REVISED

Commission on Fiscal Stability and Economic Growth's Recommendations

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March 16, 2018 | 2018-R-0097

Issue

Summarize the recommendations of the Commission on Fiscal Stability and Economic Growth.

Commission's Final Recommendations

Table 1 summarizes the commission's recommendations, grouped according to the following categories, and indicates whether the commission directed the recommendation to the legislature, Governor, or Office of Policy and Management (OPM):

- Tax Rates and Structure
- Wages
- State Spending and Fiscal Controls
- State Employee and Retiree Pensions and Benefits
- Transportation Finance and Infrastructure
- Cities
- Municipal Revenue Sources and Regionalism
- Economic Growth (Highest Potential Sectors, STEM Talent, and Entrepreneurship and Innovation)

The recommendations in bold are those that the commission noted were the most important for immediate action. According to the commission's final report, it intended its proposals to be enacted as a package in 2018, with certain tax rate changes being phased in over a number of years.

Table 1: Overview of the Commission on Fiscal Stability and Economic Growth's Recommendations

Recommendation[1]	Directed to
Tax Rates and Structure	
Reduce personal income tax rates over three years, from 7 brackets with rates ranging from 3% to 6.99% to 3 brackets with rates from 3.5% to 5.75%	**Legislature**
Impose a 0.8% payroll tax on all companies, regardless of structure, but exempt the first nine employees and reduce the rate to 0.4% for the next 10-99 employees (It is unclear whether the exemption applies based on compensation, length of service, business size, or some other measure.)	**Legislature**
Analyze the possibility of a business value or corporate activities tax, including the repeal of the business entity tax	**Legislature**
Increase the sales tax from 6.35% to 7.25%, beginning in FY 20	**Legislature**
Reduce tax expenditures by about 14%; require the Department of Revenue Services (DRS) to develop options to reach this goal	**Legislature**
Require DRS to pursue all reasonable avenues to tax online sales, including reviewing Minnesota's approach	**Legislature**
Eliminate the gift and estate taxes immediately	**Legislature**
Wages	
Increase the minimum wage in steps, from $10.10 to $15 per hour by 2022; first step increase is to $11 in 2018	**Legislature**
State Spending and Fiscal Controls	
Conduct a review (with public hearings) on how the recently enacted spending, volatility, and bonding caps operate and interact with each other, including any unintended budgetary implications	Legislature
Delay, from May 15, 2018 to the end of the 2019 session, the effective date of the bond covenant provision tied to the new volatility cap; in the interim, consider whether the covenant's purposes can be achieved by other means	Legislature
Modify the legislature's budget approval process by creating a new Joint Budget Committee to establish aggregate spending and revenue targets	**Legislature**
Appoint a public-private commission to propose enhancements to legislative capacity and process, in order to address the growing complexity of managing the state's finances and operations	Legislature

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[1] Recommendations in bold are those that the commission noted were the most important for immediate action.

Table 1 (continued)

State Spending and Fiscal Controls (continued)	
Reduce discretionary state spending (i.e., non-fixed costs) by $1 billion by contracting with a third-party consultant to conduct a comprehensive review of the state's discretionary spending and produce an "expense optimization plan" that does not adversely impact the state's social service outcomes • **Consultant conducts a 4 to 6 month review of discretionary costs and presents its findings to the incoming governor and legislature after the November elections** • **Four-year implementation period** • **Identify potential opportunities for savings in the short-term (e.g., use shared services across central state functions), intermediate-term (e.g., review the state's healthcare marketplace for potential care delivery innovations), and long-term (e.g., comprehensively diagnose performance of tax and revenue collections)**	**Governor**
Enact a policy promoting the privatization of state functions where doing so would increase service quality and cost effectiveness (e.g., home and institution-based social services and John Dempsey Hospital)	Governor
State Employee and Retiree Pensions and Benefits	
Vest in the legislature the authority to determine state employee and retiree pension and health benefit formulas, funding, and job protection policies, rather than having these benefits and policies set through the collective bargaining process • **These requirements would take effect upon the termination or renegotiation of the existing SEBAC contract** • **Make these statutory changes a precondition for the proposed tax changes to take effect** • **Require the comptroller to certify that any financial or actuarial assumptions the legislature uses in exercising this authority are financially prudent and consistent with best practices**	**Legislature**
Address the underfunding of the Teachers' Retirement System (TRS) by revising its benefit structure, funding policy, and amortization schedule, in exchange for the contribution of state lottery revenue to the TRS for a 30-year period; make the restructuring of the amortization schedule contingent on benefit reform	**Legislature**
Reduce the State Employees' Retirement System's unfunded liabilities by a minimum of $13.6 billion; possible funding sources include higher minimum contributions, dedicated revenue streams to the system, or surplus revenue	Legislature
Appoint a public-private taskforce to analyze the SEBAC agreement • Analysis should consider various things, including the (1) adequacy of Tier IV benefits for attracting new workers; (2) likelihood of disruptive early retirements due to recent contract changes; (3) potential to use structured financial transactions to pay down unfunded liabilities; (4) ability to implement privatization initiatives and related employee protections; (5) need for a hiring freeze; (6) options for removing certain quasi-public entities from the contract; (7) relative equity of benefits between different employee tiers and classifications; and (8) comparability of wages, benefits, and funding policies to neighboring states and the private sector • Based on results, governor should reopen the current SEBAC contract on a voluntary basis	Governor

