Testimony of Daniel Livingston
Livingston, Adler, Pulda, Meiklejohn & Kelly
before the
Appropriations Committee
Commerce Committee
Finance, Revenue & Bonding Committee
Planning & Development Committee
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I submit this testimony today as the Chief Negotiator for SEBAC, the State Employees Bargaining Agent Coalition. On behalf of Connecticut's 43,000 state employee union members, we strongly oppose the Commission's report. Since the Commission – contrary to its statutory directive – insists that its ten key recommendations must be reviewed as a whole, we are compelled to oppose their report as a whole, even though not every recommendation is a bad one. Had the Commission presented its report as a series of ideas, some good and some bad, as could be expected from the breadth of the subjects it was studying in but 76 days, it would have been more useful, and less dangerous to the future of our state.

As an overall product, it is internally inconsistent, poorly thought out, and ignores critical facts and evidence. And it lacks the courage to make recommendations to deal with the true key structural problems that threaten our state's future for businesses and families, and that prevent the revitalization of our major cities - which was supposed to be a key component of the Commission's statutory mission. SEBAC is part author of a report, called A FRESHMAN'S FIRST REPORT – ARROGANCE AND LACK OF COURAGE LEAD TO A MISSED OPPORTUNITY FOR REFORM, and attached to this testimony, which is a more comprehensive analysis of the Commission report's failings. I will highlight just some of them today.

We begin with some of the Commission's intellectual failings, starting with taxes. In terms of fiscal stability, part of its core mission, making cogent, scientifically supported recommendations about reforming Connecticut's antiquated tax system should have been job one. What did the Commission do instead? First, it decided that any changes in our tax structure should be revenue neutral. Why do that in an environment where our revenues are by all accounts too low to sustain a needed level of services? Because they said so. No science whatsoever is provided to support that counter-intuitive conclusion. Contrast that with states like Alaska – hardly a bastion of liberalism – which confronted with declining oil revenues too low to sustain its services, did a full comprehensive review of needed structural tax changes and then adopted its first income tax, finding it better for economic growth than service cuts. Forget the conclusion for the moment. Science – facts -- actually help.

Instead, based upon the "revenue-neutral" mantra, the Commission proposed cutting income taxes in all brackets. There is actual science that suggests that cutting income taxes can sometimes help spur economic growth – because working, middle and even upper middle-class people increase their spending in the local economy with more take home pay. But that same science shows that millionaires' and billionaires' local spending is unaffected by tax cuts. They already have enough money for whatever they need, and if they increase spending, it is more likely to be on an out-of-state, or even out-of-the country property, than more dinners in a local restaurant, or more visits to Home Depot. So, *if* cutting taxes on middle- and working-class families is a good idea, why would we increase our budget deficits by hundreds of millions more by cutting taxes on millionaires and billionaires?

The Commission implies that if we don't, millionaires will leave the state, but they present precisely no evidence of that. They cite only a Sacred Heart poll report which reports that 49% of respondents making more than $150,00 a year are considering moving out of the state in the next 5 years – although the same poll reports 75% of the same group rates the quality of life in Connecticut as "excellent" or "good." Even if that report meant anything, it meant nothing about millionaires. There's no indication they even polled millionaires. The Commission simply ignored actual scientific evidence presented to them, studying millionaire migration throughout the country, showing that you would need a 10% increase in millionaires' income taxes (in Connecticut from 6.99% to 16.99%) to have even a 1% net effect on millionaire migration. So, if we follow the Commission's income tax recommendation, we throw away hundreds of millions of dollars in tax revenue yearly for absolutely nothing.

To offset this unnecessary loss of revenue, they propose raising the sales tax rate, which is a famously regressive tax affecting middle- and working-class people far more than the very wealthy. No science is offered about how that will affect underlying sales and therefore economic growth except to claim it will be okay because people will spend their income tax cuts on those sales – again ignoring the science that shows the very wealthy will not do that. And on expanding the sales tax base to take into account our 21st century service-based economy – which the General Assembly has been trying unsuccessfully to do for more than a decade – the Commission just punts. They propose that we produce $750 million in new revenue by expanding the tax base, but they give us not a clue on how, thereby ducking the only issue that's been holding up this process for more than 10 years. This is similar to their later recommendation that we can cut $1 billion in spending, without hurting services, by hiring a consulting company, which they are certain can be achieved because one of the consulting companies that would receive the lucrative contract told them we could. Anyone with even a minimum of experience in public finance knows that the one certainty about consultants is that they will tell you that you need consultants.

Then, they throw in eliminating the estate tax – which of course only affects the very rich. The science they offer behind that? Absolutely nothing. Even the Trump tax plan adopted late last year in Washington only raises the estate tax threshold, it doesn't eliminate the tax.

And on Connecticut's overreliance on a regressive property tax system which even CCM identifies as the worst in the country, the Commission barely discusses it, ducks any effort at comprehensive reform, and offers only a small slice of the sales tax as part of its take it or leave it solution. Then they through in a small increase in Corporate taxes through a new system for which they provide no evidence either that the amount makes sense, that it fairly distinguishes between lucrative and struggling businesses, or in any other way is the most sensible solution.

The net result of the Commission's tax recommendations is a tax boondoggle for the very rich, a smaller income tax savings for the working- and middle-classes -- offset by higher sales taxes, and absolutely no significant progress on property tax or a 21st century tax system. And a promise that it will spur economic growth because – they say it will. Poor work indeed.

Attacking collective bargaining is another example of the report's intellectual failings. The Commission proposes removing bargaining of both active employee benefits (such as health coverage) and retiree benefits from collective bargaining for state workers, although of course such bargaining is mandated by federal law for unionized private sector workers. On health care, the Commission was presented with undisputed evidence that the state employees' collectively bargained value-driven healthcare plan has become a national model, and has cut the yearly increase in health care costs well below the national norm while diminishing absenteeism and improving public services. The Commission's evidence to support eliminating it from collective bargaining? Nothing. Literally nothing.

They do purport to provide an argument for removing retirement benefits from collective bargaining, but in so doing they provide still move evidence of intellectual failure. Here's what they tell us:

> The legislature has never had proper control over one of the biggest cost drivers*** state employee wages and benefits. These have been left to collective bargaining between the SEBAC coalition bargaining group, in the case of state employees, and the governor's office. The legislature only has the right to vote up or down on a negotiated contract. It has been effectively disenfranchised from managing one of the primary elements of the General Fund and the largest component of unfunded liabilities. The Commission was surprised to learn that only four states do it this way. By far the majority of states vest the power to determine pension and retiree health benefit formulas and funding policies in the legislature, rather than in collective bargaining. Getting these decisions more directly into the hands of the legislature where they can be broadly debated, can only drive positive results.

This purported analysis is either woefully ill-informed or outright disingenuous. Let's start with the first sentence and the last which allegedly support taking state employee pensions and health care out of collective bargaining:

> "The legislature has never had proper control over state employee wage and benefits …Getting the decisions more directly into the hands of the legislature where they can be broadly debated, can only drive positive results."

Actually, the General Assembly (with the governor) had unilateral control of state employee pensions until 1981. The pension plan was created in 1939 and with these decisions "directly in the legislatures' hands" it didn't even start pre-funding the pension plan for 32 years, finally passed a bill requiring pre-funding but routinely ignored it until 1981, when they were forced to pre-fund by collective bargaining. And by the way, the General Assembly unilaterally created the benefit program that was closed by collective bargaining in 1984 and was the only benefit plan that was even arguably more generous than the national norm. How can any Commission, even pretending to be objective, both falsely claim the General Assembly never had control of state employee pensions, or – when the period of legislative control was when the bulk of the problem was created – say putting it back into legislative hands "can only drive positive results?"

