# 21-POINT PLAN FOR RETUNING CONNECTICUT TO FISCAL HEALTH

# PHASE 1 – GENERATE REVENUE WITHOUT RAISING TAXES

## 1.MONETIZE STATE-OWNED PROPERTIES

Revenue of up to $1 billion is available with the use of sale-leasebacks of state-owned properties. Connecticut owns several million square feet of commercial space. The state government does not need to be in the real estate management business. Rather we can sell off these properties and rent them back as the tenant. This is not an idea without precedent as the US Federal Government, through the General Services Administration, is one of the largest property tenants in the world, with several hundred million square feet leased. Arizona has recently initiated a similar sale-leaseback proposal to address a state revenue shortfall, as has Canada and several European countries. Closer to home two of Hartford's largest employers and taxpayers, Aetna Inc. and The Hartford Financial Services Group Inc., have used sale-leasebacks to manage several of their former office-space assets.

The benefits are diverse and impactful. It will: help prevent another tax increase on our residents; improve our credit rating; lower our borrowing costs; help adequately fund our pensions; raise additional local property tax revenue; allow

CT pension funds to invest back in their own properties, modernize their buildings, efficiently manage their portfolios, and dispose of buildings which are becoming obsolete. Most importantly, this will position CT for growth.

Whatever the use of proceeds, we should be monetizing these non-income-producing real estates.

2.MODERNIZE LOTTERY

Additional annual revenue of up to $300 million can be realized by modernizing our state lottery system. Our lottery has been stagnant and needs to be upgraded. We should begin accepting credit cards and upgrade the packaging of our lottery program. Connecticut receives approximately $300 million per year from the lottery.  Our average spend per resident is $300 per year. Our neighbor states that accept credit cards, including Rhode Island and Massachusetts, generate $500 and $700 per resident per year, respectively. In addition to credit cards, Massachusetts has season passes that are very popular, and as a result, drive more revenue than any other state.

3. SAVE TO WIN

Tax revenue of up to $30 million per year can be generated by banks in Connecticut providing cash prizes to customers instead of interest payments. In 2017, laws in a total of 20 states have been changed to permit prize-linked saving accounts which has been proven to encourage savings and provides taxable revenue to the states. With interest rates low, this helps to increase savings for lower income residents and is very popular for all income levels. This revenue is taxed at the same rate as the lottery. The first large-scale prize-linked savings program in the U.S. was created in Michigan six years ago. The program is called

Save to Win, and 56% of the participants were non-savers before the program. Now, Michigan residents have saved an additional $100 million and growing since 2009 and the state has generated approximately $75 million in tax revenue. This program is rapidly growing, and we must promote this program in Connecticut.

4. UNLOCK UNCLAIMED MONEY– Our state has more than $750 million in unclaimed monies, including gift cards, bank accounts, insurance, electronic payments and any type of escheat. If we do a better job of collecting these unclaimed funds, we can generate additional annual revenues of up to $250 million for the state treasury. Last year, we brought in approximately $121 million of unclaimed funds and paid out $40 million. Other states like Delaware have made this a primary revenue source for the government. New Jersey has done an excellent job and brought in several billion dollars of revenue through unclaimed funds. Money collected through this program in Connecticut should be dedicated to fund education and infrastructure improvements, whereas now it goes to public financing of political campaigns and the general fund. We need to audit companies more aggressively by using third-party auditors to conduct unclaimed property audits, shorten dormancy periods (which is the length of time that must lapse before property is considered abandoned) and add unused gift card balances as unclaimed property. In 2017, there were $176 billion in gift cards sold in the United States. We need legislation to require the names and addresses of the gift cards and when they were sold, so we can gain that revenue for our state. Gift cards are appealing because it is almost impossible to determine the rightful owner of a gift. That means that the state will ultimately end up permanently retaining a much higher portion of gift cards than of other forms of unclaimed property.

