Presentation to the Commission on Fiscal Stability & Economic Growth

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Sal Luciano, Executive Director, AFSCME Council 4
Dan Livingston, Chief Negotiator, SEBAC
The Commission’s Mission

To recommend a path to fiscal stability that works for businesses AND families.

Connecticut must compete on the High Road to economic development.

• Living wages
• Livable Communities
• Good education and high quality services
• Public infrastructure
• A place where good businesses want to come and stay, and families can grow and thrive
Connecticut Must Reform and Stabilize its Revenue Stream

• A stable revenue stream is vital to the delivery of important public services.
• Our tax system was designed in the last century, and in an entirely different economic world.
• Revenues have declined even as the state economy has improved.
Connecticut is at a Crossroads Similar to 1991

• In 1991, Connecticut’s tax system was broken and unreliable.
• Connecticut needed broad-based tax reform.
• The governor and the business community helped lead the successful fight to enact tax reform.
Bring Connecticut’s Revenue System Into the 21st Century

In order to reliably fund our schools and other critical services, we must:

• Reform the sales tax and income tax to capture Internet sales and close loopholes.

• Eliminate unnecessary tax credits and expenditures, and make remaining credits transparent.

• Capture savings through economies of scale, such as integrating municipal employees into the state health insurance system.
Rights of Working Men and Women

• The freedom to negotiate for wages, benefits, and working conditions helped create the middle class in America.

• These rights and freedoms contribute to economic growth and security, and are needed more than ever in an era of great economic inequality.
Part 2 of this Commission’s charge is to materially improve the attractiveness of the state for existing and future businesses and residents.

A 2016 Howard University Department of Economics presentation noted:

The growing consensus among many economists is that inequality hurts growth


Key finding of the IMF Study—making the rich richer does not make the economy grow

“We find an inverse relationship between the income share accruing to the rich (top 20 percent) and economic growth. If the income share of the top 20 percent increases by 1 percentage point, GDP growth is actually 0.08 percentage point lower in the following five years, suggesting that the benefits do not trickle down.”
OECD: Reducing Inequality Helps Growth

An econometric analysis of 30 years of data from OECD countries suggests that income inequality has a negative and statistically significant impact on subsequent growth. What matters most is the gap between low income households and the rest of the population.

“It follows that policies to reduce income inequalities should not only be pursued to improve social outcomes but also to sustain long-term growth.”

“Increased income disparities depress skills development among individuals with poorer parental education background, both in terms of the quantity of education attained (e.g. years of schooling) and in terms of its quality (i.e. skill proficiency).”

In New Haven County, being super rich propels you forward above the national norm—but being poor pulls down below the national norm

<table>
<thead>
<tr>
<th>GROUP</th>
<th>INCOME CHG.</th>
<th>NAT. PCT.</th>
</tr>
</thead>
<tbody>
<tr>
<td>All kids</td>
<td>-$2,180</td>
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</tr>
<tr>
<td>Boys</td>
<td>-$3,670</td>
<td>3%</td>
</tr>
<tr>
<td>Girls</td>
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<tr>
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<td>-$2,270</td>
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<tr>
<td>Girls</td>
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<td>+$240</td>
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<tr>
<td>Boys</td>
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<td>57%</td>
</tr>
<tr>
<td>Girls</td>
<td>+$1,690</td>
<td>58%</td>
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In Fairfield County the story continues, poor children do worse than typical for other poor children nationally

<table>
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<td>Boys</td>
<td>-$3,310</td>
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<td>Girls</td>
<td>-$690</td>
<td>30%</td>
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<td>All kids</td>
<td>-$1,240</td>
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</tr>
<tr>
<td>Boys</td>
<td>-$2,050</td>
<td>7%</td>
</tr>
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<td>Girls</td>
<td>-$200</td>
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<td>Boys</td>
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<td>+$780</td>
<td>55%</td>
</tr>
<tr>
<td>Girls</td>
<td>+$790</td>
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Source: Raj Chetty and Nathaniel Hendren, “The Impacts of Neighborhoods on Intergenerational Mobility”
How Do We Fix Inequality?