Then let's look at the telling – and misleading – observation: "The Commission was surprised to learn that only four states [collectively bargain pension and retiree healthcare benefits]." The Commission's surprise is somewhat telling because the "only 4 states" argument has been a mainstay of attacks against collective bargaining at the General Assembly for years. But the misleading part is more significant. The substantial majority of unionized states that don't collectively bargain pensions have constitutional or court case protections that protect employees from unilateral changes by their employers (just as private sector employees are protected). So, the Commission's premise, that we should eliminate collective bargaining of pensions so we handle pension benefits like other states – is profoundly misleading. If we passed this recommendation, we would be nothing like New York or Massachusetts, or the majority of other states, but very much like our smallest and least successful neighbor in pension plans, Rhode Island. In fact, the long-term changes in our pension program which were part of our recent SEBAC 2017 savings agreement – providing the state with almost 1/3 of the means to balance its last budget $24 billion over 20 years – would have been unlawful in New York and many of the other states which protect pension rights through constitutional or case law protection. Since Connecticut doesn't have those protections without collective bargaining, if we followed the Commission's suggestions, removed collective bargaining and left pensions subject to legislative whim, we wouldn't be like most states at all.

Our long-term pension debts are a problem – but they were created by the General Assembly not funding state employees' pensions properly before collectively bargaining, and not funding the Teacher's Retirement system which doesn't have collective bargaining. On the state side, through collective bargaining, we have created a long-term stable system to pay off the State's debt, a system the General Assembly cannot simply ignore because it's set forth in a binding agreement. On the teacher's side, there is no collective bargaining, and the Commission correctly identifies ballooning payments over the next decade as problem. In fact, because the teacher's system lacks collective bargaining, the system resorted to putting covenants into bond sales to try to impose binding funding requirements on the General Assembly. But those very covenants now stand in the way of fixing the teacher's system the way we've fixed the state employees' system. One would think that seeing the collectively bargained state employee system successfully tackle problems that the teacher's legislatively controlled system is unable to solve, an objective Commission would recommend expanding collective bargaining of pensions to the teacher's system. Instead they want to take it away from state employees.

Ironically, in other areas unrelated to empowering workers, the Commission is a big fan of providing limits on legislative authority. It applauds Connecticut's transportation lock box, and the new bonding, spending, and volatility caps, calling them "a fascinating example of government leaders trying to set boundaries on their own future actions and those of their successors, because they don't trust the system to behave properly." On the limits set on legislative whim by collective bargaining, however – where we have historical proof (no pre-funding) and current proof (the teacher's system's balloon payments) of the General Assembly's failings – they tell us removing all limits on current and future legislatures "can only drive positive results."

These are just some of the report's intellectual failings. They are particularly telling in a report that insists that we must pass its recommendations as a whole, apparently including recommendations supported by myth, false information, and disingenuousness.

Let's talk now about the report's lack of courage. Much of its discussion centers on Connecticut's lack of economic growth, which of course was part of its statutory mission to discuss. Yet in 119 pages it mentioned income inequality only twice, and never in this context. The science is overwhelming that economic growth is slowed by income inequality, again because when income increases are captured primarily by the very rich, they do not tend to be reinvested in the local economy. Income inequality is a hard issue to address – and perhaps the most significant issue of our economic time. The Commission mentions it only to explain its proposal to increase the minimum wage to $15. That's a good idea, which they propose to do too slowly. But the point here is they fundamentally ignore this great impediment to working- and middle-class families moving forward, and this great obstacle to economic growth.

Just as telling is the Commission's response to the two most obvious obstacles to achieving its mission of "revitalizing Connecticut's major cities." On the fact that Connecticut is balkanized into 169 towns, and is the only state in the country with no county and virtually no regional government, they offer only the most timid of suggestions with this explanation: "The Commission chose not to tilt at those windmills." On the resultant racial and class isolation of Connecticut's major cities, and the illusion it creates that Avon can move forward while Hartford moves back, Fairfield forward while Bridgeport moves back, etc., or the many great companies flocking to cities like Boston, New York and Seattle precisely because of the progress they've made towards equality, vibrancy and diversity --- the Commission says nothing. The words "race" and "class" appear not once in a 119-page report about revitalizing our major cities.

Our great state is facing real challenges. To confront and overcome them, we need the intellectual honesty and rigor to subject our tax and finance systems to real scientific analysis, to admit when the answers aren't clear and then go out and get the evidence to make them clear. We need the courage to call out and identify our most difficult obstacles – our high levels of income inequality, our antiquated municipal structures, and our cities' isolations by race and class – and develop a genuine plan to overcome them. As we said together in the report we issued this week:

The Commission's final report is multi-colored and slick – looking like a stock prospectus for a "can't lose purchase opportunity." The help from generously paid consultants like McKinsey and Company, which obviously hopes to land a major contract if this report were fully implemented, is more than evident. Less than evident, however, are the types of real, balanced and courageous solutions our state needs.

There are answers to Connecticut's many problems, answers that transform our 20th century to a 21st revenue system, address our 18th century system of 169 townships, income inequality, racial and class isolation, and elevate the role and value of working- and middle-class families, strong communities, and good businesses that contribute to those communities. We can find these answers together – but not in this Commission's report.

EXECUTIVE SUMMARY – ARROGANCE AND LACK OF COURAGE LEAD TO A MISSED OPPORTUNITY FOR REFORM

We've all met the occasional college freshman who after a semester of English, Math, History, and Physics 101 comes home knowing all the answers to fixing the many problems of the world. It's not a bad thing, but we rarely immediately give those freshman special powers to redo state economies and governments before they even return for their second semesters.

Yet on a Connecticut scale, that's effectively the power the unelected Commission on Fiscal Stability and Economic Growth seeks to assume. With its leadership and the majority of its membership devoid of expertise or experience in public finance, municipal or state government, public service, transportation, or labor relations, commission members in 76 days produced their "findings" and "recommendations" on all of these subjects which they brazenly insist must be "taken as a whole."

By way of background, union leaders and advocates presented the following principles in their February 9 presentation to the Commission:

1. **We must take the high road, not the low road, to economic growth.** We quoted an Op-Ed recently published in the Hartford Court which showed how cities and the state could compete for corporate investment on jobs from good companies by investing in "good schools, affordable housing, a pleasant urban environment…mass transit and long-term urban infrastructure."
2. **We must use living human math, not stilted math, in our budgeting decisions.** We highlighted the long-term damage done by budget decisions that ignore the human cost and the economic costs of austerity-driven cuts. We have no excuse to continue using antiquated economics in our budgeting, or to be leaving our children and grandchildren the burden of solving social and economic ills we willfully ignore.
3. **We don't have two economies – we have one economy.** Cutting public spending, whether by direct services or by layoffs, not only deprives people and communities of the services they need, it further slows the economy. We all support each other, and we grow together. As the late Sen. Paul Wellstone said, "We all do well when we all do well."
4. **A good, stable, long service workforce is an asset to be proud of and support, not a burden or a punching bag.** Connecticut's public-sector workforce is an asset, and our benefit programs are designed to encourage long term, high quality services that cannot be provided by a McWalmart model. The best businesses view their workforces as assets – but too many Connecticut politicians view public service workers as a punching bag.
5. **Reality matters. Or: "We don't know but we'll find out" is better than making it up.** We urged the Commission not to blindly perpetuate myths, or to pretend that in 76 days it could learn everything it needed to solve all of Connecticut's problems. And to recommend permanent, efficient and fair revenue structures that could confront Connecticut's antiquated revenue system using science and data, not political slogan.
6. **The high road needs strong unions.** Around the country, high income, high quality of life states are union states – like Massachusetts, New York, California and Minnesota. We urged the Commission to learn from that model and that business and labor share a common interest in a strong economy with good jobs and safe, stable, livable communities.
7. **We need to confront and resolve the urban isolation and segregation that holds back our "High Road to a Better Connecticut."** We urged the Commission to use its bully pulpit to speak openly and honestly about Connecticut's 18th century municipal governance structure and its connection to race and class isolation in urban communities.