## 5. CENTRALIZED AND CONTROLLED MODERNIZATION

Several states have saved hundreds of millions of dollars through creating permanent centralized entities to oversee and review business plans.  Connecticut can generate annual revenue of up to $300 Million. As an example, the Department of Developmental Services plans to convert 30 group homes to private operations. It is expected to save the department $42 million in 2017 and $70 million in 2018. Successful state privatizations in other states have included the lottery, property, agencies and tolls.

## 6. ELIMINATE UP TO $1 BILLION OF WASTEFUL SPENDING

Our State government is severely mismanaged, and through tightening up our procedures and eliminating waste, we can save at least $1 billion annually. Seeking a 3% reduction in overall operating expenses in the next budget would allow Connecticut to close its fiscal gap by approximately $1 billion annually, according to the Connecticut Commission on Fiscal Stability and Economic Growth. Recent reports from the state auditors detail lax spending controls, waste, unnecessary bureaucracy and hazy ethics in multiple state agencies at a time when the belt should be tightened to the last notch. Here are just some of the findings in agency audit reports:

- Benefit payments to dead people
- Abuse of overtime
- Abuse of comp and vacation time
- Excessive revisions to purchase orders without appropriate approvals
- Unauthorized payouts for remaining comp time
- Lost or stolen state property

- Unauthorized rehiring of retired state employees
- Lack of internal audits
- Massive financial reporting errors
- Lack of program review

## 7. UNBIND ARBITRATION

Binding Arbitration costs Connecticut taxpayers millions of dollars per year. We are only one of a handful of states that has this type of binding arbitration, which weighs past compensation levels and a municipality's wealth and capacity to pay employees in the process. Connecticut has the broadest binding interest arbitration law among New York, Massachusetts and Rhode Island. New York only includes public safety unions, and Rhode Island wages are statutorily exempted from binding arbitration. This unfairly favors labor and has driven excessive municipal compensation and benefits for decades. This has also materially widened the compensation gap between employees covered by arbitration and those who are not. A study by the Manhattan Institute's Empire Center for New York State Policy has found that for New York government workers in jobs covered by arbitration, pay increased over a 10-year period by 59 percent compared to a one-third gain for other government workers. In some states, like New York, laws ban arbitrators from considering a local government's fiscal limitations when ruling on new contracts. In other states, arbitrators calculating an award for workers in one city can base the amount on the pattern of pay increases in nearby cities, even if those cities are much wealthier and can afford to pay more. Many have felt that unions claim that negotiations with local officials are at a standstill because it works in their favor to go to arbitration.

# PHASE 2 – RETHINK THE FUTURE

## 8. REFORM PENSIONS

Pension costs have exponentially risen and are now almost half of our state budget and it is strangling our growth.

We must honor our current obligations to our state workers but we must immediately implement solutions that have been successful in other states. New hires should be given a 401-k plan with 9% matching funds from the state (still gold standard) in lieu of state pensions; we must buy out existing state benefit plans discounted to the current value of the plan, lower the discount rate to make it a market value of liabilities, and tie the formula for cost of living adjustments (COLA) directly to the Consumer Price Index (CPI) with no minimum or maximum.

## 9. BALANCE STATE INCOME TAX

Connecticut instituted a state income tax in 1991. Since then, it has raised the top income tax bracket six times, and the number of high paying jobs in the state has dropped from 158,000 to 124,000. It is the only state in the region that has not recovered jobs from the 2008 recession, with more residents lost to Florida (0% income tax) than to any other state. Most studies show that other than corporate tax cuts, lowering state tax burdens is the top economic driver of growth. Lowering taxes will help to reverse the migration out of the state. We need balanced state income taxes in the 4% range, down from between 6% and 7% for high earners who have the ability to leave the state and take their spending power and tax revenues with them.

