

Presentation to the Commission on Fiscal Stability & Economic Growth

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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.**

Transition to Lori

Improving the Lives of Residents

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



<https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf>

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.

“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).”

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

Cingano, F. (2014), "Trends in Income Inequality and its Impact on Economic Growth", *OECD Social, Employment and Migration Working Papers*, No. 163, OECD Publishing, Paris.

<http://dx.doi.org/10.1787/5jxrjncwxv6j-en>

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

What a Childhood in New Haven County Does to Future Income

For poor kids			For average-income kids			For rich kids			For kids in the top 1%		
GROUP	INCOME CHG.	NAT. PCT.	GROUP	INCOME CHG.	NAT. PCT.	GROUP	INCOME CHG.	NAT. PCT.	GROUP	INCOME CHG.	NAT. PCT.
All kids	-\$2,180	11%	All kids	-\$1,040	16%	All kids	+\$240	35%	All kids	+\$1,290	58%
Boys	-\$3,670	3%	Boys	-\$2,270	6%	Boys	-\$600	21%	Boys	+\$880	57%
Girls	-\$280	37%	Girls	+\$510	44%	Girls	+\$1,300	52%	Girls	+\$1,890	58%

In Fairfield County the story continues, poor children do worse than typical for other poor children nationally

What a Childhood in Fairfield County Does to Future Income

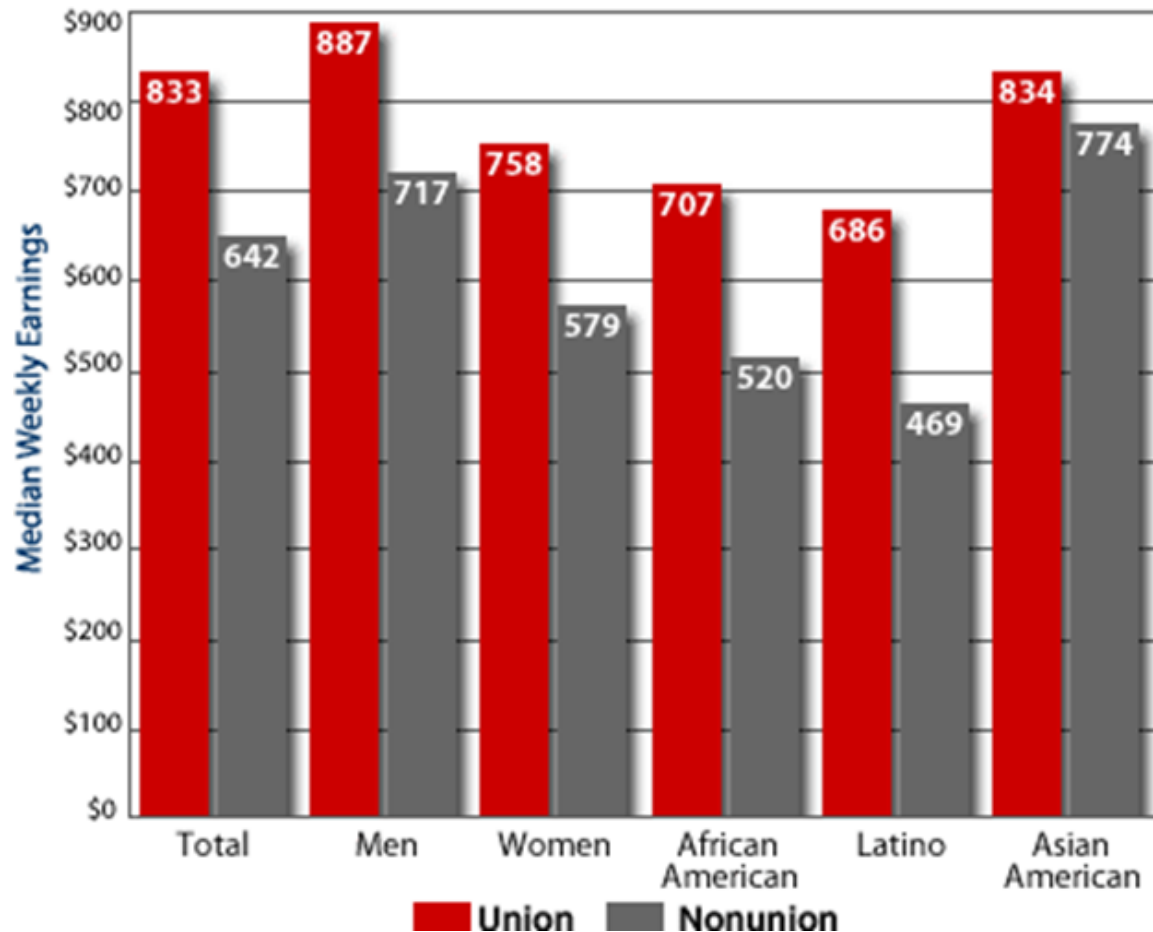
For poor kids			For average-income kids			For rich kids			For kids in the top 1%		
GROUP	INCOME CHG.	NAT. PCT.	GROUP	INCOME CHG.	NAT. PCT.	GROUP	INCOME CHG.	NAT. PCT.	GROUP	INCOME CHG.	NAT. PCT.
All kids	-\$2,170	11%	All kids	-\$1,240	14%	All kids	-\$160	26%	All kids	+\$760	45%
Boys	-\$3,310	4%	Boys	-\$2,050	7%	Boys	-\$560	22%	Boys	+\$780	55%
Girls	-\$690	30%	Girls	-\$200	31%	Girls	+\$340	35%	Girls	+\$790	40%

