Members of the committee
My name is Rick Melita and I am with the Service Employees International Union

Last year, the Legislature took the unusual step of outsourcing public -policy-making to a body dominated by CEOs and multimillionaires making recommendations on how to fix the state's budgetary problems. These business men and women evidently believe "government should be run like a business". As expected, this group- dubbed by some as the 1% commission- came up with a 1% solution.

At the federal level, government is being run like a business, unfortunately the business is the Trump Organization, a clown show of corruption and chaos.To the surprise of absolutely no one- this commission tore out a page from the Trump playbook: wrap a populist idea, like increasing the minimum wage, with colossally bad ideas, like gigantic tax cuts to the already rich and privatization schemes that benefit corporations not Connecticut citizens.

What is surprising is how they went about doing it. According to news accounts- they set up an off the books enterprise, hired a PR firm, and apparently are about to embark on a campaign not only to fight for those poor rich people, but to undermine collective bargaining for state employees, privatize services and sell off our assets.

I have 3 minutes- so little time, so much to dislike about this proposal - so I will try to focus on a few key areas:

1. **This is an ideological document….**

To quote from a report from the People for the American Way [1]

> Central to the predatory privatization push is the desire by right-wing leaders to delegitimize and disempower public employees and the unions they represent. That's why the top priority of many newly elected Republican governors and legislators, many of whom are part of ALEC or are ALEC alums, has been to aggressively attack public employees'' jobs as well as their bargaining rights.
>
> The soil for these attacks has been fertilized over the years by the efforts of right-wing think tanks to create and sustain the accepted wisdom that public

[1] the People for the American Way, Predatory Privatization: Exploiting Financial Hardship, Enriching the 1%, Undermining Democracy
July 2012

employees are greedy and overpaid, enjoying unfair wages and benefits while taxpayers suffer. The Economic Policy Institute [2] has challenged the myth of the overcompensated public employee.

According to Jeffrey Keefe of Rutgers University. "Public sector workers' compensation is neither the cause, nor can it be the solution to the state's financial problems. Only an economic recovery can begin to plug the hole in the states' budgets. Unfortunately, the states' own current budget balancing efforts may prolong the economic downturn by increasing unemployment and reducing demand for products and services."

The politicians and corporate interests that promote the notion of greedy public servants are, of course, the same ones working to keep pay and benefits low in the private sector. They back policies that ship jobs overseas (another part of the ALEC "free trade" agenda) and keep wages low at home, then try to stir resentment among low-wage workers toward public employees whose wages can support a middle-class family. In other words, they are essentially arguing that low-wage jobs with few benefits should be the standard for all workers, an approach that fits the middle-class-destroying agenda of the corporate right and its GOP allies. ALEC's agenda on wages is a race to the bottom for workers not in the executive suite.

2. **….filled with unsound ideas**

The report speculates that the State can net some undetermined amount from asset sales and privatization- ignoring past experiences like Chicago, where privatization of parking meters and garages has been a bad deal for parkers and an even worse one for taxpayers[3]

A few years ago, Chicago residents accustomed to parking on the street got a rude shock. Parking-meter rates had suddenly gone up as much as fourfold. Some meters jammed and overflowed when they couldn't hold enough change for the new prices. In other areas, new electronic meters had been installed, but many of them didn't give receipts or failed to work entirely. And free parking on Sundays was a thing of the past.
The new meter regime sparked mass outrage. People held protests and threatened to boycott. But there was little recourse: The city had leased its 36,000 meters to a private Morgan Stanley-led consortium in exchange for $1.2 billion in up-front revenue. The length of the lease: 75 years.

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[2] https://www.epi.org/publication/debunking_the_myth_of_the_overcompensated_public_employee/
[3] Privatization backlash,The Atlantic April 23, 2014

> If the meter situation seemed like a bad deal for Chicago's parkers, it would soon become clear that it was an even worse one for the city's taxpayers. An inspector general's report found that the deal was worth at least $974 million more than the city had gotten for it. Not only would the city never have a chance to recoup that money or reap new meter revenue for three-quarters of a century, clauses buried in the contract required it to reimburse the company for lost meter revenue. The city was billed for allowing construction of new parking garages, for handing out disabled parking placards, for closing the streets for festivals. The current bill stands at $61 million, though Mayor Rahm Emanuel has refused to pay and taken the case to arbitration instead.

