Commission on Fiscal Stability and Economic Growth

The Charge to the Commission:

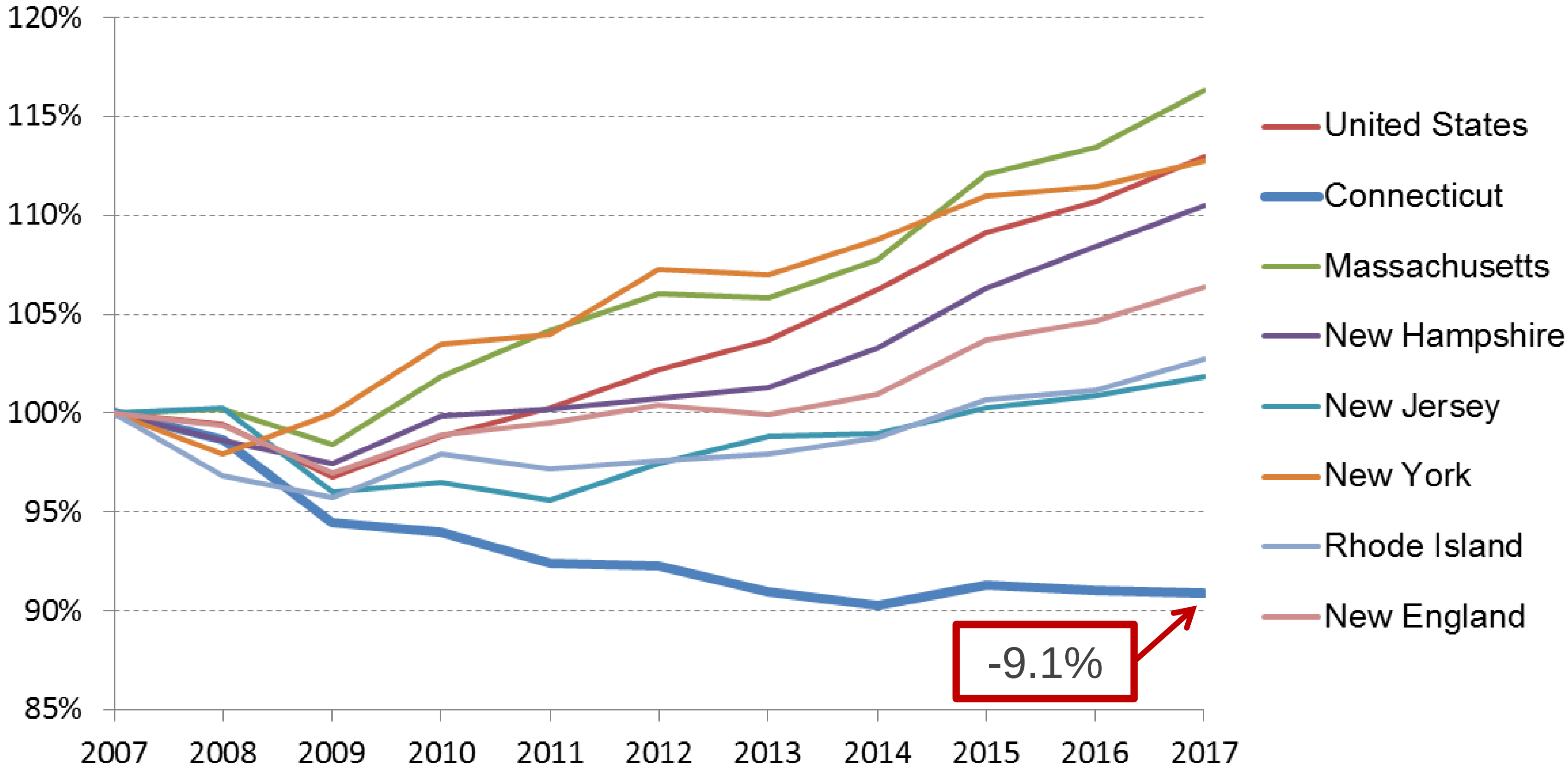
"Develop and recommend policies to achieve state government fiscal stability and promote economic growth and competitiveness within the state. Study and make recommendations regarding state tax revenues, tax structures, spending, debt, administrative and organizational actions and related activities, to:

(1) achieve consistently balanced and timely budgets that are supportive of the interests of families and businesses and the revitalization of major cities within the state, and

(2) materially improve the attractiveness of the state for existing and future businesses and residents."

