

NOVEMBER 2022



# Charter For Change

A plan to secure a more prosperous, free, and hopeful  
future for all the families of our beautiful state.



## To the Incoming Gubernatorial Administration and General Assembly,

All of us at Yankee Institute consider it an honor to work with you to serve the people of Connecticut. We realize your job is often a thankless one, and we're grateful to each of you for your willingness to enter the arena of public service.

As you know, we're confronting a time of immense national challenge. A recession looks imminent and real wages are declining, while the stock market continues to plummet and inflation soars. The budgets of Connecticut's people are stretched thin. Tax increases are simply not an option — not one cent more.

Affordability is top of mind — and it's unlikely another influx of federal money like the pandemic relief packages will be available to close the gap between what government spends and what it brings in. We'll need to budget responsibly and think creatively both about how to make Connecticut more competitive and how to convince those with the most to offer that our state is a viable place to live and retire.

Our state needs to work not just for those in the business community or at retirement age, but for our children, as well. Anyone committed to eradicating Connecticut's "education gap" — exacerbated by the pandemic — must likewise be committed to education reform. And, of course, the relationship between state and municipal government is vital to our state's future.

The compendium of suggested reforms that follows is intended to spark a dialogue — and, we hope, to generate the changes that will make the days ahead vibrant and secure for Connecticut. They require no changes whatsoever to the State Employees Bargaining Agent Coalition (SEBAC) agreement and could therefore be enacted through the governor's first budget, along with its supporting statutory instruments.

Thank you for your consideration of these proposals. We stand ready to work with you to secure a more prosperous, free, and hopeful future for all the families of our beautiful state.

# Introduction

Connecticut is America’s jewel. Compact and conveniently located between New York City and Boston, it’s replete with natural beauty — waterfalls, lakes, islands, beaches, caves and stunning autumn foliage.

Its cultural contributions are unparalleled. Scholars point to Connecticut’s Fundamental Orders, drafted in 1639, as the first example of a modern written constitution. Our state has given the world the hamburger, the nation’s best pizza, and the first Subway sandwich shop. Other contributions range from the first artificial heart to World Wrestling Entertainment.

But Connecticut has a problem.

Gravely wounded by the Great Recession, our state’s GDP hadn’t recouped its losses before the coronavirus pandemic plunged it into yet another economic downturn. Private-sector employment has never recovered to 2011 levels. From 2008-2020, Connecticut ranked 48<sup>th</sup> in job growth and 49<sup>th</sup> in wage growth. <sup>i ii iii</sup>

Over the last decade, many of the state’s iconic employers — General Electric, Aetna and even Edible Arrangements — decamped to other parts of the country. And just last year, Massachusetts ended Connecticut’s decades-long run as America’s wealthiest state, measured in terms of per-capita personal income.

This is discouraging, but it is not cause for despair. It does, however, underscore the need for a significant course correction.

The history of other states demonstrates that good policy makes an enormous impact. State turnarounds can happen.

Our neighbor to the north adopted strong, pro-growth policies. As a result, it has largely shaken its once-pervasive designation as “Taxachusetts” and enjoys strong economic growth — its treasury doubled between 2008 and 2022.

Wisconsin, which faced crushing budget deficits during the Great Recession, righted the ship with a series of pro-growth regulatory, labor, and budget reforms. Badger State residents went from having the country’s fifth-highest tax burden in 2010 to its 19<sup>th</sup> in 2022, enjoying a strong economic recovery that saw the state’s manufacturers expand and add jobs.

Here’s the good news: Connecticut’s historical economic advantage did not result from now-depleted mineral reserves or a location of diminished geopolitical importance. It was earned through the business climate cultivated by policymakers in Hartford — a climate that can be restored with enough resolve.

This *Charter for Change* does not claim to contain an exhaustive list of all that can — or must —be done to restore Connecticut to the glory of its full potential. Rather, it’s designed both to challenge flawed assumptions and to inspire good ideas.

There are many ways that, together, we can make our great state more prosperous, more affordable, more competitive — and a place where people can forge a better future for themselves and their families. We only need the will, and the hope, to act.