Table 1 (continued)

Transportation Finance and Infrastructure	
Dedicate additional revenue streams to the Special Transportation Fund (STF) to replenish the fund, specifically: • **An increase of at least 7 cents over four years in the motor fuels tax** • **Maintain the half cent of sales tax currently contributed from the General Fund** • **Immediate transfer to the STF of sales and use tax from motor vehicle sales (rather than five-year phase-in under current law)** • **Tolls on major highways**	**Legislature, Governor, and OPM**
Enact a constitutional amendment creating a lockbox to protect the STF's revenue	Legislature, Governor, and OPM
Direct to the STF transportation revenue streams that do not flow though the General Fund so it can become self-sustaining without reliance on sporadic special funding	Legislature, Governor, and OPM
Prioritize capital projects that have the greatest likelihood of producing economic growth; deprioritize others while maintaining a state of good repair for the system as a whole (identifies select highway, rail, air, bus transit, and port projects that should be prioritized)	Legislature, Governor, and OPM
Intervene, as necessary, to ensure the Department of Transportation (DOT) has the capacity to expedite projects that foster economic growth, including expediting local government approvals and permits	Legislature, Governor, and OPM
Limit DOT bonding to special tax obligation bonds (STO), which should be used only for limited long-term projects and not DOT operating expenses	Legislature, Governor, and OPM
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Enact legislation authorizing new state funding sources and public-private partnerships to allow Connecticut to use new federally or privately funded infrastructure programs, thus addressing limitations in the current STF bond program	Legislature, Governor, and OPM
Direct adequate human resources to DOT, the CT Airport Authority, and CT Port Authority to plan and execute the commission's recommended capital projects	Legislature, Governor, and OPM

Table 1 (continued)

Transportation Finance and Infrastructure (continued)	
Evaluate future DOT projects in the pipeline at least biannually to (1) determine the effect of possible technological changes, (2) update their cost-benefit analysis, and (3) determine their funding methods	Legislature, Governor, and OPM
Approach the state's transportation needs with a longer-term perspective by providing DOT with the revenue needed to support a bonding program and pay-as-you-go investments with a multi-year view	Legislature, Governor, and OPM
Cities	
Expand the Capital Region Development Authority (CRDA) model (i.e., state quasi-public economic development agency) to at least two additional cities, which would be authorized to use it for high profile and high impact projects; reserve up to $50 million in bonds each year for up to three cities once the agencies are up and running	**Legislature**
Direct additional funds to the state's payment in lieu of taxes (PILOT) program for state-owned property in central cities	Legislature
Review the state's municipal aid formulas with a view to mitigating the property tax "need-capacity" gap between cities and suburbs	Legislature
Require municipalities, in return for municipal aid from the state, to accept state oversight if they are consistently unable to balance their budgets and appropriately fund their pension funds	Legislature
Continue to provide incentives for municipal shared service agreements to reduce the cost of local government	Legislature
To improve urban schools: • Require the state Department of Education to intervene to resolve serious performance or behavioral issues and promote improvement and accountability at the district level • Reevaluate the current school funding formula to better incorporate dynamic factors (i.e., special services needs) and achieve a more equitable distribution of aid among wealthy and urban school systems • Require principals to have term contracts, rather than tenured positions • Require the state's Next Generation Accountability System ratings to be prominently displayed in every school • Allow alternate certification processes to make it easier for later-stage career professionals to enter teaching • Encourage strategic partnerships between school systems and corporations	Legislature
Municipal Revenue Sources and Regionalism	
Authorize municipalities, independently or through councils of governments (COGs), to impose (1) public rights of way, storm water, and other service fees and (2) service fees in lieu of taxes (SILOTs) on nonprofit colleges and hospitals, while allowing those institutions to retain their property tax-exempt status	**Legislature**
Authorize municipalities, COGs, or groups of COGs to impose supplemental, time-limited sales or property taxes by special referenda to fund discrete capital projects	Legislature