But for this CEO-dominated group of mostly rookies in public finance, government, labor relations and democratic decision-making, these principles – like the mission the General Assembly gave it – were just too hard an assignment. They presented some good ideas in their core recommendations – like raising the minimum wage, or using tolls to dramatically improve Connecticut's infrastructure.

But they tied those ideas to some terrible ones – like going back to the bad old days when Connecticut's state employee pensions were funded (or, more accurately, not funded) totally by legislative whim. Or cutting already moderate pension benefits for teachers and other public service workers without reviewing or even mentioning the impact that could have on public education and recruiting and retaining the teachers our children expect and need. Or making Connecticut's deficit worse by cutting taxes of multi-millionaires who just benefited from federal tax cuts while raising taxes (through the regressive sales taxes) on the working and middle classes.

Instead of candidly admitting that in 76 days, with an incredibly broad mission, the most Commission members could do was brainstorm as many ideas as possible, some good, and some bad, (and perhaps others inadvertently left out), they tell us that we can only do their recommendations justice if we swallow all of them as a whole.

This corporate arrogance is one of the reasons for the Commission Report's failure. But the equally important failing is its lack of courage. Central to its assignment was recommending a way of "achiev[ing] consistently balanced and timely budgets that are supportive of the interests of families and businesses ***and the revitalization of major cities within the state.***"

Yet their report made only the most timid of suggestions towards dealing with the greatest impediments to our cities' revitalization – Connecticut's preservation of its 18th century tradition of 169 independent township without county or regional government, and its consequent inefficiencies and excessive reliance on local property taxes.

And it made no mention at all of the other greatest impediments to our cities' revitalization: the ongoing urban segregation by race and class that so distinguishes us from the more diverse and vibrant competitors like New York and Boston which are so much more attractive to good businesses. Their 119-page report mentioned income inequality twice, race and class, not at all, yet claimed to be courageous.

The Commission's final report is multi-colored and slick – looking like a stock prospectus for a "can't lose purchase opportunity." The help from generously paid consultants like McKinsey and Company, which obviously hopes to land a major contract if this report were fully implemented, is more than evident. Less than evident, however, are the types of real, balanced and courageous solutions our state needs.

There are answers to Connecticut's many problems, answers that transform our 20th century to a 21st revenue system, address our 18th century system of 169 townships, income inequality, racial and isolation, and elevate the role and value of working families, strong communities, and good businesses that contribute to those communities. We can find these answers together – but not in this Commission's report.

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March 20, 2018

A FRESHMAN'S FIRST REPORT – ARROGANCE AND LACK OF COURAGE LEAD TO A MISSED OPPORTUNITY FOR REFORM

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INTRODUCTION

We've all met the occasional College freshman who after a semester of English, Math, History, and Physics 101 comes home knowing all the answers to fixing the many problems of the world. It's not a bad thing, but we rarely immediately give those freshmen special powers to redo world economies and governments before they even return for their second semesters. But on a Connecticut scale, that's effectively the power this unelected "Commission on Fiscal Stability and Economic Growth" seeks to assume. With its leadership and the majority of its membership devoid of expertise or experience in public finance, municipal or state government, public service, transportation, or labor relations, in 76 days they produced their "findings" and "recommendations" on all of these subjects which they insist must be "taken as a whole." The statute that created the impossible mission of these freshman, P.A. 17-2, Sec. 250, was far more modest. It suggested the report be broken up into various components and sent to the differing committees with expertise in those components – commerce, planning and development, finance, revenue and bonding and appropriations and the budgets of state agencies. Recognizing that the Commission might come up with lots of ideas, some good, and some bad, the statute requires that only one of them get an actual vote. But the Commission, chaired by two former big business CEOs used to getting their way, was having none of that. The biggest enemy, they told us in presenting the report, was the tendency to do nothing. Well that was one big enemy. Arrogance was another.

Just as unfortunate as arrogance is to the usefulness of the report is its lack of courage. A critical part of its official charge was to recommend changes that would be supportive of "the revitalization of major cities within the state." It recognizes some of the critical challenges to the that revitalization including the division of our small state into 169 towns, lack of county or regional government, and excessive reliance on the property tax. But its solutions to those challenges are timid and half-hearted. And it conspicuously shies away from even mentioning the great challenge that racial and class isolation and the concentration of poverty places upon our cities moving forward. Income inequality is mentioned twice in the 119-page report (including the appendices), race and class not once.

As a freshman project, we could give the Commission's findings a "C-". Their lengthy findings are part right, although introduced in misleading ways. For instance, Connecticut's gross domestic product shows an inflation-adjusted decline of almost 8% since 2007, and that's a problem that should be addressed. But not mentioned is that during the same period, the key measure of family well - being, per capita personal income, has increased by almost 20%, leaving us still well the highest in the nation at $69,311. Nearly $10,000 higher than New York, $9,000 higher than New Jersey, $5,000 higher than Massachusetts, $14,000 higher than New Hampshire, and $15,000 higher than Rhode Island. There is no income tax on Gross Domestic Product, only on personal income. So, Connecticut's comparative difficulties in collecting income taxes is not due to the lack of growth of our income base – it's 20% higher than it was in 2007. A much more sophisticated analysis than one undertaken by the Commission is needed to understand these things – again an analysis hard to achieve in one freshman semester. This disparity between gross domestic product growth and income growth – in fact income growth at all – is not even mentioned by the Commission.

The Commission made similar mistakes in other important parts of its findings -- for instance comparing state income tax rates while mostly (although not always) ignoring the fact that other states have county or even city income taxes. And the Commission in its oral presentation repeated without evidence the anecdotal claims that corporations and rich people are leaving Connecticut "because of its high tax rates." The Commission was presented, and ignored, scientific evidence that directly refuted that claim, and showed that Connecticut would have to raise its top bracket by 10% (from 6.99% to

16.99%) to have an even 1% impact on millionaire migration. Millionaire Migration and the Taxation of the Economic Elite.

Even in the freshman grading standard, these errors make the Commission's findings merit a C. And then one must add two findings they should have, but failed to make, to drop their findings to a C- grade. Connecticut's economic growth and fiscal stability are greatly hampered by its status as one of the two most income unequal states in the Country. Numerous economic studies show that this factor alone is a huge drag on economic growth, and when you tie it to the concentration of poverty, and of tax exempt properties in Connecticut's cities is perhaps our state's biggest fiscal and moral challenge. And they don't note that as a percentage of total income, Connecticut's state and local income taxes on the wealthy remain much lower than those on the middle class and the poor. ITEP Report - See page 41.

