** (including 3.5% salary increases on both 7/1/19 and 7/1/20), **benefits are locked in until 2027**, and **“no layoff” provisions limit our ability to restructure state government before fiscal 2022**.

3. **Unfunded Retirement Liabilities –** CT has unfunded retirement liabilities estimated at **~$100 billion** that are probably the highest in the nation on a per capita basis. 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 got closer to 2032.

   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. Meanwhile, 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 higher investment returns than the 5.9% interest cost on the bonds. These POBs cannot be refinanced until 2025, at which time the amortization period for the unfunded liability could be extended. Unless something is done, 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 investment returns are significantly less than 7%, the annual cost could exceed $7 billion in 2032. 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.

4. **Infrastructure Needs –** CT also faces huge unfunded costs, roughly equal in magnitude to our $100 billion 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, politicians 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.

For those who are interested, here is a summary of the findings and recommendations of the Commission on Fiscal Stability and Economic Growth

A special commission of business leaders was created by the Legislature to develop and recommend policies to achieve state government fiscal stability and promote economic growth and competitiveness. The Commission's report was issued on March 1, 2018. Its key findings were as follows:

- While neighboring states and the United States as a whole have economies that are growing, CT's economy is shrinking—it is actually smaller than it was in 2004;
- We are losing ground on numerous key measures of competitiveness: tax climate, business climate, transportation quality, vitality of cities, and more;
- We are facing ongoing budget deficits of $2-$3 billion in FY 2020 and beyond, growing by $500 million per year.

The Commission made ten major recommendations:

1. **Reform taxes** in a pro-growth, revenue-neutral way, including reductions in all income-tax brackets, higher taxes on some businesses, an increase in the sales tax of no more than 1%, reductions in tax exemptions and exclusions, and elimination of the estate and gift taxes.

2. **Cut spending** by $1 billion, or ~5%, without adversely impacting the social service outcomes of the State, through greater efficiency and privatization initiatives.

3. **Spur economic growth**: by supporting the growth of CT's highest-potential sectors (advanced manufacturing, financial services, and healthcare); by developing and retaining the workforce CT needs; and by transforming the business environment for entrepreneurship and innovation.

4. **Increase transportation funding** by raising the gasoline tax and by creating a plan for the eventual implementation of tolls, and then prioritize projects with the greatest likelihood of producing economic growth.

5. **Reform the budget governance process** by creating a Joint Budget Committee in the General Assembly that must balance revenues and expenses rather than having two separate committees, one for spending and the other for taxes.

6. **Reform the pension and retiree health benefits process** for both state employees and teachers by giving the legislature responsibility for setting the key terms of future employee contracts, and require that the State Comptroller certify that the financial or actuarial assumptions used by the legislature are prudent and consistent with best practice.

7. **Reform the Teachers' Retirement System** by revising its benefit structure, funding policy and amortization schedule, and by increasing the amount that teachers must contribute from 7% of salary to the peer-group average of 10%, and increase the TRS funding level by contributing State assets to the fund, like a 30-year stream of the income from the State Lottery.

8. **Create a new nationally competitive STEM campus** in Hartford, Stamford or New Haven, along the lines of what New York City did with Roosevelt Island.

9. **Encourage greater regionalization** by giving regional planning entities (a.k.a., "Councils of Government" or "COGS") the ability to raise funds to provide shared services, and by forming more urban region development authorities like the Capital Region Development Authority (CRDA).

10. **Increase the minimum wage** in several steps from $10.10 to $15 by 2022.

https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180301/Final%20Report%20with%20Appendix.pdf

For those who are interested here are the details on the political control of CT over the last 30 years.

POLITICAL CONTROL OF CONNECTICUT

Years	Governor	Senate Control	House Control
1987-88	O'Neill (D)	25D - 11R	92D -59R
1989-90		23D - 13R	88D - 63R
1991-92	Weicker (I)	20D - 16R	88D - 63R
1993-94		19D - 17R	87D - 64R
1995-96	Rowland (R)	19R - 17D	91D - 60R
1997-98		19D - 17R	96D - 55R
1999-00	Rowland (R)	19D - 17R	96D - 55R
2001-02		21D - 15R	100D - 51R
2003-04	Rell (R)	21D - 15R	94D - 57R
2005-06		24D - 12R	99D - 52R
2007-08	Rell (R)	24D - 12R	107D - 44R
2009-10		24D - 12R	114D - 37R
2011-12	Malloy (D)	22D - 14R	99D - 52R
2013-14		22D - 14R	98D - 53R
2015-16	Malloy (D)	21D - 15R	87D - 64R
2017-18		18D - 18R	80D - 71R

Super Majorities