Table 1 (continued)

Municipal Revenue Sources and Regionalism (continued)	
Change binding arbitration requirements for municipal employees and teachers to permit "binding interest arbitration" instead of "last best offer," thereby allowing arbitrators to make compromise awards • Consider requiring both parties to consent to enter into binding arbitration and setting time limits on the process • Establish an irrebuttable presumption that a municipality's budget reserve of 15% or less cannot be used to pay for arbitration awards • Require the random selection of a single, neutral arbitrator	Legislature
Amend prevailing wage laws to allow the use of non-union labor on rehabilitation projects costing less than $1 million	Legislature
Require municipal unions in towns proposing shared services arrangements to create a coalition collective bargaining agent that would apply to such arrangements	Legislature
Authorize COGs to levy an additional sales tax of up to 0.5% to be used solely for regional economic development and shared service arrangements	**Legislature**
Convene a public-private taskforce to study and make recommendations on the state's various municipal aid programs (to rationalize them and make them more predictable)	Governor
Apply under existing federal law to have COGs receive federal designation as counties, in order to potentially qualify them for additional federal funds	Governor
Economic Growth: Highest Potential Sectors	
Modernize the state's manufacturing supply chain's technology and expertise: • Build a network of "factories of the future" (e.g., Stanley Black & Decker's Manufactory 4.0 Advanced Manufacturing Center in Hartford and UConn's Tech Park in Storrs) that serve as technology test beds and training facilities for suppliers • Expand the state's successful manufacturing voucher program to empower capital-constrained suppliers to make larger technology and training investments	Legislature and Governor
Become a globally recognized InsurTech (i.e., insurance technology) hub: • Together with industry stakeholders, identify strategic focus areas where the state can succeed (e.g., cybersecurity) • Scale up startup accelerator capacity by (1) expanding the capacity of existing and new accelerators through additional funding, (2) strengthening the suite of services offered by accelerators and related entities in the startup environment, and (3) focusing accelerator marketing and recruiting in high-potential countries to strengthen the talent pipeline (e.g., Israel and India) • Champion the state's InsurTech brand by (1) hosting industry conferences, jointly sponsored by public and private sector entities; (2) creating corporate partnerships to attract promising startups; and (3) profiling InsurTech successes in industry publications to increase visibility	Legislature and Governor

Table 1 (continued)