Connecticut real gross state product has fallen 9% below 2007 levels; lagging neighboring states and national averages

Indexed Real GDP by state (millions of chained 2007 dollars)



- Connecticut real GDP down 9 out of the past 10 years (year over year)
- Connecticut's 2017 shrinkage of 0.2% ranked 49th nationally

Source: Bureau of Economic Analysis, Gross State Product

CT has a poor overall competitiveness score in most rankings

		Cost of Doing Business (Moody's)	Best States for Business (Forbes)	Economic Performance Rank 2007-16 (ALEC)	State Competitive-ness Report (Beacon Hill Institute)
Aspirational	North Carolina	5	1	11	13
Aspirational	Texas	3	2	1	7
Aspirational	Florida	41	7	17	23
Neighbors	New Jersey	49	39	49	50
Neighbors	Massachusetts	50	19	15	1
Neighbors	New York	40	29	19	31
	Connecticut	40	42	50	43

1 = best state, 50 worst

- Top 15
- Mid 20
- Bottom 15

Current CT competitiveness is poor, and has dropped significantly in recent years...

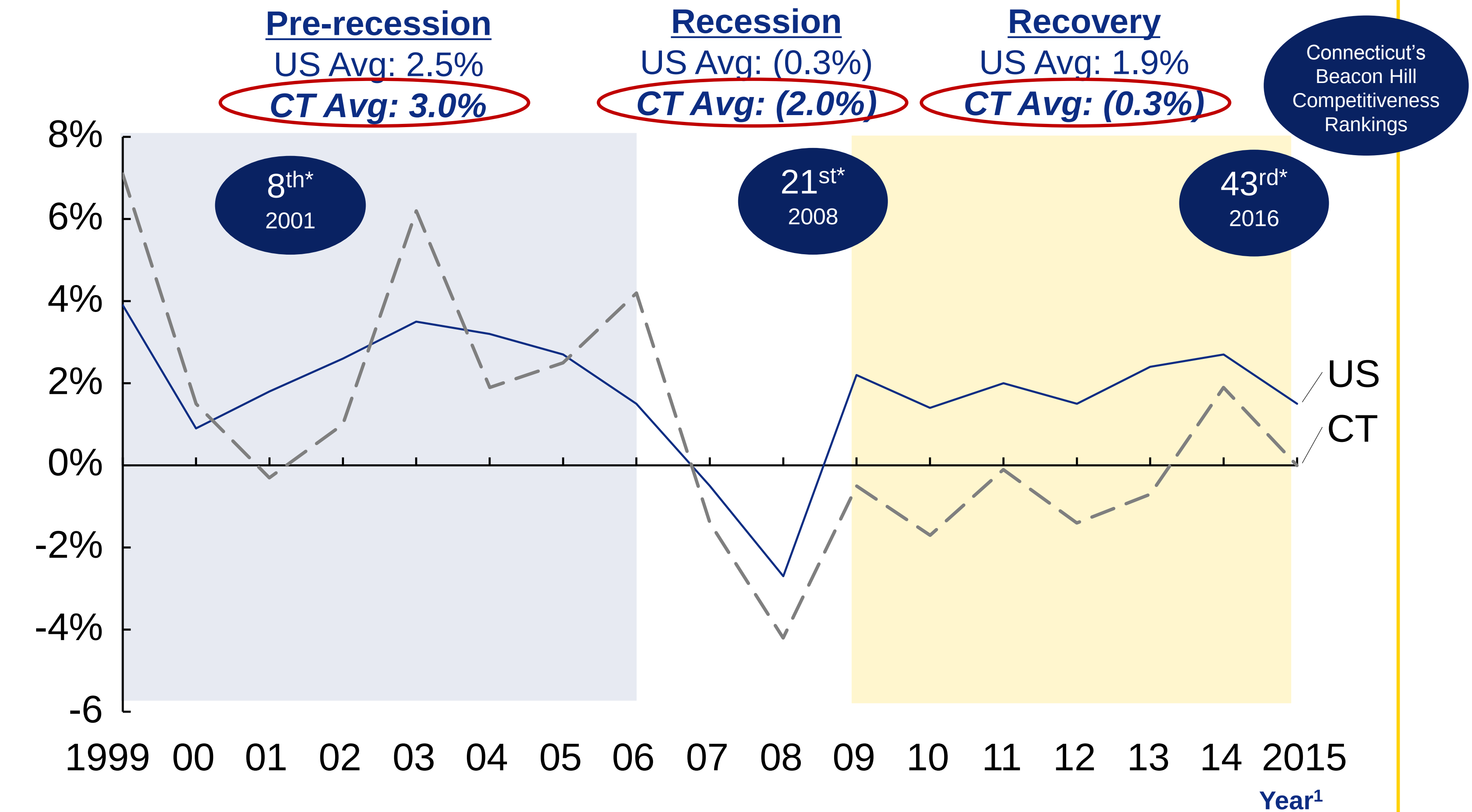
2001 – 8th
2008 – 21st
2016 – 43rd

SOURCE: Moody's, Beacon Hill Institute, ALEC, Forbes

Our growth has slowed as our competitiveness has diminished

CT GDP growth rate

% change from preceding period



1 Each year represents the calculation between two years. For example, "1999" was calculated between "1999-2000"

