Testimony of
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Commerce Committee
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SB 445 AN ACT CONCERNING AN ANALYSIS OF THE RECOMMENDATIONS OF THE COMMISSION ON FISCAL STABILITY AND ECONOMIC GROWTH

Good afternoon Representative Simmons, Senator Hartley, Senator Frantz and members of the Commerce Committee. I am Lori Pelletier and I am proud to serve as President of the Connecticut AFL-CIO on behalf of over 900 affiliated local unions that represent more than 220,000 working men and women in every city and town of our great state. Thank you for the opportunity to provide written testimony in opposition to SB 445 An Act Concerning An Analysis of the Recommendations of the Commission on Fiscal Stability and Economic Growth.

This Commission on Fiscal Stability and Economic Growth was given an important charge. Our members paid attention because they understand what is at stake. The working men and women we proudly represent live in, work in and love Connecticut. They want to see our state be the best it can be for their families and their communities.

Sadly, the Commission's report is a tremendous disappointment. We were led to believe the recommendations would be a bold prescription for economic revitalization, but they are nothing short of a full-frontal attack on working people. The report is a rehash of divisive, failed ideas that if implemented, would continue to dampen wage growth and exacerbate inequality throughout Connecticut. Furthermore, the report is a missed opportunity to unite policymakers and taxpayers behind a plan of shared prosperity and long-term economic growth.

No analysis prepared by the Department of Economic and Community Development (DECD), as required by SB 445, will make this report more attractive or palatable to regular, working- and middle-class Connecticut citizens.

WE URGE THE GENERAL ASSEMBLY TO REJECT PROVISIONS THAT:

- **Raise taxes that disproportionately impact working and middle class workers while providing massive tax cuts for the wealthy.**
  Increasing the regressive sales and gas taxes, while eliminating the estate and gift taxes shifts tax burdens away from those who are best able to meet them. Countless studies show that this kind of trickle-down tax policy actually slows economic growth because working and middle class workers spend a larger percentage of their income, thereby generating local economic activity. If they pay more in taxes, they will have less disposable income.

- **Eliminate worker's rights to collectively bargain.**
  It has become a tired bit of hyperbole that state workers are the cause of all of Connecticut’s budget problems. Even though it’s politically popular to go after state workers and their medical and retirement benefits, the attacks are not based in fact:
Pensions for average retired state employees are around $30,000 per year and dropping – far less than the hundreds of millions distributed in corporate welfare that receive far less scrutiny.

82% of the payment into the state employee pension fund was to make up for contributions not made in the past or for lost investment earnings. For 32 years, the legislature put away $0. After that, they spent the next several decades contributing less than required. Governor Malloy is the first Governor to fully fund the pension at the actuarially required amounts.

Pensions play an important role in Connecticut’s economy by supporting jobs and generating purchasing power in our communities. In 2014, expenditures stemming from state and local pensions supported 33,792 jobs, $5.4 billion in total economic output, and $1.3 billion in federal, state, and local tax revenues.

The notion that we can solve Connecticut’s unfunded liability problems by ‘elevating them to the General Assembly’ is ill-informed. For the first four decades, Connecticut’s state employees’ pension plan was controlled solely by politicians. That is precisely when the unfunded liability was created. Through collective bargaining, workers created an enforceable funding obligation and a funding system that is affordable and sustainable for the long term.

The commission’s proposal turns a blind eye to the fact that state employees, through their unions, have saved taxpayers billions in cost saving agreements reached in 2009, 2011 and 2017. No other constituency has given as much to close Connecticut’s budget deficits. Collective bargaining is the solution, not the problem.

- Amend binding arbitration laws to permit award of compromise outcomes.
  The Commission proposes changing binding arbitration requirements for municipal employees and teachers to permit so-called “binding interest arbitration” instead of “last best offer” arbitration. They claim it would save time and money by allowing arbitrators to make compromise awards. They are wrong.

In “last best offer” arbitration, the arbitrator must choose the position of the party with the strongest case, based upon the statutory factors set by the General Assembly. He or she is not allowed to compromise. Allowing the Arbitrator to compromise encourages the parties to establish extreme positions, knowing the arbitrator will instead choose a middle ground. Because the current “last best offer” system requires parties to present legitimate, rational cases to support their positions, it removes the posturing an inflation that can come with “binding interest arbitration.” The current “last best offer” arbitration system in fact encourages more settlements, decreases overall arbitration costs, and reduces the differences among the parties if they do go to arbitration.