Workers who join together to collectively bargain for wages, hours and working conditions make more money on average, thereby paying more in taxes\(^1\), utilize fewer safety net services, and have less turnover than nonunion workers.

\(^1\) The Relationship between Union Membership and Net Fiscal Impact Sojourner-Pacas 2018
FACT – So-called “Right to Work” lowers the quality of life for women and working families. Right to Work states spend less on public education and other public services, have a higher proportion of low-wage workers and have greater wage gaps between men and women, all of which put tremendous pressure on the social safety net and put families at risk.

MYTH: Making Connecticut “Right to Work” will improve our economy

FACT – “Right to Work” states spend less on public education and other public services, have a higher proportion of low-wage workers and have greater wage gaps between men and women, all of which put tremendous pressure on the social safety net and put families at risk.

“Right to Work” equals $1 BILLION negative impact to Connecticut’s Economy

2. Connecticut’s economy, based on a loss of $5,584/member, could suffer over $1 billion loss to our economy. (264,000 union members)
Reduce Inequality to Spur Growth

- Raise the minimum wage to $15/hour
- Close the gender pay gap with meaningful enforcements
- Establish a low-wage employer fee to fine employers who enroll their employees in Husky and SNAP
- End worker misclassification
Inside Game?

Previous presenters are so confident that this Commission will cut and paste their recommendations that they’ve already publicly endorsed them in advance of the report due March 1.

You have the opportunity to be better and more deliberative than that.
Myths Presented Thus Far

Much of what has been presented to this Commission in previous presentations has not been accurate.

Let’s clarify the record.
MYTH - Collective bargaining has created the SERS unfunded liability and should be eliminated for pensions & healthcare.

FACT - It was through the collective bargaining process that the state finally began contributing to SERS and through which state employees have negotiated concessions savings the state and SERS tens of billions of dollars.
MYTH - Collective bargaining is an impediment to regionalization

FACT - Management has the right to determine if municipal functions will be shared or regionalized. Employees have the right to bargain the impact of those decisions. Home rule is an impediment to regionalization.
MYTH – Changes to SERS cannot be extended to MERS.

FACT – SERS is collectively bargained, which means decades of back and forth negotiating have created the pension system. MERS is not collectively bargained.
MYTH – Municipal advocates want to establish coalition bargaining.

FACT – Municipal coalition bargaining, where multiple bargaining units in multiple cities and towns would negotiate common subjects together, has been proposed many times by Labor advocates. All such proposals were opposed by municipal advocates.
MYTH – State oversight is the solution for distressed municipalities.

FACT – Not only is state oversight an undemocratic process, but it does not address the factors that created the financial distress, i.e. fiscal mismanagement by municipal officials.

Waterbury was not saved by state oversight.
MYTH – Binding arbitration is unfair to municipalities.

FACT – Binding arbitration is the process by which public employers and employees settle disputes that they haven’t been able to negotiate or mediate.

- Only about 10% of contracts go to binding arbitration and management wins 59% of those arbitrations. Binding arbitration does not drive up labor costs.

- Prior to binding arbitration, public employees had the right to strike, which is destabilizing to public service delivery.
MYTH – The binding arbitration statute should be changed to allow a single neutral arbitrator by mutual agreement.

FACT – This change was made in the October 2017 bipartisan budget.
MYTH – Prevailing wage needs to be raised.

FACT – This change was made in the October 2017 bipartisan budget. The prevailing wage threshold was increased from $400,000 to $1,000,000 for new construction projects.
MYTH – The State Partnership Plan is too expensive.

FACT – Most municipalities have not even provided the necessary data to the Comptroller to determine what their savings might be. In most cases, the State Partnership Plan provides better coverage for less money.
MYTH – Millionaires are leaving Connecticut because taxes are too high.

FACT – There were nearly 2,500 more millionaires in Connecticut in 2015 than in 2010.

A national study by Stamford University shows that a state would have to raise its top bracket by 10% to cause even 1% of millionaires to leave.

MYTH – State employee pensions are $100,000 and higher.