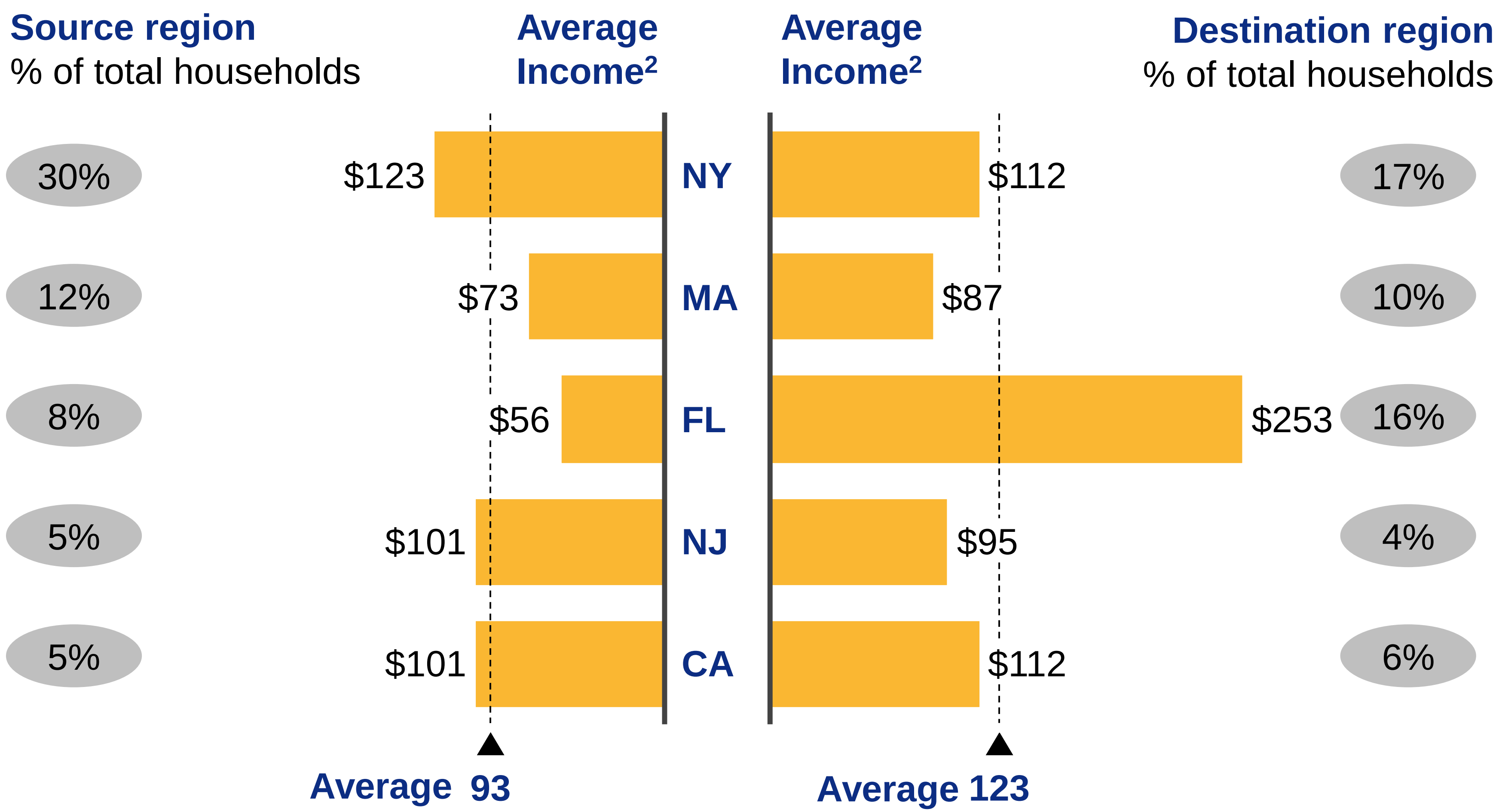
SOURCE: Bureau of Economic Analysis

* Beacon Hill Competitiveness Rankings

Migrants to CT earn less than those who leave CT

Households[1] moving to Connecticut earn $93,000/year…

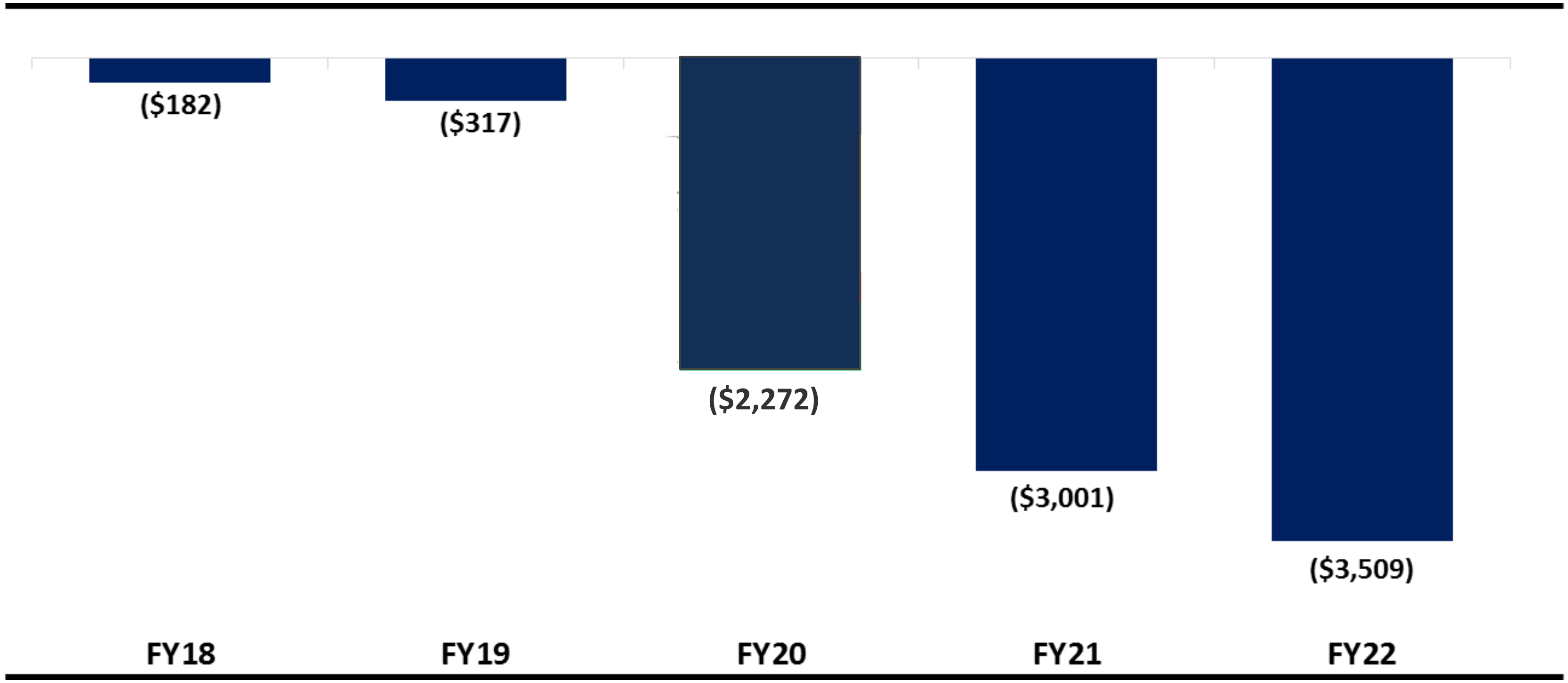
…while CT residents moving away earn more – averaging $123,000/year



1 Number of returns filed approximates the number of households that migrated
2 Adjusted Gross Income as reported to the IRS
SOURCE: Infernal Revenue Service (2015-2016)

Despite achieving a bipartisan budget in 2017, significant out year deficits remain

Connecticut State Forecasted Budget Balances ($ in millions)[1]