Fairfield County, Conn.

Source: Raj Chetty and Nathaniel Hendren, [“The Impacts of Neighborhoods on Intergenerational Mobility”](#)

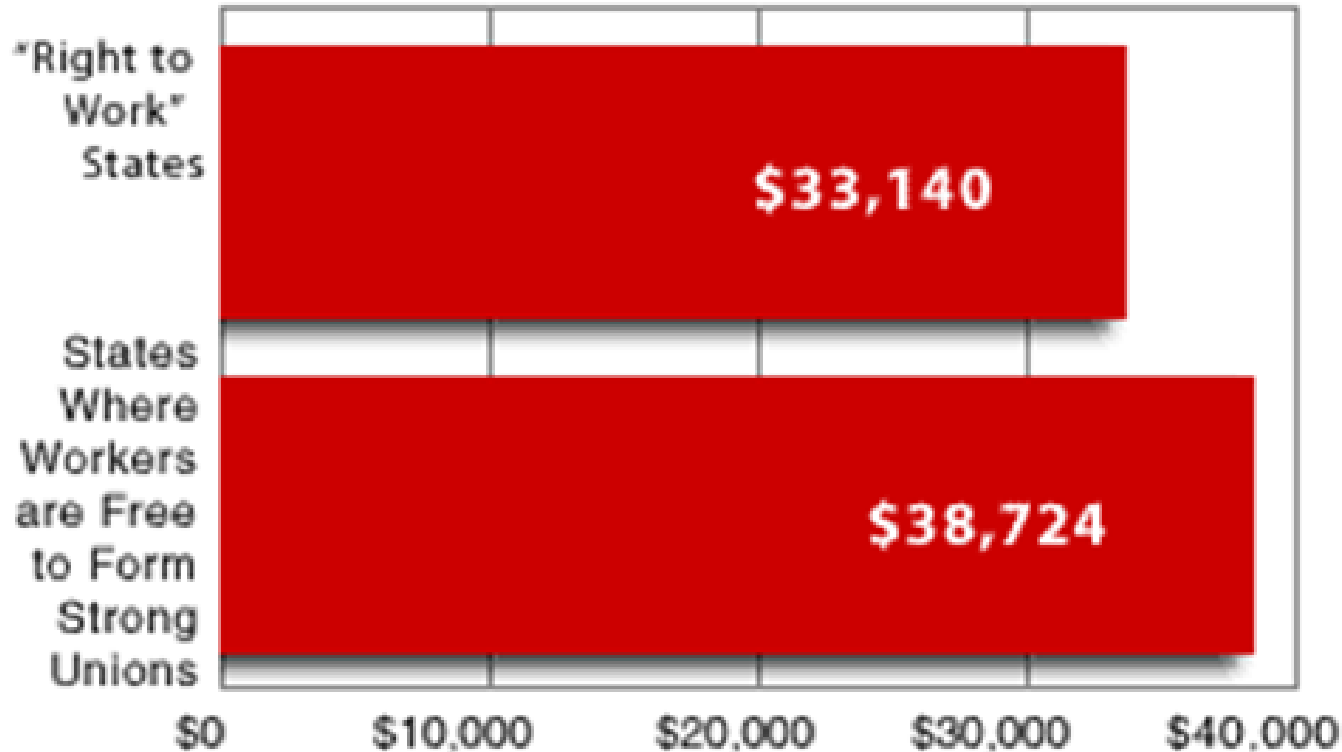
How Do We Fix Inequality?