One could say much more about the problems with the Commission's findings, but it is in their recommendations that the grade drops form C- to an F. For their recommendations, taken as a whole, would not only fail to solve the State's fiscal and growth problems, they would exacerbate them. And while as individual recommendations some might be positive, the Commission itself insists it is its whole "comprehensive proposal" that must be evaluated (and implemented). To do that, let's break it into its individual parts and then reevaluate the whole once we understand them.

I. ANALYSIS OF THE COMMISSION'S RECOMMENDATIONS

1. **Enact a revenue neutral rebalancing of state taxes (which becomes revenue positive when coupled with economic growth) that reduces income taxes in every bracket, selectively raises taxes on business, raises the sales tax rate by less than 1%, cuts exemptions and exclusions from all taxes by 14%, and eliminates the dwindling estate and gift taxes.**

The Commission's "pro-growth tax reform" proposal is the key feature that allow them to project budgetary improvement in the short-term. However, unlike best practice in other states, which subject their assumptions to the impact of their tax changes on economic activity to rigorous economic analysis, the Commission's assumption that despite a fiscal deficit, our tax reform should be "revenue neutral" on one completely unscientific source:

> The state's uncompetitive and volatile tax structure coupled with its shrinking population is leading to stagnant economic growth. A new tax structure must be put in place. Tax policy drives economic behavior. A poll conducted by Sacred Heart's Institute for Public Policy in 2017, shows that 49% of respondents making more than $150,000 a year are considering moving out of the state within the next 5 years. That poll also indicated that 64% of respondents claimed that it was "very" to "somewhat" difficult to maintain their standard of living, 52% citing taxes as their primary concern.
>
> Based on this analysis, the Commission concludes that we should recommend a revenue neutral restructuring of taxes in Connecticut along the following lines:

Again, they completely ignored actual scientific studies of wealthy migration which shows tax rates have virtually no impact on wealthy migration. Millionaire Migration and the Taxation of the Economic Elite. Nor does the single poll that they rely upon tell us that the 52% respondents who claim it is "very to somewhat difficult" to maintain their standard of living and cite taxes as their "primary concern" are the same people who are "considering moving out within 5 years" or that it has anything to do with why they might move out. In fact, a careful reading of the poll -- Sacred Heart Q3 -- shows that residents were not asked to list their primary concern, but allowed to check as many concerns as they wanted. And while that October poll did show one of the two tax concerns as the highest with one hitting 52%, the same poll was conducted in January (and not mentioned by the Commission) and the highest tax concern was down to less than 44%. Sacred Heart Q4. Will the Commission now redo its recommendations?

The labor leaders who presented before the Commission recommended true scientifically validated tax reform guided by this basic principle:

> **Reality Matters and Facts Are Important. A corollary: "We don't know but we'll find out" is better than making it up. We need to find out what revenue structure is efficient and fair for state and local government for the 21st Century.**

Using that principle, we would not use a single attitude poll to decide how to reform Connecticut's basis tax structures. For instance, we would take into account that if one wants to stimulate economic growth, it might well make sense to lower taxes on middle or working-class families– who tend to then reinvest the savings back into the local economy. But, many studies make clear that lowering taxes on millionaires and billionaires has minimal impact on increasing economic activity because they don't need to or tend to spend that money. See, for instance, Rich Americans Save Money from Tax Cuts Instead of Spending Moody's Says.[1] Indeed, scientific studies already discussed here show that even large tax increases on very rich have minimal impact on out migration – so why include millionaires – who as noted above, already pay a lower percentage of their income in state and local taxes than the rest of us do – in a tax cut meant to spur economic growth?

The Commission's lowering of the tax bracket on single people making over $500,000 a year from 6.99% to 5.75% for example (1.24%) after they just received a tax cut on their federal taxes of 2.6% seems completely unnecessary, and in fact to protect fiscal stability, a tax increase on this group would logically be considered. Instead, overall, the Commission based upon no science begins its recommendations by adding to our fiscal issues by $2.1 billion per year, most of it to benefit the wealthy.

The Commission goes on to recommend immediate elimination of the estate tax which of course only impacts the very rich, and will also reduce revenue. (It currently affects only estates of $5.6 million or more (single) or $11.2 million (couple)). Even the recent Trump tax cut reduced, but did not eliminate, the estate tax on a federal level.

Having dug itself a further hole, the Commission seeks to dig out with tax increases. By far the most significant dollars are raised by increasing the sales tax from 6.35 to 7.25% -- around $1 billion. No analysis is provided of how the increase would impact on purchases, and no comment is made about the fact that sales taxes are among the state's most regressive taxes – that is poor and middle-class families pay a far higher percentage of their income in sales taxes than wealthy families do. And this increase does nothing for the State's fiscal problems other than begin to fill the hole created by benefitting the wealthy from the income and estate tax changes.

The report goes on to propose – or re-propose – raising revenue by reducing the number of so-called tax expenditures. These are exclusions from state taxes that reduce state revenue by over $5 billion a year and which are rarely reviewed to see if the exclusion is serving whatever public purpose it was meant to serve. The Commission appears to choose an arbitrary percentage of these –14% -- and recommend that the General Assembly commit to removing them. This is not inherently a bad idea, but the $750 million in revenue it assumes will be produced depends on the General Assembly doing the hard work – identifying the unnecessary exclusions and removing them, despite the predictable outcry

[1] Note that they assume everybody spends 30 cents on a dollar of tax savings – this is another freshman error.

of whatever lobbying interest they benefit. This hard work has proven too challenging for the General Assembly for years despite almost yearly efforts. By avoiding making any suggestions about which expenditures ought to be reviewed, the Commission gives itself credit for $750 million in savings that advocates have proposed for decades, but provides no meaningful guidance in how to get there.

Just as significantly, the Commission refuses to look at one of the root problems with Connecticut's sales tax. That is, we tax all goods unless there is a specific exemption that says otherwise. But we tax only services specifically listed by statute. So as Connecticut has become increasingly a service-based economy, our sales tax has become increasingly less efficient. And since there is little logic to the list of services we've chosen to tax, it has become increasingly less rationale.

So, for instance, we tax manicures and pedicures, but not haircuts. Buy your kid a baseball glove for 30 bucks, and you'll pay $1.95 in sales tax. Pay a legal fee, no tax, even if the lawyer charges $1,000 an hour. As we do for goods, it would be much more logical and consistent with the 21st century economy to tax services, like goods – that is tax all services unless we exempt them for public policy reasons. This would produce significant additional revenue and might even allow lowering the overall sales tax rate.

The Commission goes on to recommend raising $475 million in corporate tax increases through a .8% payroll tax. While the Commission calls this "shared sacrifice", it is not clear to what this refers. If it is comparing this relatively modest increase, enacted on a community that just saw its federal tax rates reduced from 35% to 21%, to the sacrifice that would be paid by working families through the sales tax increase, that's an interesting definition of "shared." Most importantly, there is again no science to the Commission's recommendation – why $475 million? Would $500 or even $1 billion be too much, thus allowing a smaller increase in the sales tax. Why is $475 million not too high? We are left to guess.

The Commission also graduates this tax on the size of the business – no tax if fewer than 10 employees, ½ the .8% rate for businesses between 10 and 99 employees. At first glance this makes sense, but note that under this system a corporation made up of a group of 9 patent lawyers earning $2 million a year each would pay no additional tax. A start-up bio-tech business with 100 employees averaging $50,000 a work would pay the full rate. There is some question about whether this is the best structure, especially as various experts have suggested that Connecticut replace its entire corporate tax structure with a value added tax, a suggestion the Commission puts off for later.