FACT – The average rank and file state employee pension is approximately $30,000. Frequently cited outliers include college professors and coaches, doctors and surgeons, and highly compensated administrators.
Teachers’ Retirement

- The state must honor its commitment to teachers. Their retirement benefit levels are reasonable and similar to that of other states.

- Teachers have paid more than their fair share into their retirement fund.
Stabilize the TRS Through Restructuring Payments

• Reamortizing and Restructuring the Teacher Retirement System will provide for greater stability in the future, and make payments more manageable for the state over time.

• Do not saddle municipalities with the state’s liability; that will result in cuts to school budgets and town services.
SEBAC 2017

Savings that are Fair, Effective, and Long-Term
State Employee Pensions

SERS’ current benefits are moderate and well funded.

The unfunded liability is a problem created by the General Assembly and prior governors and has been resolved by an affordable payment plan created by collective bargaining.
State Employee Pensions

The unfunded liability is isolated to the Tier I pension plan that closed in 1984.

It is being resolved by an affordable payment plan and lower-benefit pension tiers, created by collective bargaining.
State Employee Pensions

SERS recognizes workers as an asset.

• SEBAC has bargained for low turnover, high longevity and productivity.

• By negotiating a pension plan that encourages long service, we reduce recruitment and training costs, and improve service.

• By keeping workers healthier, we save healthcare costs, and improve productivity and services.
Public Employee Pensions Benefit the Economy

According to the non-partisan National Institute on Retirement Security, state and local government pension plans in Connecticut:

- Supported more than 33,700 jobs
- Generated $5.4 billion in economic output

And, every dollar paid out in benefits generated $1.31 in economic activity in Connecticut.
Municipal Solutions for Economic Growth

• Mandate regional government to end duplicative, inefficient municipal government taxpayers can no longer afford. Explore annexation and/or county government.

• Require municipalities that receive state aid to access the state Healthcare Partnership Plan

• Establish a Municipal Employee Bargaining Agent Coalition (MEBAC) and empower it to bargain municipal employee pensions and healthcare.
### Wages

<table>
<thead>
<tr>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>FY 2024</th>
<th>FY 2025</th>
<th>FY 2026</th>
<th>FY 2027</th>
<th>FY 2028</th>
<th>FY 2029</th>
<th>FY 2030</th>
<th>FY 2031</th>
<th>FY 2032</th>
<th>FY 2033</th>
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<tr>
<td>300.6</td>
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### 3 Unpaid Days in FY18

- FY 2018: 36.0

### April 2028 Longevity Delay

- FY 2018: 11.0

### $2K payment / $1K + top-step in FY19

- FY 2018: 88.4

### Active Healthcare

- Financial Incentive to utilize urgent care over ER: 13.3%
- Full utilization management on PT / OT services: 2.7%
- PCP and specialist tiering based on quality and cost for PCP specialties: (1.1)%
- PCP and specialist tiering based on quality and cost for non-PCP specialties: 0.2%
- Site of service: Diagnostic X-rays, high-cost Imaging and labs: 6.3%
- Member incentive based program (SmartShopper): 2.8%
- Increased co-pays for non-HEP drugs: 7.5%
- Adopting the CVS standard formulary: 25.4%
- Improved pricing in 2018 RFP due to Medicare Advantage pricing improvements: -
- Implementation cost: (0.1)
- Premium Cost Sharing (1%/1%/1% starting 7/1/19; new hires = 3% now): -

### Retiree Healthcare

- Medicare Advantage: 63.3%
- Misc. pre-65 benefit changes: 1.4%
- Medicare Part B changes: -
- Retiree Cost Sharing (+1.5% eff. 7/1/17, +3.5% eff. 7/2/22): 0.3%

### Pensions

- SEBAC Wage Freeze, COLA Holiday, COLA Formula, Contributions & Tier 4: 205.3%
- Judicial Marshal: -
- ARP Changes: 5.0%