## 10. SAVE SENIORS WITH SAVINGS

Connecticut is one of the most unfriendly states for seniors and as a result, we are rapidly losing our valued senior population. We must fully exempt all retirement income from taxation. This includes private and public pensions, Social Security and annuities. We must contain the migration to southern, low tax states, and become the go-to place for seniors in the northeast. We are one of only thirteen states that tax Social Security. Connecticut does offer some Social Security tax exemptions, but considering that the state also features one of the highest annual incomes in the country, a higher exemption limit or simply no tax makes sense. Twenty-seven other states exempt all Social Security benefits from income taxes, including Massachusetts, New Jersey and New York. We are also only one in seven states that have a progressive estate tax of up to 12 percent beyond the $2 million exemption. Connecticut also taxes pension benefits, unlike Massachusetts, New York and New Jersey, which exclude all federal, state, and local pension income from taxation. In Rhode Island and Massachusetts, they don’t tax government pensions and in New York and Pennsylvania, they don’t tax private pensions.

## 11. ENCOURAGE PRIVATE COMPANIES AND FAMILY OWNED BUSINESS TO CONTINUE OPERATIONS

We must encourage our residents to keep private companies and family-owned businesses in the state. Only seven states have a progressive estate tax. Eliminating this onerous tax will drive capital back into the state economy and promote growth. It will also protect small businesses that are asset rich, but cash poor. When an owner dies, their family is often forced to pay up to a one third of the value of the business in taxes, and this often forces them to sell their business. The revenue lost from eliminating the tax is miniscule compared to the devastating impact is has on small businesses and our ability to retain businesses and retirees.

Connecticut relies on the top 1% of income earners more than any other state. When they leave for lower tax states, they take a significant amount of revenue with them.

12. FORGIVE STUDENT DEBT FOR RESIDENTS

Forgiving student debt would likely lead to a material increase in the state's GDP, an increase of additional new jobs, and reverse the Millennial migration trend. Connecticut is one of the few states that does not have a student loan forgiveness program. While CT graduates earn higher wages, our student loan borrowers are in a tough spot. We are ranked #3 in the nation in highest amount of debt per student, an average payment of $326 per month, and we have the highest cost of living Connecticut exceeds the national average by a whopping 24%. Eliminating student debt would also help keep the high cost of borrowing down and shrink the educational achievement gap.

13. MORE MONEY FOR TOWNS

We need to give communities more autonomy with their revenue streams so they can wean off large dependency on property taxes. A high percentage of property tax revenue compared to overall revenue has been shown to be unsustainable. We need to diversify the revenue sources available to local governments and create sufficient flexibility for property tax relief. This will also increase the fiscal security of municipalities. The high percent of revenue dependency on property taxes widens the education achievement gap between higher income and lower income municipalities. We need to give towns creative and custom revenue options that work specifically for their citizens. We are one of only a few states that does not allow local governments the ability to diversify its revenue streams. In 2007, approximately 80 percent of Indiana’s local government budgets were funded by property taxes. Today, property taxes fund just 39 percent of all local budgets (including public schools) and 60 percent of all municipal budgets. A complex mixture of property tax caps and other factors affecting Indiana’s property tax system caused that change. Indiana gave local governments additional options for replacing the revenue, including Local Option Income Taxes (LOIT). This is one of the reasons that Indiana has accumulated a $2 billion rainy day fund and is running a $210 million budget surplus.

14. TOMMOROW’S TOURISM

Across the nation tourism is on the rise, and in fact is an industry with double-digit growth.  Visitors are staying longer and spending more. Room occupancy taxes are up, and tourism jobs have increased. In Connecticut, we must capitalize on this trend by creating a clear, proactive tourism strategy for the future.

# PHASE 3 – REVIVE AND GROW OUR ECONOMY

## 15. FAIR SHARE FROM THE FEDERAL GOVERNMENT

The key to any successful economic plan is maximizing the return on what we are already paying. Connecticut gets back far less than it contributes to the federal government. Our population is dwindling, and we are basically insolvent. It is not a surprise that the money is going to higher growth states. When we demonstrate our state's financial turnaround, we will have more influence with the federal government, as they tend to back growth regions. Currently, Connecticut has the third highest per capita payment to the federal government, but we are at the bottom of the list of money received in return. We need a better lobbying strategy for more proportional federal funding.