Finally, under "tax reform", the Commission inexplicably lists a gradual increase in the minimum wage to $15 per hour a proposal which it justifies with the report's only mention of income inequality. Increasing the minimum wage, of course, is a good idea. Conditioning that increase on the General Assembly enacting all of the negative parts of the Commission's proposal, of course is not. Connecticut's working families – especially those struggling at less than $15 an hour jobs – need a raise, and need one now. But not one tied to bad ideas like tax cuts for millionaires.

2. **Raise the gas tax to fund transportation projects and produce a plan for eventual implementation of electronic tolls.**

The Commission actually used some science and studies to justify this proposal. Connecticut transportation infrastructure has been suffering for years, limiting economic growth, and affecting the quality of life. A good idea – not exactly original, of course, and sadly tied in as a package with lots of bad ones.

3. **Create a Joint Budget Committee of the legislature with the power to set limits on revenues and expenses.**

This is a good idea, but the Commission missed other opportunities to substantially improve the state's budgeting process. Labor leaders identified to the Commission one of the biggest problems with our legislative process, which is that legislators make decisions based upon a flawed fiscal analysis:

> Flawed fiscal notes. Every piece of legislation must be accompanied by a fiscal note, its purpose not just to fit into the short-term budgeting decision process, but into a long-term alert about a decision's fiscal impact. But we do it wrong. This is not a criticism of the Office of Fiscal Analysis, which does a fine job doing exactly what we ask them to do. But we ask them only a partial question, so we get only a partial answer. Let me give you an example.
>
> A. Suppose we offer a bill to cut early childhood education eligibility for working class families. New standards mean 10,000 kids who otherwise would have qualified no longer qualify. What does the fiscal note say? We save $10 million in year one, and probably an increasing amount each year as we account for inflation. Project it out 5 years, and maybe we are saving $15 million a year. Good answer, bad question. We failed to ask two things: (1) How much more will we have to spend each year as these kids, deprived of the early childhood education they need, fall further behind in school, perhaps even become part of the school to prison pipeline? And then, how much do the prisons cost? And (2) What does it do to the economy of our state, and therefore the revenue of our state, when we consciously choose to have a less educated and able workforce?
>
> B. We make the same mistakes when we layoff public employees. We calculate the savings from their wages and benefits. We never calculate the costs of the diminished public services, nor the lowered revenue from the loss of not just their income, but the income they provide to local businesses and the slowed economy.
>
> C. **If our budgeting is going to support the High Road, we must instill it with information about the real-world math of human families.**
>
> D. This also tells us something about debt. We take the easy way out in calculating public debt. We figure out who we owe money to, add it all up and use catchy phrases like "this is the amount we are laying on future taxpayers." Well, every investment in the future costs money, and it is of course true that if we don't pay cash up front – whether it's to fund pension promises or to build roads, we will end up with future costs. And this means all of our investment decisions must be guided by the High Road principle we just discussed. But we say there is another kind of debt, one that is equally critical and which we rarely discuss, and we never count. What is the debt we lay upon future generations when we don't spend on services we know we need? Sometimes we discuss it when we think about bridges and highways. If we don't repair, it will cost more later to replace sooner than we otherwise would have. But what about schools, and early childhood education, cops, and nurses and teachers? What will be our spending needs a decade from now if we don't have good schools, and early childhood education, and safe cities? How much revenue will we have a decade from now, if we don't have the kind of communities that attract and keep good businesses today? The human debt we lay upon our children and grandchildren may be the greatest damage we do from relying on stilted math to make our decision.

Other states use this type of dynamic economic analysis to guide legislatures in making key decisions. Connecticut should do that as well. Otherwise, the human debt of poverty, inequality, and lost opportunities we impose on our children and grandchildren may be far larger than the financial debt the Commission focuses all of it attention on.

Proposals 4 and 5 – the Collective Bargaining proposals

We have to stretch the metaphor of a single semester class here, because the Commission, devoid of a single representative from labor or even with labor relations expertise, decided to make recommendations about state, municipal, and teacher collective bargaining. This is equivalent to our college freshman, not having yet taken a foreign language, proposing changes in *le dictionnaire Français*. We'll address them one at a time.[2]

4. Have the legislature assume the responsibility to define state employee fringe benefits by **removing them from collective bargaining for new contracts.**

This recommendation shows the Commission at some of its worst because its argument is so profoundly misleading it is close to sleight of hand. By federal law, all private sector employers must bargain fringe benefits with their unions. Of states that allow bargaining for public sector employees – typically high wage, high income states – the vast majority allow public employees to bargaining fringe benefits as well – and that includes state employees. That the Commission uses the fact that most state employees don't collectively bargain *retirement* benefits as their explanation for removing *all* benefits from collective bargaining – including for instance Connecticut's national model value health program – is either deliberately disingenuous, or inexcusably sloppy even for freshmen.

Let's talk, though, about the wisdom of removing state employee pensions from collective bargaining. The Commission would leave state employee retirement benefits up to unilateral employer whim. An employee could work 35 years for the state, accepting that a substantial part of his or her promised compensation is a decent retirement when he or she is too old to continue working, and have that promise revoked a day before retirement. That arbitrary authority is not just unfair to the state's public employees, it is a disservice to the public they serve. By making the pension promise ephemeral, it prevents pension plans from fulfilling their public purpose. A defined benefit plan is an employer's way to encourage long service from its employees, thus increasing average skill levels, decreasing turnover costs, and improving services. It does that by – often, as in Connecticut, along with a contribution from employees – taking some of the money the employer would otherwise pay those workers in wages and investing it in a pension fund. And since the benefits in defined benefit plans are skewed to reward long service workers, a defined benefit plan provides strong encouragement for a skilled and dedicated workforce to remain in state service. Thus, it is an essential part of making sure that our state has the quality, educated, workforce its people need. But a pension plan fulfills its purpose because employees trust the employer's promise, the employer's word. The Commission's recommendation would mean the State's word means nothing, since without collective bargaining the State could change benefits already earned by active employees – even days before retirement. That means you rely upon our promise of a pension at your peril. Such an unreliable system inherently fails to fulfill its public purpose of encouraging dedicated and long-term service to the people of this State.

[2] It is not clear why the Commission thought it had a mandate to deal with labor benefits issues. Labor relations is not mentioned in its mission, no one with labor relations expertise was made a member, and the legislature – which pre-determined the Committees among which the Commission's report would be divided – conspicuously left out the Labor and Public Employees Committee.

And the suggestion is based upon two premises, one stated and one implied, the first profoundly misleading, and the second simply false. The first premise is that we should remove pensions from collective bargaining to make Connecticut more like surrounding states, which don't bargain their pension plans. Why is that premise true, but profoundly misleading? We border 3 states. New York State doesn't bargain its pensions – true. But New York State has a constitutional provision that prevents its general assembly from reducing pension benefits for public employees beginning on the day they are hired. So New York is bound to keep its word to its public service workers, and thus its pension plans can continue doing their job for the people of New York. Unlike what would happen in Connecticut if the Commissions suggestions were the law.