Workers who join together to collectively bargain for wages, hours and working conditions make more money on average, thereby paying more in taxes¹, utilize fewer safety net services, and have less turnover than nonunion workers.



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

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.



“Right to Work”
Equals

\$1 BILLION
negative impact
to Connecticut’s
Economy ²

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.

Transition to Sal

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
2010.¹**

**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.**

¹ U.S. Internal Revenue Services at <https://www.irs.gov/statistics/soi-tax-stats-historic-table-2>

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.

Transition to Don

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.**

Transition to Sal

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

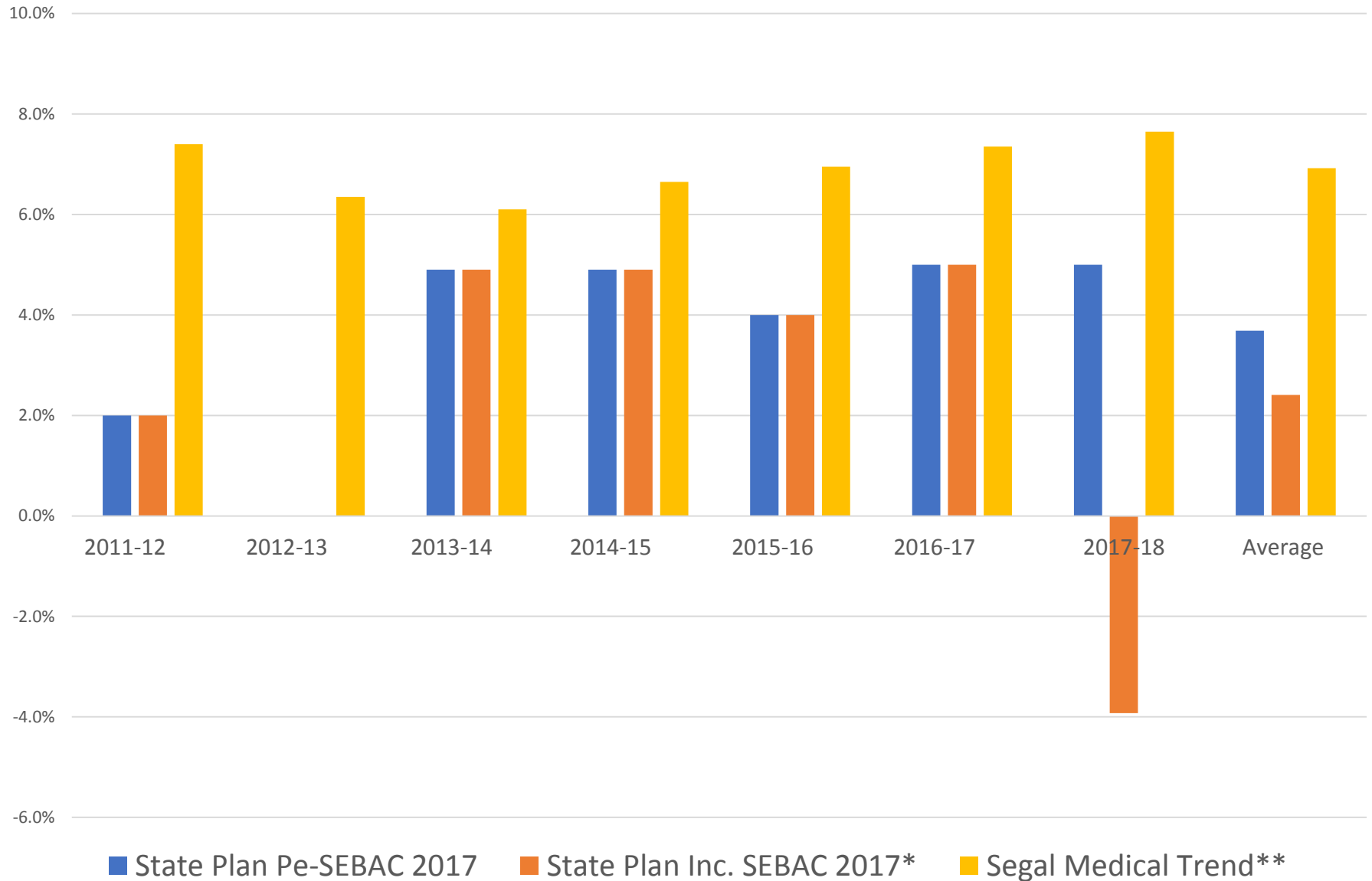
Solutions for Economic Growth

- **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.**

Transition to Danny

	Impact by FY:																			
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	FY 2036	FY 2037
Wages																				
FY 17, 18, and 19 zeros	300.6	468.2	491.6	491.6	491.6	491.6	491.6	491.6	491.6	491.6	491.6	491.6	491.6	491.6	491.6	491.6	491.6	491.6	491.6	491.6
3 Unpaid Days in FY18	36.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
April 2018 Longevity Delay	11.0	(11.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
\$2K payment / \$1K + top-step in FY19	-	(88.4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Active Healthcare																				
Financial Incentive to utilize urgent care over ER	13.3	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9
Full utilization management on PT / OT services	2.7	3.2	3.3	3.5	3.6	3.7	3.9	4.0	4.2	4.4	4.6	4.7	4.9	5.1	5.3	5.5	5.8	6.0	6.2	6.5
PCP and specialist tiering based on quality and cost for PCP specialties	(1.1)	(1.3)	(1.4)	(1.4)	(1.5)	(1.5)	(1.6)	(1.6)	(1.7)	(1.8)	(1.9)	(1.9)	(2.0)	(2.1)	(2.2)	(2.3)	(2.3)	(2.4)	(2.5)	(2.6)
PCP and specialist tiering based on quality and cost for non-PCP specialties	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Site of service: Diagnostic X-rays, high-cost imaging and labs	6.3	7.5	7.8	8.1	8.4	8.8	9.1	9.5	9.9	10.3	10.7	11.1	11.5	12.0	12.5	13.0	13.5	14.0	14.6	15.2