The last time the General Assembly extensively reviewed arbitration in 2006, the bipartisan Program Review and Investigations Committee found that arbitration was used for only ten percent of teachers’ settlements and four percent of municipal settlements. The same report found that the majority of awards were made in favor of the employer. Binding arbitration works well in Connecticut and we should not change it.

• **Raise prevailing wage thresholds.**
The Commission's recommendation to raise the prevailing wage threshold to $1 million on renovation projects is a short-sighted attempt to cut workers' wages. If implemented, that action would have detrimental impacts on workers, local economies, workforce development efforts and public construction projects.

Connecticut is one of thirty-one states with prevailing wage laws that serve as a wage floor to ensure a level playing field for workers and contractors. It ensures construction projects are top-quality by using highly skilled and well-trained workers to complete projects on time and on budget.

Prevailing wage laws safeguard local construction workers against unscrupulous contractors who seek competitive advantage in the "low bid wins" world of public construction by utilizing a "low road" business model predicated upon a low-wage, low-skill, out-of-state and easily exploitable workforce. By setting wage rates, the prevailing wage allows contractors to compete fairly and win bids based on merit, productivity and efficiency.

Prevailing wage laws promote local training opportunities in skilled trades, particularly for historically underserved communities, such as minorities, youth, women and veterans. They ensure local workers gain access to job and a career training opportunity, which in turn contributes to economic growth. By earning living wages, workers spend more at local businesses and boost the economy.

After conducting a major review on prevailing wages, the Economic Policy Institute concluded in 2008 that "prevailing wage regulations do not increase government contracting costs." There is also no good evidence that any state actually realized cost savings from repeal. In 1996, Kentucky applied its prevailing wage law to state-funded school construction. In 1997, Ohio chose did exactly the opposite, exempting school construction from its prevailing wage law. The result was that median square foot costs for school construction did not increase in Kentucky, nor did they drop in Ohio.

• **Require more austerity budget cuts.**
Recommending a further $1 billion cut to public services would be devastating to working families in our state. Further cuts to public education, public safety and other core services would make Connecticut unrecognizable. State and local government employment in Connecticut has already shrunk by 15,000 jobs (6.3%) since 2008. Further shrinking public services, and thereby the state workforce, would only serve as a drag on the economy. Austerity just creates more austerity.

The economic impact of further spending cuts would be more damaging to economic growth than progressive tax increases on higher-income households or corporations. The Tax Cuts and Jobs Act passed by Congress at the end of last year gave large and permanent tax cuts to Connecticut corporations and their owners. Given this windfall, they should be able to afford modest increases in state taxes, rather than reaping the additional tax cuts the Commission proposes.

Rather than engage in yet another round of harmful austerity cuts, the state should stop subsidizing the inefficiencies of home rule. It's long overdue for municipal governments to provide the same level of cooperation, coordination and shared functions that other states provide at a far more affordable price.

**PROCESS CONCERNS**
The contents of this report are no real surprise. It is the product of mostly wealthy, out-of-touch CEOs to benefit wealthy, out-of-touch CEOs. One Commission member actually declared that they "must protect the wealthy." By highlighting yachts on its draft version of the report, members seemed clueless and tone-deaf about how working families are struggling to make ends meet in an economy that is stacked against them. It's no wonder we refer to the group as the "Let Them Eat Cake Commission." Yet even more concerning than the substance of the
Commission’s recommendations are the processes by which the Commission arrived at its proposals.

Commission membership is not a balanced representation of Connecticut’s population and members appear to have deep roots in organizations most interested in preserving a status quo that economically benefit them. Those who appear to gain the most are the Connecticut Conference of Municipalities (CCM) and the Connecticut Business & Industry Association (CBIA). Not surprisingly, many of the Commission members are directly or indirectly tied to CBIA – either as current or former board members, or with their company as a member of the business lobby. In fact, CBIA was so confident they would profit from the Commission’s recommendations that they added them to their legislative agenda before they were even made public. CCM unanimously endorsed the report.

In addition, this entire process has been plagued by a lack of transparency. The commission met behind closed doors and most of the commission members had less than 24 hours to review the recommendations before they were released.