Then there's Massachusetts. It also doesn't bargain public employee pension benefits. But the Massachusetts Supreme Court long ago deemed its statutory pension plans to be essentially the constitutional equivalent of a contract – meaning that its General Assembly and local governments are also forbidden from reducing pension benefits after an employees' hire. So, its pension plans continue to do their job on behalf of the people of Massachusetts.

Of our three neighboring states, only Rhode Island claims the authority that the Commission would grant – the unilateral authority to reduce pension benefits. Recent court cases there, like Connecticut's Supreme Court before we had collective bargaining, say the only way to provide contractual status to statutory pension benefits is through a constitutional amendment or collective bargaining. Connecticut was smart enough to grant collective bargaining over pensions after its Court ruled. Rhode Island left its law unclear. Now, does anybody really think we should model our pension practices on the disastrous experience of Rhode Island?

In fact, the substantial majority of states that don't collectively bargain pensions have constitutional or court case protections that protect employees from unilateral changes by their employers (just as private sector employees are protected). Retirement Benefits Protections. So the Commission's premise, that we should eliminate collective bargaining of pension so we handle pension benefits like other states – is profoundly misleading. If we passed this recommendation, we would be nothing like New York or Massachusetts, or the majority of other states, but very much like our smallest and least successful neighbor in pension plans, Rhode Island. [3]

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[3] **New York State:**
[Membership in retirement systems; benefits not to be diminished nor impaired]
§7. After July first, nineteen hundred forty, membership in any pension or retirement system of the state or of a civil division thereof shall be a contractual relationship, the benefits of which shall not be diminished or impaired. (New. Adopted by Constitutional Convention of 1938 and approved by vote of the people November 8, 1938.).
Massachusetts:
In *Opinion of the Justices,* 364 Mass. 847, 303 N.E.2d 320 (1973), the Justices opined that increasing the rate of contribution for current members of the retirement system without increasing benefits would be presumptively invalid. *Id.* at 863, 303 N.E.2d 320. Increasing the rate for newcomers, however, would encounter no constitutional difficulties. *Id.* at 866, 303 N.E.2d 320. The Justices stated that the expectations of a member "have their origin in the terms of the plan as they apply to him when he enters upon employment and *becomes a member* ..." (emphasis supplied). *Id.*
McIntire v. Contributory Ret. Appeal Bd., 417 Mass. 35, 38, 627 N.E.2d 910, 912 (1994).
Rhode Island:
National Educ. Ass'n—Rhode Island v. Retirement Bd. of the R.I. Employees' Retirement System, 172 F.3d 22 (1st Cir.1999), *cert denied, Casey v. Ret. Bd. of the R.I. Employees' Retirement Sys., 528 U.S. 929, 120 S. Ct. 326, 145 L. Ed. 2d 254 (1999.*
Connecticut (before Collective Bargaining):

Then there's the implied premise that we need to make this change because there is something wrong with our current pension system. Our current pension system, created by collective bargaining is well-funded and our benefits are fair but moderate – a true asset to our state and its people. That fact was verified by the independent experts at Boston College's Center for Retirement Security. Final Report - CRRC Boston College. Indeed, for an example of how moderate our current plan is, consider an employee who started 30 years ago, at age 32, and retires today making $65,000 a year. That employee's pension would be $27,300 per year. Moderate indeed.[4]

We do have a funding issue which we recently addressed through our pension funding agreement. But that issue was created not because we have collective bargaining now, but because we didn't have collective bargaining then. The State Employees Retirement Plan was created by legislation in 1939 and until 1971, the General Assembly didn't prefund its pension promises at all – that is, forget about making payments towards an unfunded liability, the General Assembly didn't even put money away for the normal costs of pensions going forward.

Even after 1971, no reliable and enforceable program of prefunding pensions was created until the State was required to collectively bargain pension funding in the early 1980's. With collective bargaining, we created our new pension Tiers which are moderate and sustainable. And we created, for the first time, a legal obligation to actually fund the pension system which could not be undone simply by putting the words "notwithstanding" into any piece of pending legislation. In other words, follow the Commission's recommendations and you put pension funding back into the hands of legislative whim – exactly the disastrous situation our plan was in before collective bargaining finally created the binding legal obligation to prefund pensions in the early 1980's. Simply put – for the people of this state, that's a really bad idea. So the implied premise that somehow collective bargaining has done something bad to public pensions and that eliminating collective bargaining of pensions would fix that has it exactly backwards.

As part of protecting public services and improving the State's financial health, Connecticut's state workers through SEBAC 2017 provided nearly 1/3 of the savings needed to balance the budget, over $24 billion in savings over 20 years. Much of that savings, legal through collective bargaining, would be unlawful in New York, Massachusetts, and much of the country. A few months earlier, through collective bargaining, we reached a funding agreement which *binds* the state to a stable and reliable funding mechanism that provides an affordable way to pay of debts accumulated when Connecticut's pension funding was set as the Commission recommends – by legislative fiat. Blithely ignorant of the law and the history, the Commission not only recommends moving backwards on pensions, it conditions all of its other recommendations on the whole state agreeing with them. Arrogance indeed.

5. **Amend binding arbitration laws to permit award of compromise outcomes.**

The only explanation given for this recommendation was in the verbal presentation by Committee chairs that "our municipal friends asked for this." Connecticut uses so-called "last best offer" arbitration, in which on any given issue, the Arbitrator must choose the position of the party that is most rational based upon the statutory factors set by the General Assembly. He/she is not allowed to

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Pineman v. Oechslin, 195 Conn. 405, 488 A.2d 803 (1985).

[4] The Commission may have been confused by a different benefit plan, Tier 1, which did have a more generous benefit structure, but was closed to new members, through collective bargaining by the parties, effective in July of 1984. Boston College indicates that the main cause of unfunded liability for the state was the General Assembly's failure to fund that long closed plan.

compromise. The theory is this encourages the parties to compromise, since if their position is less rationale than their opponent's on an issue they will lose on that issue. Allowing the Arbitrator to select a compromise, by contrast, encourages the parties to stick to more extreme positions in the fear that if they compromise to what they really need, and their opponent hasn't compromised, the arbitrator will chose a middle position that that is therefore really closer to their opponents. Thus the current last best offer system encourages more settlements, decreases arbitration costs, and reduces the differences in the positions of the parties if they do go to arbitration. Indeed, the last time the General Assembly checked the numbers, in 2006, between FYs 02-05, arbitration was used for only 10 percent of teachers' settlements and 4 percent of municipal settlements. Teachers and Municipal Binding Arbitration.

If the theory that last best offer arbitration works and encourages reasonable settlements is incorrect in any way, the Commission certainly provides no evidence of that. But once again, we must agree with their recommendation, or do nothing.

6. **Develop and implement a plan to cut $1 billion out of annual operating expenses.**

This recommendation is illustrative of the Commission's failure to actually grapple with the real issues facing the state. Obviously when facing a budget deficit, one looks at raising revenue, and cutting expenses. What makes this part of a "bold and creative" recommendation? You have to read it yourself:

> **Non-Fixed, discretionary cost management:** The state, under Governor Malloy's leadership, has made excellent strides towards controlling discretionary spending. In fact, non-fixed costs have declined from a peak of $10.1 billion in FY09 to $9.1 billion in FY17. However, based on the experiences of Massachusetts and Pennsylvania, a bold and comprehensive review led by a nationally prominent third party consultant such as Bain, Boston Consulting Group or McKinsey & Co. would likely result in expense optimization plans and actions to reduce the non-fixed costs by another $1 billion without adversely impacting the social service outcomes of the state. This estimate has been reviewed by one of these firms and is considered achievable with a high level of confidence.