Member incentive based program (SmartShopper)	2.8	3.7	3.8	4.0	4.2	4.3	4.5	4.7	4.9	5.1	5.3	5.5	5.7	5.9	6.2	6.4	6.7	6.9	7.2	7.5
Increased co-pays for non-HEP drugs	7.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Adopting the CVS standard formulary	25.4	27.0	28.1	29.2	30.4	31.6	32.9	34.2	35.6	37.0	38.5	40.0	41.6	43.3	45.0	46.8	48.7	50.6	52.6	54.7
Improved pricing in 2018 RFP due to Medicare Advantage pricing improvements	-	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Implementation cost	(0.1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Premium Cost Sharing (1%/1%/1% starting 7/1/19 ; new hires = 3% now)	-	-	5.6	11.2	16.8	17.5	18.2	18.9	19.7	20.4	21.3	22.1	23.0	23.9	24.9	25.9	26.9	28.0	29.1	30.3
Retiree Healthcare																				
Medicare Advantage	63.3	130.5	135.7	141.1	146.8	152.7	158.8	165.1	171.7	178.6	185.7	193.2	200.9	208.9	217.3	226.0	235.0	244.4	254.2	264.4
Misc. pre-65 benefit changes	1.4	3.9	5.9	7.9	9.0	9.4	9.7	10.1	10.5	10.9	11.4	11.8	12.3	12.8	13.3	13.9	14.4	15.0	15.6	16.2
Medicare Part B changes	-	-	-	-	1.6	3.2	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Retiree Cost Sharing (+1.5% eff. 7/1/17, +3.5% eff. 7/1/22)	0.3	0.6	0.9	1.2	1.5	2.2	2.9	3.6	4.3	5.0	5.7	6.4	7.1	7.8	8.5	9.2	9.9	10.6	11.3	12.0
Pensions																				
SEBAC Wage Freeze, COLA Holiday, COLA Formula, Contributions & Tier 4	205.3	233.5	258.8	263.5	282.9	300.0	305.3	311.6	318.7	326.1	333.7	341.9	350.0	359.0	368.7	379.0	390.0	401.7	414.2	426.9
Judicial Marshals	-	-	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
ARP Changes	5.0	5.0	7.0	7.5	7.9	8.3	8.8	9.3	9.8	10.3	10.8	11.3	11.8	12.4	13.0	13.5	14.1	14.7	15.4	16.0
Additional Items																				
Tuition & Reimbursements	(2.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Attrition	23.1	53.6	63.2	65.4	67.1	68.7	70.5	72.2	74.0	75.9	77.8	79.7	81.7	83.8	85.9	88.0	90.2	92.5	94.8	97.1
Total	700.9	868.6	1,042.0	1,064.4	1,101.9	1,132.1	1,150.9	1,169.5	1,189.4	1,210.1	1,231.5	1,253.8	1,276.6	1,300.9	1,326.4	1,353.0	1,380.9	1,410.1	1,440.8	1,472.2
Cumulative Total:	700.9	1,569.5	2,611.5	3,675.9	4,777.8	5,909.9	7,060.9	8,230.4	9,419.9	10,630.0	11,861.4	13,115.3	14,391.9	15,692.8	17,019.2	18,372.1	19,753.0	21,163.1	22,603.9	24,076.1