Economic Growth: Highest Potential Sectors	
Become a national leader in innovative healthcare delivery and biotechnology: • Expand and modernize the healthcare workforce by (1) offering incentives to keep health professionals in the state, (2) working with the state university system to tailor nursing curriculum to emphasize healthcare innovation, and (3) exploring targeted expansion of nursing education programs • Create a policy environment that promotes provider and payer innovation by (1) reevaluating payment terms for alternative care provision in state employee, Medicaid, and Husky Health programs; (2) exploring behavioral incentives to encourage patients on government plans to seek appropriate alternative care settings; (3) prioritizing health management for certain populations (e.g., rural areas); (4) evaluating licensing reciprocity and scope of practice for health professionals; and (5) convening a public-private taskforce to review and improve unnecessary regulatory barriers to innovative care delivery • Encourage established organizations and startups to build and invest in innovation and experimentation by (1) establishing a fund to invest in Connecticut startups driving cutting-edge care delivery; (2) partnering with payors and providers to develop innovative care solutions; and (3) offering funding for firms providing new and innovative treatment to underserved Connecticut patients, potentially in partnership with charitable organizations	Legislature and Governor
Deliver on Connecticut's potential as a biotech research and development (R&D) hub: • Strengthen engagement between the state and growing local companies by (1) appointing a state biotech ambassador to act as a liaison to top established companies and startups, (2) hosting regular forums where firms can share their opinions and needs with the broader community, and (3) evaluating targeted financial incentives for growing companies • Prioritize specific sub-areas for focus by (1) convening working sessions with key partners to identify strategic areas from across the biotech spectrum; (2) prioritizing attention and investments in New Haven and Branford, which already have the highest concentration of biotech firms; and (3) exploring opportunities for capturing adjacencies to Yale's new genomics and precision medicine effort • Cultivate a stronger biotech startup ecosystem by (1) partnering with key academic, medical, and private sector stakeholders to create a high-quality biotech-specific incubator for early-stage biotech companies with wet lab space; (2) attracting private venture capital to biotech, alongside Connecticut Innovations, Inc.; and (3) expanding BioCT's early-stage mentorship capabilities and outreach to potential entrepreneurs	Legislature and Governor
Economic Growth: STEM Talent	
Increase the quality and quantity of STEM talent by creating a platform for collecting and coordinating data on employers' skills needs that would enable coordinated workforce development investments across the public and private sectors and provide actionable information on workforce skills needs to educators, employers, students, and policymakers	Legislature and Governor

Table 1 (continued)

Economic Growth: STEM Talent (continued)	
Develop dynamic curricula and learning pathways for priority industry sectors that are co-designed with employers and implemented by public and private institutions: • Create sector-specific forums for employers and higher education institutions to share data on current and future needs • Secure commitments from employers to increase internship program seats, consider adopting co-op models, and consider other programs that expose students to high-demand career paths • Further develop employer-trainer relationships • Build agreements among Connecticut's colleges and universities to relieve bottlenecks in certain degree programs, such as entry-level engineering courses • Create an employer-led marketing campaign to raise awareness about STEM paths for students • Encourage an innovative and outcomes-oriented culture; test and deploy innovations in training programs (e.g., Greater Metro-Denver Healthcare Partnership)	Legislature and Governor
Raise the national profile of the state's universities: • **Build a new, nationally competitive STEM campus in one of the state's major cities; partner with charitable organizations on a contest to attract a new graduate program focused on the data and digital skills most in demand by local finance, manufacturing, media, and consumer companies** • Leverage the Students First initiative (to integrate the state's 12 community colleges) into an efficient and agile platform for engaging employers, sharing best practices, and responding to new opportunities • Set a bold goal to move UConn into the top tier of public universities in the country	Legislature and Governor
Retain and attract critical talent: • Offer targeted incentives to critical STEM graduates (e.g., cash incentives, tax credits, or debt forgiveness) • Experiment with creative strategies to attract talented out-of-state students to Connecticut	Legislature and Governor
Economic Growth: Entrepreneurship and Innovation	
Become the number-one state for small and mid-size businesses in the Northeast: • Streamline the regulatory process for small businesses by engaging stakeholders in reviewing and reforming regulations and rethinking new ones to improve business friendliness • Transform the experience of accessing small business resources by creating one-stop-shops for business resources (e.g., funding sources, market research, and permits and licenses)	Legislature and Governor

Table 1 (continued)

Economic Growth: Entrepreneurship and Innovation (continued)	
Promote local investment in innovation: • Establish additional financial incentives to increase investments by (1) creating a public-private taskforce to identify companies with the largest balances of “stranded” R&D credits, diagnose why they are unused, and create investment plans to unlock the credits specifically for innovation; (2) making it easier for companies to use “stranded” credits, including automated processes and accelerated reviews; (3) modifying the angel investor tax credit to make it more competitive with other states’ credits; and (4) partnering with private investors to create an investment platform similar to Virginia’s *Virginia is for Entrepreneurs* initiative • Expand accelerator and incubator capacity by partnering with local corporations and educational institutions	Legislature and Governor
Expand accelerator and incubator infrastructure: • Make public co-investments with corporations and other partners, including philanthropists, to form industry-specific incubation and accelerator programs for high potential sectors (e.g., biotechnology and financial services) • Partner with major Connecticut academic institutions to sponsor or help operate incubators and accelerators and connect entrepreneurial students with them	Legislature and Governor

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