Those with experience in state and local government know that consultants – whose business model depends on convincing public officials that they need consultants – need to be looked at with a grain of salt. Or many. But these are freshmen Very wealthy freshmen, since to "support" their Commission without being bound by the state's bidding and freedom of information rules, they formed a non-profit corporation, and issued a no-bid contract to a national consulting group, McKinsey and company. And an amazing coincidence occurred. The Commission made a recommendation that it could say with "high confidence" that a billion could be saved by hiring a national consulting group because well McKinsey told them so. "This estimate has been reviewed by one of these firms and is considered achievable with a high level of confidence." Freshmen naivete can be refreshing, but sometimes it's simply foolish.

Indeed, in one of their ancillary suggestions, the Commission says "the governor should promulgate a policy favoring privatization or outsourcing of state functions where that would enhance both service quality and cost effectiveness." One can, of course, cut the cost of services by paying employees near minimum wage, but there is little likelihood that by doing so one "enhances service quality." Indeed the State's Department of Transportation, under the prodding of the Contracting Standards Board (a state agency created after we learned just how much damage then Governor Rowland did through private contracting) has done studies showing that hundreds of millions of dollars could be saved by developing the capacity to do critical transportation projects in house instead of using expensive contractors. See, for instance: Cost Eval Highway Bridge Inspection; Cost Eval RR Bridge; Cost Eval Large Renewals. Nothing has been done to implement that conclusion. The Contracting Standards Board, evaluating several years of required submissions by agencies and the Office of Policy and Management about unbid contracts and personal services agreements determined that changes in procurement practices affecting the state's billions of dollars in already contracted out services could save between $174 million and $264 million annually. Again, in 76 days, the Commission simply lacked the time to judge between self-serving claims about quality and savings, and actual scientifically supported studies about where real savings can be had.

7. **Reform the Teachers' Retirement System to lower costs and to make it sustainable by paying down unfunded liabilities.**

This innocuous sounding recommendation is, because of its disingenuousness, one of the most dangerous. Is the current teacher's retirement system not "sustainable?" The most recent actuarial valuation, done after the General Assembly raised teacher's retirement contributions by 1%, shows a normal cost of 10.6%, 7% of which is paid for by the teachers, only 3.6% by the state. Actuarial Report TRS. Is there even a straight face argument that this amount, paid in order to not only recruit teachers but to encourage them to remain teachers within our state for a year is "unsustainable?"

Now since we avoid being disingenuous, let us concede that the teachers discount rate – the assumed rate of return on investments over a 30-year period – is high at 8%. And let us assume that the rate got lowered to what the state employee rate is set at 6.9%, one of the lowest in the country.[5] This would raise the normal cost of the teacher's plan to around 14%, but the teachers would still be paying 7% and now the state 7%. Is that amount unsustainable? Of course not. In fact, teachers, unlike private sector employees (and many public-sector employees) are not covered by Social Security – which of course saves the employer 6.2% of payroll, meaning that the real cost of providing retirement security for teachers, is .8% of payroll. Less than an employer making a 1% contribution to an employee's 401(k) plan!

Yet the Commission is absolutely insistent we need "benefit reform" -- meaning, of course, cutting benefits. What could be the possible justification for that?

What the Commission focuses on is the unfunded liability of the Teachers Retirement System. The unfunded liability was created, almost in total, by the General Assembly's failure to make the required contributions into the fund – teachers have always paid their share. Unlike the State Employee plan, the Teacher's retirement plan is not collectively bargained, so there has been no contract forcing the General Assembly to pay its share. For decades, therefore, it has willfully failed to do so. It is that willful failure that means that the employer pays over 30% of payroll. It's not the ongoing cost of the system at all, but the need for the General Assembly to fund its past failures.

In recent years, the State tried to get some of the benefits of the contractual discipline it gets from a collectively bargained funding requirement by putting funding covenants into bonds it sold to contribute towards the TRS liability. As compared to a collective bargaining agreement, this has produced a cumbersome and unwieldy result since collective bargaining agreements can be changed by mutual agreement of the parties when the circumstances so warrant, and bonds once sold are very difficult to change. The result is that while the state employees system is now on a flat sustainable program to pay off the debts the General Assembly incurred before collective bargaining, the Teachers System is left

[5] The National Association of State Fund Administrators report shows 7.5% as the median investment return assumption, and less than a 7% return assumed by fewer than 10% of states. NASRA Survey (Figure M).

with a "balloon payoff system" which indeed is a problem that must be solved. So what would an educated, professional group of Commissioners say about this situation?

Certainly it might ask how we can improve funding situation of the Teacher's Retirement System. It might even ask if we should collectively bargain that system, rather than leave the General Assembly to its own unreliable devices. But we don't have to guess about the types of ideas that should be considered. The Center for Retirement Research of Boston College – unlike McKinsey a non-profit set of experts with no personal interest at stake in their review – analyzed the funding issues with both the State Employee System and the Teacher's System. See Final Report - CRRC Boston College.

The Center made thoughtful suggestions for both the SERS plan and TRS. Because the former is collectively bargained, the parties were able to implement all the best ideas in the report with relative ease. As the report notes, it is more difficult but not impossible with TRS due to the bond covenants. Lots of good ideas there, and no attacks on benefits. But the freshmen on the Commission? They destroy the positive impact of any good ideas they might have – such as considering replacing the inflexibility created by the bond covenant through using dedicating lottery revenues to reduce the unfunded liability -- by their adamant insistence that nothing be done to address the system's pension funding issues unless we first commit to reducing benefits for teachers.

And will reducing benefits also reduce the power to the plan to recruit and retain good teachers, thereby damaging public education for our children? Not only is this a question the Commission doesn't know the answer to, it's a question the Commission doesn't even know enough to ask.

8. **Reinvest in transportation and cities, and build a major new STEM campus in one city in partnership with a major research university.**

This is not a bad idea, so much as a missed opportunity. The Transportation proposals are mostly a reiteration of ideas that have been pressed for years, and there is certainly no harm in repeating them. Improving transportation infrastructure is indeed one of the solutions to long term growth.

But the cities: One labor leader presenting to the Commission made the point the Connecticut's system of 169 separate towns, each no larger than an easy roundtrip ride on horseback was a great way to run the state – in the 18th century. In the 21st Century, as the Commission noted in its report:

> Cities are a critical asset to all of our state's residents, whether they live there or not. Vital urban cores make for strong regions and support the entire metropolitan area and state with critical cultural, health care and higher education institutions. Given our focus on economic growth, vital cities are especially important because that's what job creators want in order to draw the talent they need.
>
> In Connecticut, cities are challenged by several structural factors: they are relatively small and lack the ability to grow by annexation, there are no strong regional governments with which they can plan joint projects and share benefits and burdens and they are uniquely burdened by their concentrations of tax exempt property. Most importantly, they are saddled with high property taxes that disadvantage them in the competition for businesses and residents. "While business owners and developers of housing for millennials must pay 74.29 mills on the assessed value of their property in Hartford, property tax rates in towns such as Simsbury, Bloomfield, Windsor, Wethersfield, Rocky Hill and Newington are less than 40 mills."
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> The issue of urban schools cannot be ignored when discussing cities. Without good schools, Connecticut cannot have stable and attractive city neighborhoods. The Commission appreciates the complexity of this subject and has no legislative proposals to advance at this juncture, but Appendix 5 suggests a range of administrative steps that should be considered.