(1) Source: FY18-19 Biennial Budget, January 2018 Consensus Revenue Estimates, January 2018 OPM Budget Estimates, OFA Out Year Estimates

Expenses growing much faster than revenues

- Growth in fixed expenses is overwhelming commendable progress in discretionary expenditures controls, and revenue growth is slowing

Projected General Fund Expenditure and Revenue Growth[1]

Category ($ in millions)	Actual FY06[2]	FY17[3]	Projected FY20	Annual Growth '06 to '20	Annual Growth '17 to '20
General Fund Fixed Expenditures	**$5,420**	**$8,796**	**$10,458**	**4.8%**	**5.9%**
Discretionary Expenditures	$9,080	$8,967	$9,251	0.1%	1.0%
Total General Fund Expenditures	$14,500	$17,763	$19,709	2.2%	3.5%
General Fund Revenues	$14,999	$17,703	$17,510	1.1%	-0.4%

A 3% expense / revenue delta increases the deficit by over $500M annually

Source: OFA Fiscal Accountability Report FY17 – FY 20. Connecticut CAFR. 2017 Annual Report of the State Comptroller. OFA Fiscal Note to Enacted Biennium Budget. OPM and OFA January 16, 2018 Consensus Revenue Estimates. OPM January 19, 2018 Budget Letter.

(1) Fixed cost data from OFA Fiscal Accountability Report dated Nov 15, 2016 and is not reflective of enacted budget and projections.

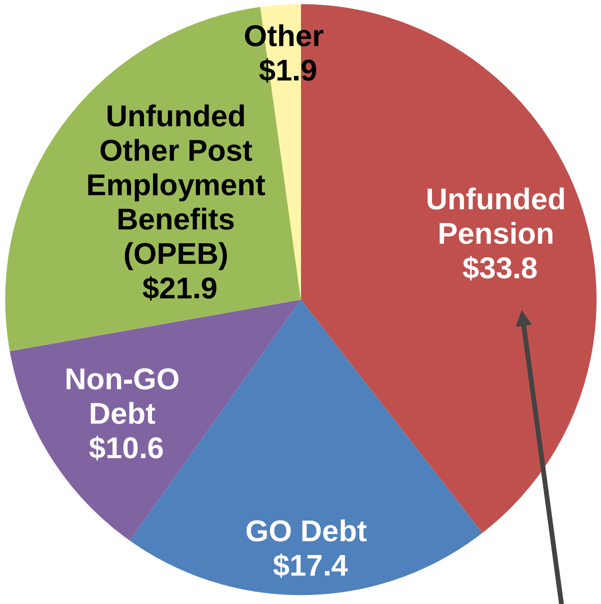
(2) FY06 General Fund revenues and expenditures based on gross funding of Medicaid (includes both federal and local portion).

(3) FY17 General Fund fixed expenditures per OFA Fiscal Accountability Report FY17 – FY20. FY17 total General Fund expenditures and revenues per 2017 State Comptroller's Annual Report.

CT's legacy liabilities are precariously high and trending higher

- The State's $86 billion of total liabilities would increase to nearly $100 billion if the State's pension systems reduced their investment return assumption to 6%[1]