Or in Arizona which sold its state capitol in 2009[4] for approximately $1 million only to buy it back three years later for over $100 million [5]

Or in California where the Legislative Analysis Office evaluated a Sale-Leaseback proposal that would balloon costs:

> *Major Up Front Benefit*…The major benefit of the sale–leaseback transaction is the one–time revenue from the sale of the buildings. Proceeds from the sale would first retire the bonds associated with the buildings, while the remainder would provide one–time revenue to the state's General Fund. The 2010–11 Governor's Budget estimates sale proceeds would provide $598 million to the General Fund. In the report, we find that the Governor's estimate represents the low end of what the state could expect to receive and that one–time revenue could be $1.4 billion under more optimistic assumptions.
>
> ...*But Higher Annual Costs.* While the sale–leaseback would transfer the state's costs and risk of owning the buildings to the new owner, the state would make ongoing lease payments to the new owner that would be greater than the amount the state currently spends to own and operate the buildings. We estimate leasing the facilities would cost $30 million more than ownership in the first year and continue to increase over time—eventually costing the state approximately $200 million more annually than maintaining ownership.
>
> Evaluating the Transaction. In deciding whether to endorse the sale–leaseback during the 30–day review period, the Legislature will need to

[4] The States' Stupid Budget Tricks- http://www.governing.com/columns/smart-mgmt/The-States-Stupid-Budget.html

[5] Mother Jones, January 11 2012 https://www.motherjones.com/politics/2012/01/arizona-wants-buy-back-state-capitol-it-inexplicably-sold/

> consider whether the benefit of the one–time revenue from selling the facilities would be large enough to compensate for the higher costs in subsequent years. After taking into account the one–time revenue that the state would receive in the first year and converting the future costs into today's dollars, we estimate the transaction would cost the state between $600 million and $1.5 billion. The Legislature will need to weigh how these costs compare to other alternatives for addressing the state's budget shortfall. In our view, taking on long–term obligations—like the lease payments on these buildings—in exchange for one–time revenue to pay for current services is bad budgeting practice as it simply shifts costs to future years. Therefore, we encourage the Legislature to strongly consider other budget alternatives. And, more specifically, we recommend the Legislature reject the sale–leaseback if the sales revenue is at the lower end of the range presented in this report—near the Governor's revenue estimate, for example—*as the costs would be equivalent of long–term borrowing at double digit interest rates.(emphasis added)*[6]

For a report that ostensibly is a response to pension unfunded liability- it is shocking that it could recommend a new source of ongoing unfunded liabilities. To paraphrase Orwell's line from Animal Farm: liability to Connecticut retirees, bad. Bigger liability to hedge funds, good.

3. …developed by consultants with questionable track records

A pennywise- pound foolish proposal like leaseback begs the question - who would peddle this bad idea? Not too surprising, it's a consulting firm that had a hand in the Puerto Financial crisis. While the Millstein Company may not have caused the meltdown, it managed to extract $26 million[7] from the broke commonwealth while not making it any better off. During their tenure, vulture capitalists were sold Puerto Rican debt for pennies on the dollar, and given preferential treatment in repayment.[8] Meanwhile, public sector employment declined by a fifth, and pensions were slashed.[9] It was fired after a contentious election by the incoming new Governor in 2017[10]**.**

[6] www.lao.ca.gov/reports/2010/edu/sale_leaseback/sale_leaseback_042710.aspx

[7] https://www.bloomberg.com/news/articles/2017-06-12/puerto-rico-finds-going-bust-isn-t-cheapas-consultant-fees-rise

[8] https://www.thenation.com/article/how-hedge-and-vulture-funds-have-exploited-puerto-ricos-debt-crisis/

[9] https://fas.org/sgp/crs/row/R44095.pdf

[10] https://www.reuters.com/article/us-puertorico-debt-advisers/rothschild-replaces-millstein-as-puerto-rico-financial-adviser-idUSKBN1522J0

In a recent Bloomberg video[11], company founder Jim Millstein ruefully opined that since federal government spending is insufficient to meet the country's infrastructure needs, it needs to privatize.. What he fails to mention is that the shrinking expenditures on critical public needs have been caused by the right wing's fetish for tax cuts. Less taxes balloon deficits, which cause deficit chickenhawks to call for austerity. So because wealthy individuals and corporations have been successful in depriving government the funding it needs, Mr Millstein suggests that wealthy individuals and corporations get to make still more money through privatizing water systems, airports and other public assets.