## 16. GAMING FOR EDUCATION

By doubling gaming revenue for education, Connecticut can increase revenues from the current $600 million to $1.2 billion through the creation of Internet sports betting and better-located high-end casinos. Municipalities will continue to benefit directly through the creation of jobs, and incremental revenue would go to a separate education fund.

## 17. RECRUIT AND RETAIN BUSINESSES EFFECTIVELY

Connecticut needs a public/private grass roots assistance program to retain talent and incentivize companies to bring high paying jobs to the state. Florida and Virginia already have successful programs. “Come to Connecticut” will take the best programs and leave the rest. Incentives should be targeted toward the localities and regions most in need of an economic boost, as well as toward areas where adequate transit options exist so that workers without vehicles can commute to work and participate in new job growth.

## 18. EDUCATE OR DIE

Reinstate, increase, and restructure all education funding. Connecticut needs to create the best and most affordable public schools in the country to attract companies that want knowledgeable and skilled workers. The number one reason companies ultimately decide to move from one state to another is the access to skilled workers. If we don't make education paramount to Connecticut's future, we will continue the migration of people and business out of the state. We also need to review additional fundraising options for public schools. Across the country, private and nonprofit organizations have adopted centralized independent fundraising methods to make sure additional money is generated and then equally spread within a region. In contrast to private schools, most U.S. public schools don't have infrastructure in place to raise money. This type of fundraising also fosters relationships among schools, local neighborhoods, and businesses. The Santa Monica-Malibu Unified School District has been successful with raising money and redistributing the donations collected across the district. We also need to level the playing field on burden of proof, which has tilted far away from the school and state income tax forgiveness for retired teachers. These are both atypical compared to other states and costs Connecticut millions of dollars per year.

## 19. INFRASTRUCTURE UPGRADE

We must upgrade our transportation infrastructure immediately. We should prioritize projects that that have the most economic benefit for our state. If we reprioritize our spending, we do not need toll revenue. Since 2011 we have shortchanged transportation funding by $650m. We need to authorize new state funding sources and rapidly enact Public-Private Partnership legislation that will enable Connecticut to utilize new federal or privately funded infrastructure programs. The state should be proactive to ensure CONNDOT can expedite projects that foster economic growth. In addition, we need to finally “over invest“ in transportation infrastructure which for years has been starved and has resulted in crumbling infrastructure, causing congestion, potential future safety concerns, and unreliable service.

The resulting loss of productivity for business is also a major impediment to economic growth and companies rely on efficient transportation for their employees. Rail service is not rapid enough to commute to Manhattan from outside of Fairfield County, and the highways are too congested for regular commutes to either New York or Boston. Similarly, because of slow rail service and anemic business growth, Connecticut is not generating opportunities for reverse commuting from New York City, especially among young college graduates. The ability of residents to reach New York and Boston quickly could be a driver of economic growth, enabling people to live in many parts of Connecticut and be able to reach these cities quickly. We need to stop paying billions of dollars for unnecessary pet transportation projects for senior govt officials and start being aware of the highest and best use to grow the economy. Finally, some of these upgrades don’t involve us spending a lot of money. We can increase frequency and lessen the number of stops and finally, enable WIFI.

## 20. DEDUCT PROPERTY TAXES

Bring back the tax break to allow a deduction of property taxes for primary and secondary residences from Connecticut state income taxes. This will be possible as we enter a new growth phase and it will help our per capita spending by putting more money in the hands of our residents.

## 21. REBALANCE CONSUMPTION TAXES

The goal with a consumption tax is to be on par with our neighbors, but not hurt lower earners. This will drive significant revenue, and we will use tax credits, instead of tax exemptions, on utilities, groceries, and clothing. Twenty-five years ago, Connecticut received all of its revenue from sales taxes; we need to rebalance for growth.

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