### Additional Items

- Tuition & Reimbursements: 2.0%
- Attrition: 23.1%

### Total

- FY 2018: 709.9
- FY 2019: 868.6
- FY 2020: 1,042.0
- FY 2021: 1,064.4
- FY 2022: 1,101.9
- FY 2023: 1,131.2
- FY 2024: 1,150.9
- FY 2025: 1,169.5
- FY 2026: 1,189.4
- FY 2027: 1,210.1
- FY 2028: 1,231.5
- FY 2029: 1,253.8
- FY 2030: 1,276.6
- FY 2031: 1,300.9
- FY 2032: 1,326.4
- FY 2033: 1,353.0
- FY 2034: 1,380.9
- FY 2035: 1,401.0
- FY 2036: 1,440.8
- FY 2037: 1,472.2

### Cumulative Total

- FY 2018: 709.9
- FY 2019: 1,560.5
- FY 2020: 2,611.5
- FY 2021: 3,675.9
- FY 2022: 4,777.8
- FY 2023: 5,909.9
- FY 2024: 7,060.9
- FY 2025: 8,239.4
- FY 2026: 9,419.9
- FY 2027: 10,630.0
- FY 2028: 11,861.4
- FY 2029: 13,115.3
- FY 2030: 14,391.9
- FY 2031: 15,692.8
- FY 2032: 17,095.2
- FY 2033: 18,372.1
- FY 2034: 19,753.0
- FY 2035: 21,163.1
- FY 2036: 22,603.9
- FY 2037: 24,076.1
Comparative Healthcare Costs Trends

<table>
<thead>
<tr>
<th>Year</th>
<th>State Plan Pe-SEBAC 2017</th>
<th>State Plan Inc. SEBAC 2017*</th>
<th>Segal Medical Trend**</th>
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<tbody>
<tr>
<td>2011-12</td>
<td>2.0%</td>
<td>-2.0%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>2012-13</td>
<td>2.0%</td>
<td>1.0%</td>
<td>4.0%</td>
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<tr>
<td>2013-14</td>
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<tr>
<td>2014-15</td>
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<td>2015-16</td>
<td>3.0%</td>
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<tr>
<td>2016-17</td>
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<tr>
<td>2017-18</td>
<td>-2.0%</td>
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<tr>
<td>Average</td>
<td>3.0%</td>
<td>3.0%</td>
<td>5.0%</td>
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To Inform Growth Decision Making, Fiscal Notes Should Have Complete Analyses

Instead of having the Office of Fiscal Analysis (OFA) compute direct gains and losses related to legislation, direct them to consider long-term gains and losses, lost opportunities and economic impacts. For example:

- Cut early childhood, pay more later in remedial education
- Lay off workers, lose revenue later in slowed economy, or revenue they bring in directly through their jobs
- Raising the minimum wage would cost the state, but greatly impact the economy and overall revenue collections
Solutions for Economic Growth

• Stop the negativity. Play to our strengths.
  – Our quality of life and economic competitiveness are robust
  – We already have advantages that few states have

• Stop the scapegoating. Lay out a fair, collective vision all stakeholders can share.

• Stop the disinvestment. Investment leads to sustained economic growth.
Solutions to Retain Millennials

The NYS Solution

• $15/hour minimum wage
• 12 weeks paid family leave
• Free in-state public tuition
• Accessible and affordable public transportation
• Vibrant cities
• Infrastructure development
Solutions for Economic Growth

Scrutinize tax expenditures.

Businesses already get a great deal in Connecticut.
Total Effective Business Tax Rate

FY 2014

- Vermont: 7.5
- Maine: 6.4
- Rhode Island: 5.3
- New England: 5.1
- US: 4.6
- New Hampshire: 4.1
- Massachusetts: 4.1
- Connecticut: 3.4
Total Effective Business Tax Rate

TEBTR is the ratio of combined state and local taxes paid, to private sector production of goods and services. Connecticut has:

• The lowest TEBTR in the United States

• The lowest ratio of business taxes per private sector worker in the region.

• The lowest ratio of business taxes to state and local taxes combined in the United States.

