

MEMORANDUM

DATE: March 22, 2017
TO: CRCOG Executive Committee
FROM: Lyle Wray, Executive Director
SUBJECT: State and Local Budget Talking Points

Most legislative committee deadlines will be by mid-March in a few weeks. After that Finance and Revenue Committees will be considering the full budget and how to manage the 1.45 to 1.6 billion dollar state deficit.

The following points were discussed at the recent the Executive Committee. The idea is to have these in hand starting in early May when there will be a sharper focus on balancing the budget. Offering some of these items too early might be counterproductive but having them ready to the appropriate time seems like a good strategy.

Background points

- The status quo is not sustainable for the state economy on a number of fronts
- CT ranks last on a number of economic indicators among six New England according to recent work by the Federal Reserve
- The state is experiencing slow economic growth
- The state's population and workforce are currently in decline
- Looming challenges include paying for post-employment benefits for state employees and for K-12 teachers (there is one tier of benefits for K-12 teachers) and local employees pensions are also an issue

Principles

- State and local finances are one system and shuffling responsibilities among them is largely a zero sum game
- Pro-growth for the economy to counter current trends
- Stability in finances
- Predictability in finances

Revenue

The recent CCM report has a number of recommendations on diversification of revenue away from a very heavy reliance on property taxes at the local level. Only several of the key points will be emphasized here.

- Sales Tax Sway for Local Aid. To counter a major reduction in local government aid one option would be a statewide 0.65% sales tax increase to 7.0% portion to towns leaving state competitive with neighboring states (and a small amount to metropolitan regions) with commensurate dollar for dollar reduction in state funding for municipal aid. This would be collected by CT DRS but funds would not touch state coffers
- Target Local Aid Better. Better targeting of remaining municipal aid using need capacity gap model from Federal Reserve Bank of Boston. This has been well articulated.
- Replace Corporate Income Tax. Eliminate state corporate income tax that is hard to collect and complex and replace with a much simpler business use tax (such as Ohio) at a much lower rate with much greater transparency
- If TAR were to be cut or eliminated, replace with a Road Use Tax as discussed during the discussion of the 2017 CRCOG legislative agenda.

Spending

- Conduct a thorough review using best available expertise on state, K-12 teacher and local pension systems with recommendations for reform. Consider a second tier of K-12 teacher benefits
- Consider in detail the possible savings from a series of CT Institute for the 21st Century
- Implement the MORE report on strategic use of IT for more effective and efficient state services
- Develop a plan to decentralize some state services to towns (e.g. core of DMV to deputy registrars as in a number of states for a fee) with a time frame, cost and cost recovery schedule. This might be done by a high level commission staffed by Accenture or McKinsey to identify key opportunity areas in revenue and spending based on recent reports (taxation commission, CCM report and others) and come up with a punch list for action