Total Liabilities[2] ($ billions)
$85.5B as of 6/16



State Employees	$20.4
Teachers	13.1
Judicial	0.2
Total	**$33.8**

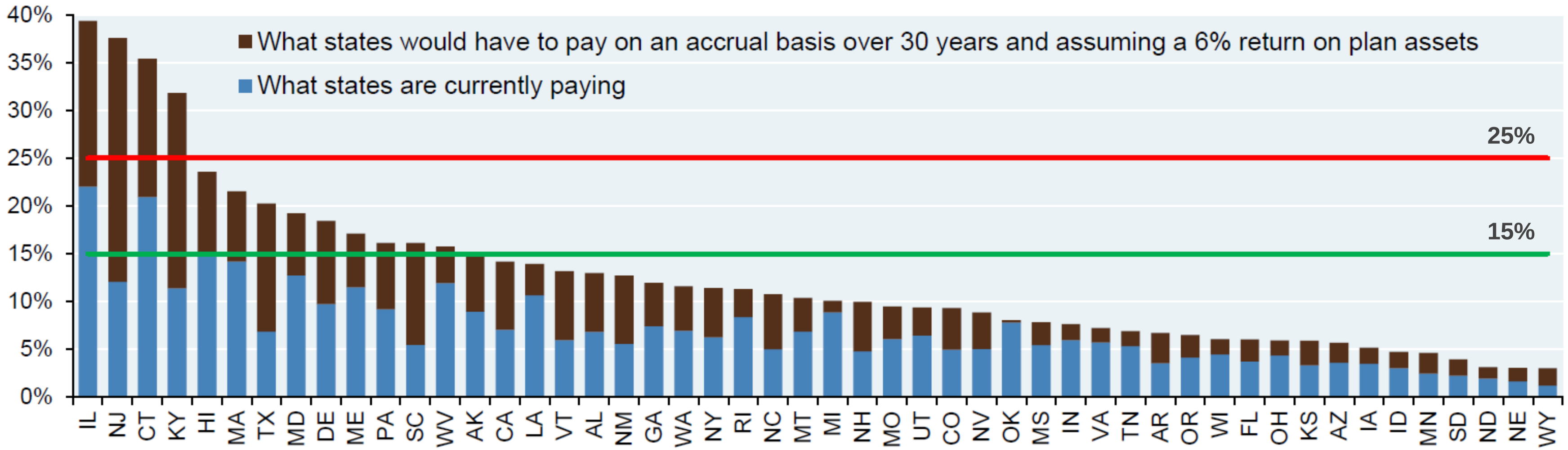
- Debt service to revenue ratio of 13.3% is **highest in the US[3]**
  - 3.0x US mean / 3.2x US median
- Moody's adjusted net pension liability (ANPL) is 20.4% of GDP, **3rd highest in the US[3]**
  - 2.8x US mean / 4.2x US median
- Pension contributions and debt service at 26.5% of revenue is **highest in the US[3]**
  - 3.0x US mean / 3.6x US median
- Net tax supported debt as a % of personal income is 9.7%, **3rd highest in the US[3]**

(1) Sensitivity analysis of pension liabilities per The Pew Charitable Trusts.
(2) State of Connecticut Comprehensive Annual Financial Report, 2016. Debt includes component units. Unfunded pension and OPEB liabilities represent unfunded actuarial accrued liabilities ("UAAL") based on actuarial reports for the State's pension and OPEB systems.
(3) Moody's Investor Service. These ratios have been calculated based on Moody's definitions of debt, pension liabilities, debt service, contributions and own-source governmental revenues (revenues less federal funding), and in most cases will differ from a state's own published calculations or the calculations of other institutions.

Connecticut would need to spend 35 cents of every dollar of revenue to fund obligations amortized over 30 years

- Connecticut spent ~21% of state revenues to fund debt, pension and OPEB liabilities in FY 2015
- 35% of revenue needed to fund debt and legacy pension and OPEB liabilities on an accrual basis over 30 years, assuming an illustrative 6% return on plan assets[1]

Percent of state revenue collections required to pay the sum of interest on bonds, the state's share of unfunded pension and retiree healthcare liabilities, and defined contribution plan payments