• The lowest Tax-Benefit Ratio in the region, and the nation’s second lowest.
Business Taxes As A Share of State and Local Taxes in 2014

- Vermont: 52.3
- Maine: 47.8
- New Hampshire: 45.3
- US: 45
- Rhode Island: 43.3
- New England: 42.8
- Massachusetts: 39.1
- Connecticut: 28.9
Connecticut Business Does Well

In addition to favorable tax policy, businesses enjoy other competitive advantages that make Connecticut an attractive place to do business, including a highly skilled and educated workforce and a high quality of life. Connecticut has:

- The third highest rate of educational attainment at both the Bachelor’s degree and advanced degree levels.
- The fourth highest median household income (adjusted for inflation) in the United States.
### People 25 and Older With a Completed Bachelor’s Degree in 2012

<table>
<thead>
<tr>
<th>State</th>
<th>Percentage</th>
<th>State</th>
<th>Percentage</th>
<th>State</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Massachusetts</td>
<td>39.3%</td>
<td>Oregon</td>
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<tr>
<td>Colorado</td>
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<tr>
<td><strong>Connecticut</strong></td>
<td><strong>37.1%</strong></td>
<td>Montana</td>
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<tr>
<td>Maryland</td>
<td>36.9%</td>
<td><strong>United States</strong></td>
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<tr>
<td>New Jersey</td>
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<td>Vermont</td>
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<td>Virginia</td>
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<td>Maine</td>
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<td>Wyoming</td>
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<td>New Hampshire</td>
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<td>New York</td>
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<tr>
<td>Minnesota</td>
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<td>Indiana</td>
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<tr>
<td>Illinois</td>
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<td>Arizona</td>
<td>27.3%</td>
<td>Nevada</td>
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<td><strong>Rhode Island</strong></td>
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<td>Louisiana</td>
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<td>California</td>
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<td>26.8%</td>
<td>Kentucky</td>
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<td>Utah</td>
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<td>Arkansas</td>
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<td>Kansas</td>
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<td>Missouri</td>
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<td>Hawaii</td>
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<td>Iowa</td>
<td>26.3%</td>
<td>West Virginia</td>
<td>18.6%</td>
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</table>

*Source: American Community Survey*
# People 25 and Older With a Completed Advanced Degree in 2012

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<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massachusetts</td>
<td>17.1%</td>
<td>Pennsylvania</td>
<td>10.9%</td>
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</tr>
<tr>
<td>Maryland</td>
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<td>Texas</td>
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<td><strong>10.9%</strong></td>
<td>Kentucky</td>
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</tr>
<tr>
<td>Virginia</td>
<td>14.9%</td>
<td>Minnesota</td>
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<td>Alabama</td>
<td>8.6%</td>
</tr>
<tr>
<td>New York</td>
<td>14.4%</td>
<td>Hawaii</td>
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<td>Tennessee</td>
<td>8.6%</td>
</tr>
<tr>
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<td>Utah</td>
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<td>North Dakota</td>
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<tr>
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<td>Indiana</td>
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</tr>
<tr>
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<td>Arizona</td>
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<td>Idaho</td>
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</tr>
<tr>
<td><strong>Rhode Island</strong></td>
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<td>Iowa</td>
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</tr>
<tr>
<td>New Hampshire</td>
<td>12.6%</td>
<td>Maine</td>
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<td>South Dakota</td>
<td>8.1%</td>
</tr>
<tr>
<td>Illinois</td>
<td>12.0%</td>
<td>Nebraska</td>
<td>9.7%</td>
<td>Oklahoma</td>
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</tr>
<tr>
<td>Delaware</td>
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<td>Mississippi</td>
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<tr>
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<td>Nevada</td>
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<tr>
<td>New Mexico</td>
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<td>West Virginia</td>
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</tr>
<tr>
<td>Alaska</td>
<td>10.9%</td>
<td>Montana</td>
<td>9.2%</td>
<td>Arkansas</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

*Source: American Community Survey*
The High Road to Economic Growth Doesn’t Disinvestment

Disinvestment undermines Connecticut’s:

- Economic advantages
- Opportunities for future growth
- High quality of life
- Attractiveness to business
Balanced Solutions for Economic Growth

Any legitimate and viable product of this Commission will be comprehensive in its review and recommendations regarding all sectors of our economy, including:

• Rising energy costs
• Healthcare access and costs
• Growing economic inequality
• Comprehensive tax reform
• The role of the business community