Such a lost opportunity. The Commission's recommendations to address this problem, aside from unsupported attacks on collective bargaining discussed above and one additional one[6] do little to remedy or even call out this perhaps most significant of Connecticut's challenges. The high-profile corporate moves that have generated so much attention in recent years have not been to low tax, rural states, but to high tax, vibrant and diverse cities like Boston and New York. Presenting to the Commission, labor leaders urged courage on this difficult issue:

> The Commission has the ability to raise issues to political prominence that are hard for the General Assembly to address. Contrary to the propaganda put forth by the Yankee Institute, these are not issues of collective bargaining. Collective bargaining statutes have been passed and tweaked countless times by the normal rules of the legislative process.
>
> But "home rule" and its impact on urban isolation and racial segregation – never. GE is moving, and Aetna almost moved, but not to low cost states. And not to low tax states. It was to states with vibrant, diverse, and economically sustainable urban areas. Due to home rule, the elimination of county government, and the belief that our economically dependent suburban towns owe no support for their urban anchors, Connecticut's few cities rank among the poorest in the nation. Our Capitol city, for instance struggles from the high percentage of non-taxable entities within its borders. But even more it suffers from the illusion that its neighboring suburbs, economically dependent on the center city, have no responsibility for the City's future. Similar things could be said about almost all of Connecticut's urban areas. If Hartford was the same square miles as Boston, it would include most of West Hartford, Glastonbury, Wethersfield, and so forth. What would we say then about Hartford's economic future, or its ability to attract families, businesses, and economic growth. If we made it the size of New York in square miles, we'd add most of Avon, and Newington.
>
> Issues of class and race help obscure the mutual interdependence of Connecticut's urban and suburban areas, and help make Connecticut less attractive to the best businesses which prefer economically stable, racially and ethnically diverse areas like Boston and New York. This Commission has an opportunity to say forthrightly that Connecticut's 18th Century concepts of home rule not only suffer from the moral failure of reinforcing segregation and racial inequality, but make it a less attractive environment for businesses and families and economic growth. With all the seeming differences between them, it is not easy to tell the people of Avon that they are mutually dependent on the people of Hartford, and vice versa – that the region and the state have one future, and that the High Road towards a better Connecticut does not tolerate a future that discriminates by race, or gender, or zip code But this Commission does not need to take the easy road.

Unfortunately, the Commission did not follow this advice. A tiny nod to cities with a .5% sales tax, and convening more public-private partnerships will do little to cause the people of Avon to recognize their mutual dependence on the people of Hartford, Fairfield with Bridgeport, etc. This courageous commission failed to use the words "race" or "class" oncein its 119-page report. A CEO-led commission whose mission includes "achiev[ing] consistently balanced and timely budgets that are supportive of the interests of families and businesses ***and the revitalization of major cities within the state***" (emphasis added) issues **a 119 page report that mentions inequality twice, class and race issue not at all**. And then asks that we consider it courageous. We don't.

[6] The Commission also throws in an unsupported attack on prevailing wage, just to make sure its clear that all working families need to lose if the state is to move forward.

9. **Undertake a series of growth initiatives, led by the executive branch, with the funding and support from the legislature to (1) develop and retain the workforce Connecticut needs, (2) support the growth of Connecticut's highest-potential economic sectors and (3) transform the business environment for entrepreneurship and innovation.**

There are some good ideas here and perhaps some missing, including further support for green jobs and energy, and most clearly, special focus on state support for businesses that pay a living wage, remain in the state, and have benefits that support families and communities. There is a little too much focus on growth for growth's sake, instead of growth that improves the quality of lives for families and communities. But as their recommendations go, this one is helpful. And again, is in their view, for some reason tied into accepting all of their bad ones.

10. **Diversify municipal revenue streams beyond the regressive property tax and stimulate regional service delivery**.

Again, we see a deficit of courage. The Commission starts this section with a telling sentence:

> By way of preface to our recommendations in this section we believe that Connecticut's landscape of 169 separate towns and no county government is not likely to change soon, and the Commission chose not to tilt at those windmills. However, important steps can be taken to support our municipalities and their efforts at regional collaboration.

Of course, the courage to make politically risky suggestions is the reason we create unelected commissions that never need worry about reelection. But even leaving that aside, one doesn't have to eliminate towns, and perhaps not even create county government to do more about the critical isolation of our cities than make unsupported attacks on collective bargaining and suggest slightly strengthening regional cooperation efforts. The Commission has no problem suggesting municipal unions be *required* by the General Assembly to bargain in coalition when regional efforts occur. This is not necessarily a bad idea – labor leaders have repeated suggested municipal coalition bargaining – but note that the Commission remains comfortable *requiring* this of labor, but fears to require anything at all in terms of cooperation between towns or most importantly between town and cities. That's apparently "tilting at windmills." Fair, balanced, and courageous indeed.

Unfortunately, the suggested solutions fail even to propose significant reform of Connecticut's dependence on property taxes, an area in which we are the worst in the nation. Many ideas for property tax reform exist, and every single other state does it better than we do. The Commission makes only the most timid suggestions for reform.

III. CONCLUSION

This analysis comments only on the major findings and recommendations of the Commission. There are many ancillary suggestions that unlike their "big 10" are not insisted to be linked into an "all or nothing." They are presented as one would have expected a series of brainstorms gathered in a short time to be presented – as likely to contain some good ideas, and some bad, but worthy of further study. The main report, unfortunately, is presented the opposite way.

Union leaders presented these principles in their conclusion to their written presentionCommission on February 9th of this year:

1. **We must take the high road, not the low road, to economic growth.**
2. **We must use living human math, not stilted math, in our budgeting decisions.**

3. **We don't have two economies – we have one economy.**
4. **A good, stable, long service workforce is an asset to be proud of and support, not a burden or a punching bag.**
5. **Reality Matters. Remember: "We don't know but we'll find out" is better than making it up. We need to find out what revenue structure is efficient and fair for state and local government**
6. **The High Road needs Strong Unions.**
7. **Honesty and Courage Matter. We need to confront and resolve the urban isolation and segregation that holds back our "High Road to a Better Connecticut."**

But for this CEO-dominated group of mostly rookies in public finance, government, labor relations and democratic decision-making, these principles, like the mission the General Assembly gave it, was just too hard an assignment. There are some good ideas in the Commission's report – and some very bad ones. The arrogance of these freshmen is that they tell us that only if we swallow all of them as a whole, the good with the bad, are we doing them justice.

This arrogance is one of the reasons for the Report's failure. Without that, their ignorance on issues like labor relations, taxation, and public economics could perhaps be forgiven for a 76-day semester. But the other reason, the lack of courage, makes the failure of this Report to meet this Commission's mission unavoidable.

The Commission's report is multi-colored and slick – looking like a stock prospectus for a "can't lose purchase opportunity." The help from McKinsey and Company, which obviously hopes to land a major contract if this report were fully implemented, is more than evident. Less than evident, however, are the types of real, balanced and courageous solutions our state needs.

There are answers to Connecticut's many problems, answers that transform our 20th century to a 21st revenue system, address our 18th Century system of 169 townships, income inequality, racial and isolation, and elevate the role and value of working families, strong communities, and good businesses that contribute to those communities. Answers that require honesty, courage, and frankly a lot more knowledge that we can expect freshmen to gather in their first semester. We can find them together – but apparently not in Freshman 101.