On top of that, Commission Co-Chair, Bob Patricelli, quietly created a nonprofit organization a month before the Commission even met for the first time. Connecticut Rising, Inc., a 501(c)(3), has raised money in order to hire financial, budget, economic, public relations and other consultants to aid the Commission. According to media reports, Mr. Patricelli raised $100,000 each from Webster Bank, Yale University and his own family foundation. In the appendices, the report states an expectation that additional contributions are forthcoming from other Commission members or from organizations with whom Commission members have ties. Mr. Patricelli has not disclosed a list of who has been solicited, how much has been spent, how contracts have been executed or how vendors were selected.

The language that created the Commission on Fiscal Stability and Economic Growth provides the Commission with significant assistance, including staff from OPM and DECD. In addition, the Commission could request any office, department, board, commission or other agency of the state to supply information and assistance needed to fulfill its responsibilities. There was no need to hire additional staff, let alone create an organization and raise funds to do so. Instead, the Commission chose to proceed in a shadowy manner it did. Now we have a report created by a body that may or may not have employed individuals or firms who may or may not benefit from the policy recommendations it contains.

Mr. Patricelli has stated publicly that Connecticut Rising, Inc. will continue to exist, even though the Commission ceased its work March 1, in order to advocate for implementation of the Commission’s policy recommendations. If that is the case, the General Assembly should take every step to ensure Connecticut Rising, Inc. registers with the Office of State Ethics as a client lobbyist and files appropriate disclosure reports.

**GOING FORWARD: THE HIGH ROAD TO ECONOMIC GROWTH**

Austerity budgets and trickle-down tax policy have only worsened Connecticut’s financial troubles. It’s neither courageous, nor groundbreaking for business leaders to recommend more of what benefits them directly.

The Commission ignored proven, tested economic strategies to spur growth that would allow Connecticut to meet its obligations and restore its long-term fiscal health. While these approaches are not included in the Commission’s report, they are provided in the analysis attached to my testimony entitled “A Freshman’s First Report: Arrogance and Lack of Courage Lead to a Missed Opportunity for Reform.” It was prepared by AFSCME Council 4 Executive Director Sal Luciano, AFT Connecticut President Jan Hochadel, AAUP UConn Chapter President Thomas Bontly, SEBAC Chief Negotiator Dan Livingston and myself.

In addition, the presentation made by statewide union leaders to the Commission is also attached to my testimony. It provides an accurate baseline from which to evaluate Connecticut’s challenges and strengths so that we can focus attention and energy on where it needs to be – investing in a growth economy. Examples of an investment strategy include:
• Ending the practice by irresponsible employers of misclassifying workers as independent contractors to circumvent labor laws in order to come in as the lowest bidder on public works projects. This hurts workers and prevents honest employers from being able to compete on a level playing field.

• Recouping safety-net costs from irresponsible mega-profitable employers who pay their workers so little that they are eligible to enroll in HUSKY, apply for food stamps, claim the Earned Income Tax Credit, seek out childcare subsidies and obtain other methods of public assistance.

• Making significant investments in the state’s deteriorating infrastructure and public transportation, which creates jobs, attracts and retains millennial workers and improves our state’s quality of life.

• Investing more heavily in preK-12 education, higher education and workforce training and development programs. Connecticut has one of the best educated, highly skilled workforces, but austerity budgets have impeded efforts to prepare today’s workers for tomorrow’s jobs.

• Raising the minimum wage to $15/hour for full- and part-time workers of all ages, regions and sectors by 2021 and index it to inflation beginning in 2022.

Connecticut has thrived and survived because of its ingenuity, its integrity, and its people. For too long, too many have bought into notion of Connecticut success is in the past. This “rooting for failure club” has perpetuated myths, rather than focusing on our strengths. For too long, too many have bought into the notion that to make Connecticut businesses richer, you have to make its workers poorer. Workers are always willing to come to the table and do their part, but for too long now workers have been the only ones stepping up.

Connecticut needs strength. Connecticut needs a plan that doesn’t scapegoat any one group, but unites us in creating a future for our children and grandchildren. We are One Connecticut, but we need an economy that works for everyone, not just the wealthy few.

We urge the General Assembly to reject this self-interested report and instead focus their attention on taking the high road. Focus on our strengths by prioritizing investments in education, higher education, workforce development and modernizing infrastructure in order to yield long-term, sustainable economic growth. Thank you.

We urge the Committee to reject SB 445 and instead focus their attention on efforts to make long term education, workforce and infrastructure investments that will yield long-term, sustainable economic growth from which everyone will benefit.