4.…hired by wealthy CEOs

On February 9, 2018, Commissioner Bigelow fretted about how unfairly the state is treating its wealthiest residents. Well don't worry, not only will they be the beneficiary of Trump's giveaway to wealthy corporations and the idle rich, this Commission recommends that we do away with the state estate tax. Good news for those trustafarians who had the foresight to pick wealthy parents.

The co-chair, former Webster Bank CEO James Smith evidently believes that government assets should be liquidated to pay its bills, but 10 years ago when the financial system was capsizing and bad decisions nearly caused banks to drown in debt- he was described in the Hartford Courant as grabbing a "life jacket for Webster" and accepting $400 million in TARP bailouts[12].

> Just as Webster Financial received approval for $400 million in TARP funding in November 2008, the bank was in mired in one of the worst quarters since it was founded in 1935.
>
> Webster would suffer the biggest quarterly loss in its history; it would slash its dividend on common shares from 30 cents to one cent; and cut 200 jobs, almost all in Connecticut. The bank's troubles were touched off by losses from home loans made outside of New England and deepened by the recession… "It was such an uncertain time," Smith said. "We wanted to make sure we could weather any storm."…

[11] https://www.bloomberg.com/news/videos/2017-06-06/millstein-privatization-needed-for-infrastructure-video

[12] https://insurancenewsnet.com/oarticle/TARP-5-Years-On-Connecticuts-Return-On-Investment-%5BThe-Hartford-Courant%5D-a-407265

> (John) Carusone, the bank industry adviser, said accepting the federal funds worked out well for Webster. "It was a life jacket, but they wouldn't have drowned," Carusone said.

Mr. Smith has long contended the bank really didn't need it.
Did Webster use the money wisely?
That was a question raised by the Middletown Press in an editorial:

> Is this where our tax dollars went?
> It was reported this week that Waterbury-based Webster Bank plans to open up a flagship branch in downtown Boston. The new branch will offer a range of services, it was reported, including "asset-based lending, government finance services and commercial real estate lending."
> Well, isn't that lovely?
> Webster only recently received $400 million out of the U.S. Treasury's $250 billion Capital Purchase Program. The company has reported $18 billion in assets and executives said that the bank didn't need the money from the bailout.
> They didn't need it -- so, instead of returning the funds, or passing all the money on to customers in the form of loans, they decided to boost a sagging stock value and increase their foothold in New England.[13]

To be fair to Mr. Smith, agreeing to accept TARP cost him not only his adherence to free market principles -it cost him money too. His ong-term incentive payment in 2009 could not exceed $922,233, compared to $1.5 million in 2008.[14] How you can survive on a mere high six figure incentive payment is beyond my comprehension. Obviously- another example of how shabbily government treats its most fortunate citizens.

I don't want to pick on Mr. Smith too much. I do not fault Mr. Smith for taking TARP. I fault him for seeming to think government is there to take care of his needs, not the needs of all our citizens.

Remember the quote from the Courant "It was such an uncertain time..We wanted to make sure we could weather any storm." It was an uncertain time to say the least- I imagine Mr. Smith was scared about losing the bank his father had built in the depths of the depression. I imagine he was worried about events beyond his control that would lead to bankruptcy. I imagine he was scared about

[13] Middletown Press, January 3, 2009
[14] Hartford Business Journal 8/31/ 2009 After Bailout, Compensation Crackdown

losing his shirt. Almost everyone was scared shirtless about the economy back then.

The banking industry advisor said things had worked out well for Webster. "It was a life jacket, but they wouldn't have drowned”.

Well isn’t that the whole point of having life jackets available anyway? To minimize the risk of drowning -even if you don’t happen to capsize that particular day.

And isn’t that the role of government- to be a life jacket in the event that misfortune threatens to drown you. That government life jacket should be there to protect all of us, not only those who travel in first class but those who are in steerage as well.

It’s not surprising that the Commission as constituted and its consultant would come up with these ideas. If you empaneled a group of accordionists you would get a treatise on the State polka. If you had a group dominated by foxes they would produce a white paper on hen house security. Out of touch CEOs will come up with plans that impose hardship on working families while comforting the ultra-comfortable.

The best idea in this report- raising the state’s minimum wage - should be voted on as a standalone bill. Otherwise we urge you to reject this commission’s findings.