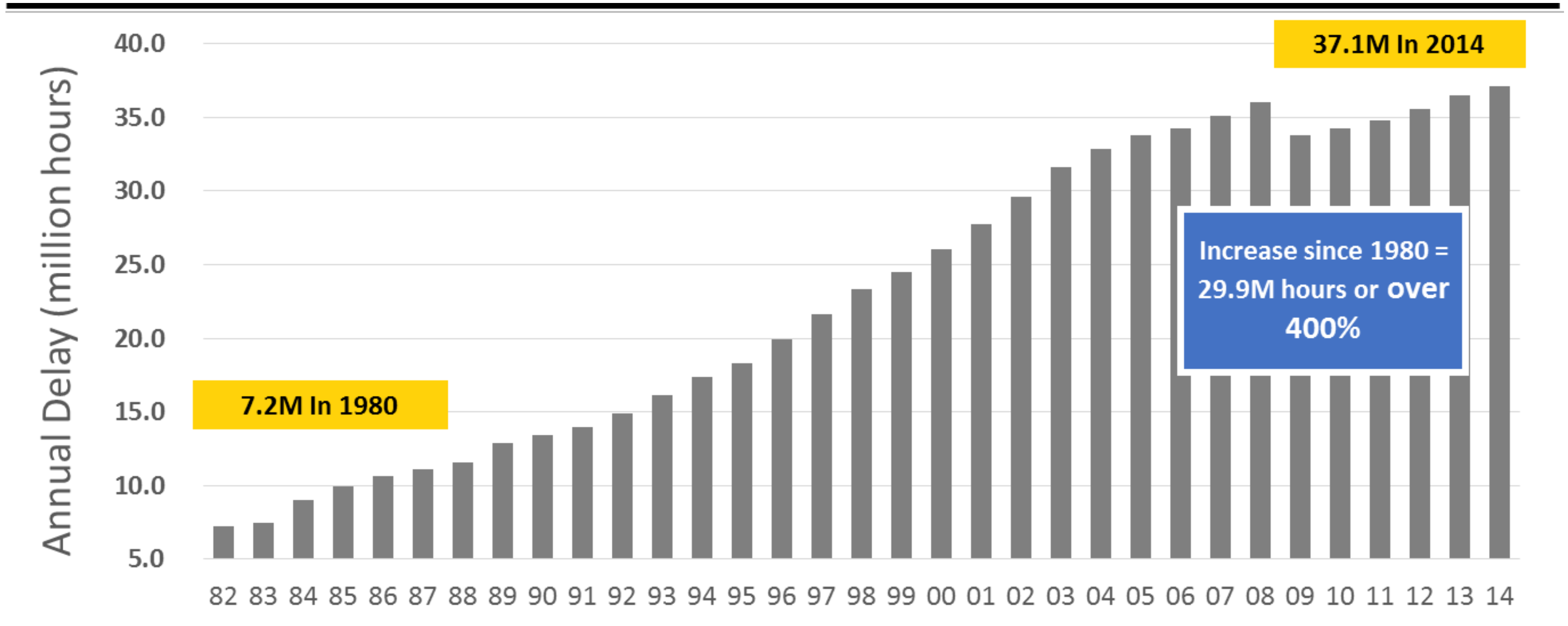
Source: The ARC and the Covenants 2.0, J.P. Morgan Asset Management; State/Pension Plan Comprehensive Annual Financial Reports; Census; Loop Capital Markets. FY 2015.

(1) Accrual basis expenditures include payments of benefits that have accrued even if cash payment for such benefits is not yet due.

The Bridgeport-Stamford Metro Area had 37.1 million hours of traffic delay in 2014, up 400% from 1980

- Highway, airway, rail and port all suffer from underinvestment
- Infrastructure issues cause aggravation and disincentivize business investment
- The backbone of Connecticut's economy needs major capital investment to maintain even current inadequate service levels
- The Special Transpiration Fund (STF) must have a steady, reliable revenue stream in order to commit to longer term investments

Millions of Hours of Delay Annually: Bridgeport-Stamford Metro Area

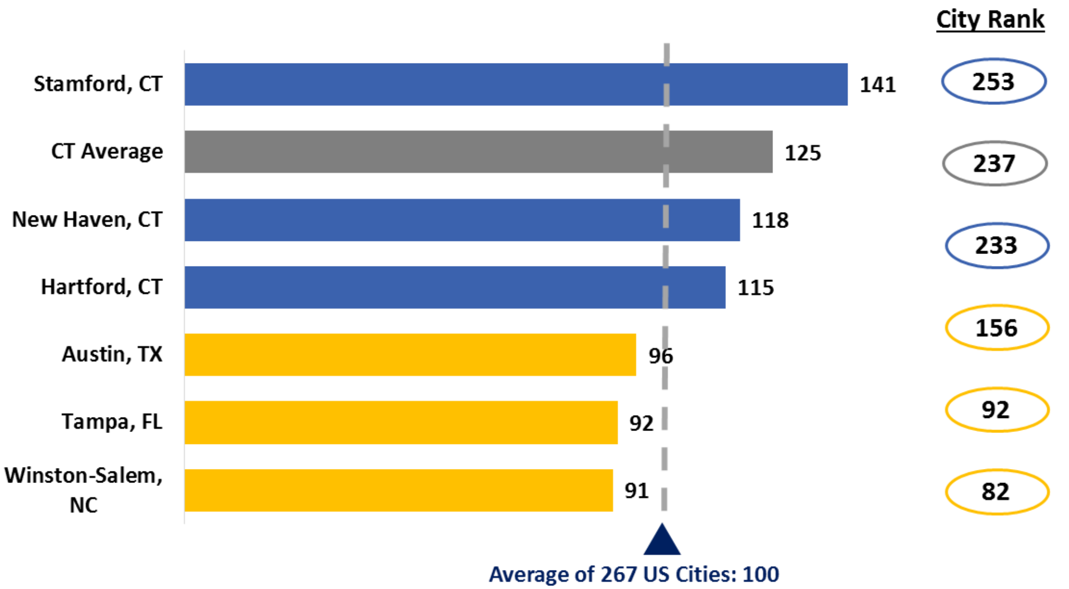


Source: Texas A&M Transportation Institute

Connecticut cities do not provide the vibrant urban cores that are critical to the state's economic growth and well-being