Comparative Healthcare Costs Trends



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

Transition to Lori

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

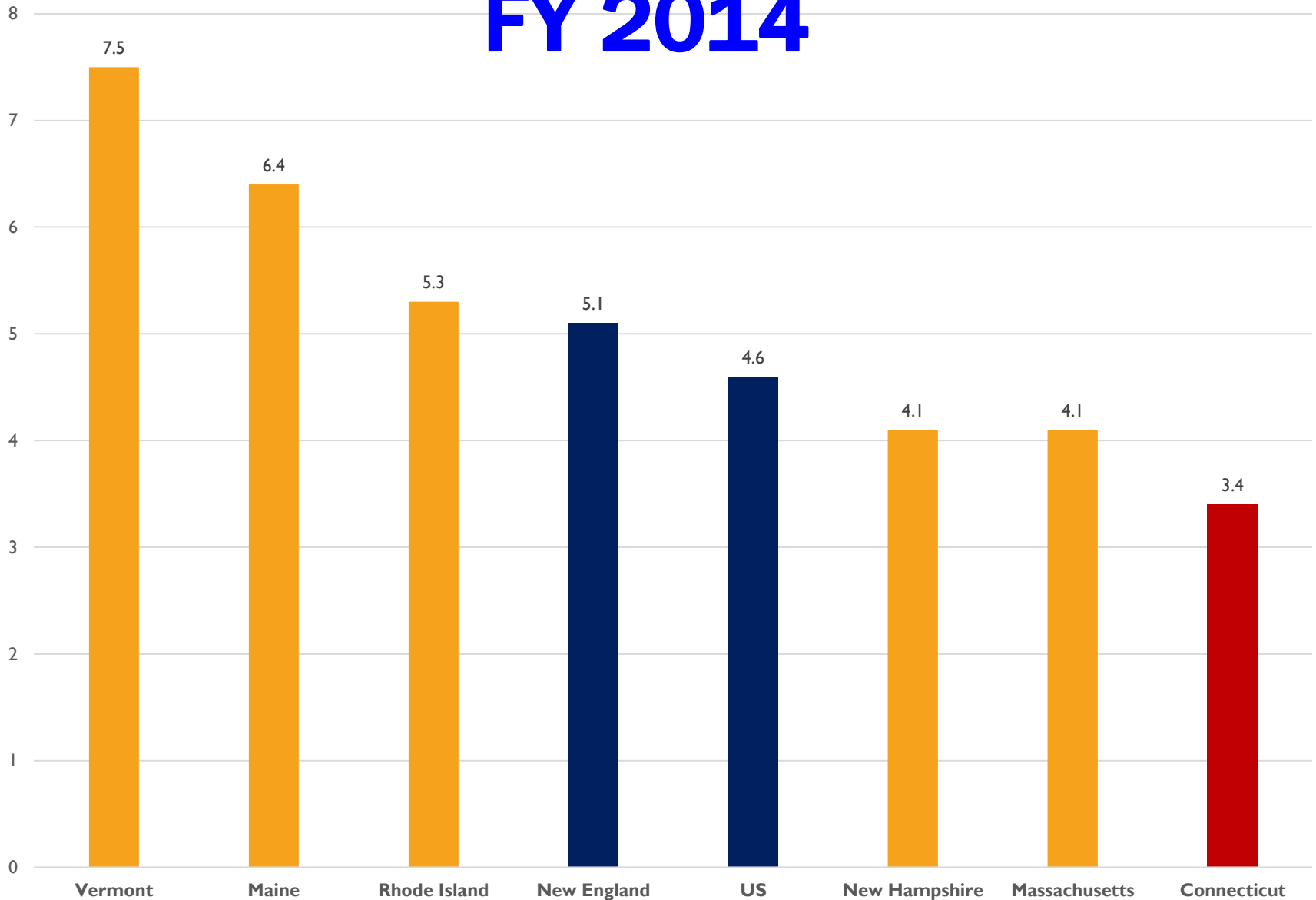
- \$15/hour minimum wage
- 12 weeks paid family leave
- Free in-state public tuition
- Accessible and affordable public transportation
- Vibrant cities
- Infrastructure development