- Our Cities are Challenged by Several Structural Factors:
  - Relatively small, little regional support
  - Provide services to the region without sufficient compensation
  - Uniquely burdened by concentration of tax exempt property
  - High property taxes, making it hard to compete for businesses and residents

The Cost of Living in Cities is Higher in Connecticut[1]



[1] National Association of Realtors (2015)

Key Recommendations…

1. A pro-growth, revenue neutral rebalancing of state taxes that:

- Reduces income taxes in every bracket over three years, with increased progressivity (-$2.1 billion/year)
- Raises the sales tax from 6.35% to 7.25% (+$950 million/year)
- Eliminates 14% of the exemptions and inclusions from all taxes (+$850 million/year)
- Raises taxes on business through a tiered 0.8% payroll tax (+$475 million/year)
- Eliminates the estate and gift taxes (-$130 million/year) and the Business Enterprise Tax (-$20 million/year)

Bracket Before	Bracket After	Annual Income (Single) (A)	Estimated Income Benefit	Estimated Sale Tax Impact	Estimated Net Impact (B)
3.00%	0.00%	$ 10,000	$ 300	$ (30)	**$ 270**
5.00%	3.50%	$ 25,000	$ 530	$ (70)	**$ 460**
5.00%	3.50%	$ 40,000	$ 750	$ (110)	**$ 640**
5.50%	4.50%	$ 60,000	$ 1,000	$ (160)	**$ 840**
5.50%	4.50%	$ 80,000	$ 1,200	$ (210)	**$ 990**
6.00%	4.50%	$ 120,000	$ 1,700	$ (310)	**$ 1,390**
6.90%	5.75%	$ 250,000	$ 1,880	$ (640)	**$ 1,240**
6.99%	5.75%	$ 600,000	$ 7,440	$ (1,530)	**$ 5,910**

Note: All numbers assume average annual spending habits (30% of take-home pay towards taxable purchases) and does not include federal tax payments, estimated payments towards social security or 401k or other pre-tax contributions

Key Recommendations…

2. Raise the minimum wage. Go to $15 / hour by 2022, with possible variations for age, part- or full-time, and/or size of business
3. Create a Joint Budget Committee of the legislature with the power to set limits on revenues and expenses
4. Develop and implement a plan to cut $1 billion out of annual operating expenses
5. Have the legislature assume the responsibility to define state employee fringe benefits by removing them from collective bargaining for new contracts

Key Recommendations…

6. Reform the Teachers' Retirement System to lower costs and to make it sustainable by paying down unfunded liabilities by $7 billion through concession of state Lottery revenues
7. Raise the gas tax by seven cents to fund transportation projects and produce a plan for implementation of electronic tolls. Prioritize projects that impact growth
8. Reinvest in cities – extend CRDA model from Hartford to two other cities, and build a new STEM campus in a city in partnership with a major research university

Key Recommendations…

9. Undertake a series of growth initiatives, led by the executive branch, with the funding and support from the legislature to:

    (1) develop and retain the workforce Connecticut needs,

    (2) support the growth of Connecticut's highest-potential economic sectors,

    (3) transform the business environment for entrepreneurship and innovation

10. Diversify municipal revenue streams beyond the property tax through power to levy fees and fund capital projects through referenda. Authorize COGS to levy 0.5% sales tax only for regional economic development and shared services projects. Amend binding arbitration laws to permit award of compromise outcomes and to facilitate multi-town projects

Results to Date:

- Commission held eight public hearings, 40+ witnesses
- Report completed in 76 days on time, on March 1
- Complimentary review by Governor
- Wide support from editorial boards throughout the state
- Extensive hearings and meetings with legislative leaders and most members of the General Assembly
- Dozens of external speaking engagements

BUT….only limited action so far:

- Omnibus budget bill included three follow-on studies on Commission Proposals
    1. A new tax study panel
    2. A new panel to study the Commission's TRS plan
    3. Launch of a consultant sturdy to find $500M in expense savings

Next Steps:

- Make the "burning platform" a theme of the 2018 campaigns at all levels, and a referendum on proposals for reform