Solutions for Economic Growth

Scrutinize tax expenditures.

Businesses already get a great deal in Connecticut.

Total Effective Business Tax Rate FY 2014

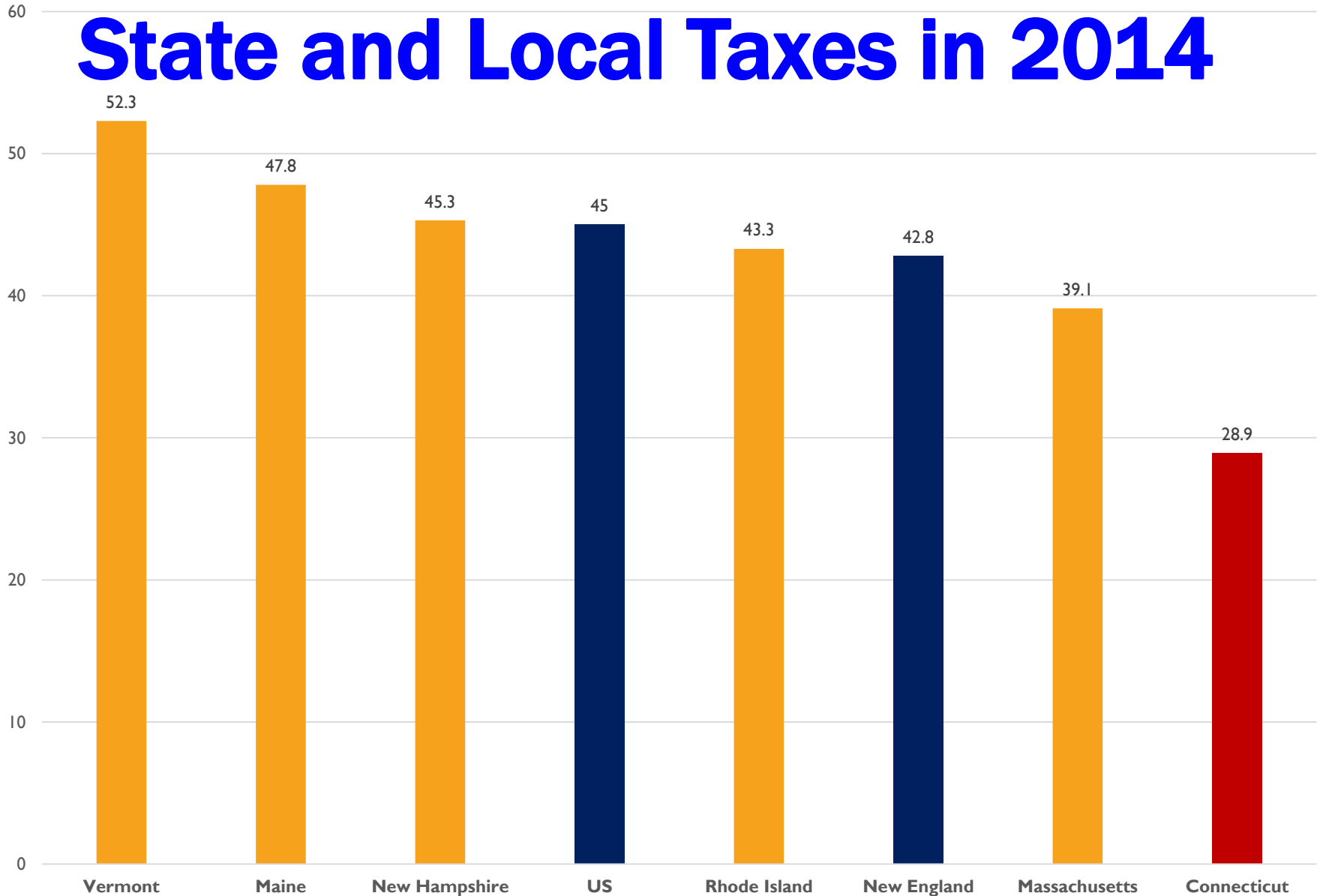


Total Effective Business Tax Rate

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



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

Massachusetts	39.3%	Oregon	29.9%	South Dakota	26.3%
Colorado	37.5%	Delaware	29.5%	New Mexico	26.1%
Connecticut	37.1%	Montana	29.4%	Michigan	26.0%
Maryland	36.9%	United States	29.1%	Idaho	25.5%
New Jersey	36.2%	Nebraska	29.0%	Ohio	25.2%
Vermont	35.8%	Georgia	28.2%	South Carolina	25.1%
Virginia	35.5%	Maine	28.0%	Wyoming	24.7%
New Hampshire	34.6%	Alaska	28.0%	Tennessee	24.3%
New York	33.4%	North Dakota	27.9%	Oklahoma	23.8%
Minnesota	33.2%	Pennsylvania	27.8%	Indiana	23.4%
Washington	31.7%	North Carolina	27.4%	Alabama	23.3%
Illinois	31.6%	Arizona	27.3%	Nevada	22.4%
Rhode Island	31.4%	Wisconsin	27.1%	Louisiana	22.0%
California	30.9%	Florida	26.8%	Kentucky	21.8%
Utah	30.7%	Texas	26.7%	Arkansas	21.0%
Kansas	30.4%	Missouri	26.4%	Mississippi	20.7%
Hawaii	30.1%	Iowa	26.3%	West Virginia	18.6%

Source: American Community Survey

People 25 and Older With a Completed Advanced Degree in 2012

Massachusetts	17.1%	Pennsylvania	10.9%	South Carolina	9.1%
Maryland	16.9%	Kansas	10.9%	Texas	9.0%
Connecticut	16.6%	United States	10.9%	Kentucky	8.9%
Virginia	14.9%	Minnesota	10.8%	Alabama	8.6%
New York	14.4%	Hawaii	10.5%	Tennessee	8.6%
Vermont	13.9%	Utah	10.4%	North Dakota	8.4%
New Jersey	13.8%	Georgia	10.4%	Indiana	8.4%
Colorado	13.7%	Arizona	10.2%	Idaho	8.2%
Rhode Island	12.8%	Michigan	10.0%	Iowa	8.2%
New Hampshire	12.6%	Maine	9.8%	South Dakota	8.1%
Illinois	12.0%	Nebraska	9.7%	Oklahoma	7.9%
Delaware	11.4%	Missouri	9.7%	Wyoming	7.8%
Oregon	11.3%	Florida	9.6%	Mississippi	7.6%
California	11.3%	North Carolina	9.3%	Louisiana	7.5%
Washington	11.3%	Ohio	9.3%	Nevada	7.5%
New Mexico	11.2%	Wisconsin	9.3%	West Virginia	7.3%
Alaska	10.9%	Montana	9.2%	Arkansas	7.2%

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**