# Make Connecticut Less Taxing

Innovation has made both individuals and capital more mobile than ever before — and the coronavirus pandemic has sparked a revolution in the way people are planning for the workplaces of the future. The convergence of these trends means tax policy impacts Connecticut’s economic competitiveness more than at any point in state history. This reality presents both a threat and an opportunity.

First, the bad news. Each Connecticut taxpayer bears an overall state debt burden of \$62,500. <sup>iv</sup> And despite the extra payments deposited this year into state pension funds, Connecticut’s per capita pension debt remains among the highest in the nation. <sup>v</sup>

It’s quite an achievement to have racked up such debt. After all, Connecticut’s tax burden — the percentage of income residents pay to states and local governments — has been among the country’s highest in recent years and has grown the most since 1977. <sup>vi</sup>

This year, Connecticut ranks 49<sup>th</sup> in state and local tax burdens. <sup>vii</sup> According to the Tax Foundation, a whopping total of 15.4 percent of our net product goes to state and local taxes. Somehow, the Constitution State has made California look reasonable — and Massachusetts outright appealing.

Indeed, Connecticut’s corporate business tax and personal income tax both produced more revenue than expected in fiscal year 2022 — in part because what should have been temporary rate increases have remained in place beyond any defensible timeframe. Yet rather than seeking to return money to the taxpayers through tax cuts, the governor and General Assembly have instead moved to spend the surplus on favored projects of their own.

Nevertheless, reasons for optimism remain. There is no shortage of opportunities for Connecticut to reduce both residents’ tax burdens and state spending, and then enjoy the economic growth and vibrance that results from doing so.

## Flatten the Income Tax with Bracket-Based Reforms

Connecticut’s seven-bracket personal income tax is the state’s main revenue source, bringing in 52 percent of General Fund taxes during fiscal year 2022. <sup>viii</sup>

The tax originated in 1991 as a flat 4.5 percent assessment that let Connecticut reduce its highest-in-the-nation corporate income tax, sale tax, and taxes on investment income. Today, however, the rates begin at 3 percent and rise to 6.99 percent for individuals earning over \$500,000 and married couples earning over \$1 million. <sup>ix</sup> They are the product of four rounds of rate increases in 2003, 2009, 2011 and 2015 amid economic downturns.

However, rather than ending the tax hikes as revenues increased, the General Assembly routinely spent the windfall, leaving Connecticut more vulnerable to fiscal turbulence as reliance on the income tax grew.

One noteworthy feature of the current tax structure is how little of the revenue — about 10 percent <sup>x</sup>— results from the tax’s progressivity. In fact, Connecticut could essentially flatten its income tax but lose only a tenth of its personal income tax revenue (or about 5 percent of all revenue) in the process. That loss doesn’t account for the positive effects of flattening the tax, such as retaining more residents and spurring more economic growth.

If Connecticut merged its top six tax brackets into a single bracket in which income were taxed at 5 percent, the immediate result in tax year 2020 would have been a \$1.56 billion (or about 15 percent) decrease in revenue, according to the state’s DIY Revenue Calculator. To put this figure in context, Connecticut personal income tax receipts are slated to come in \$1.6 billion over forecast — meaning the state, in theory, could have flattened the income tax last year.

The savings would flow to individuals with incomes as low as \$50,000, whose rates were hiked after the Great Recession. Only about half the savings would go to individuals earning over \$250,000 and families earning over \$500,000, <sup>xi</sup> who were targeted with repeated rate increases during the period.

Why don’t Connecticut’s high personal income tax rates generate more cash for Hartford? Many of the state’s high-earners commute to finance jobs in Manhattan, meaning they must also pay New York personal income taxes — and they can deduct those payments from their often-smaller Connecticut liability. Among Connecticut’s top earners, the 12,553 households and individuals with incomes over \$1 million, the state credited \$873 million off \$3.3 billion in tax liabilities in tax year 2020. <sup>xii</sup>

That year, Connecticut credited \$1.6 billion for taxes paid to other states, primarily New York. <sup>xiii</sup> Of that sum, \$1.3 billion (82 percent) went to households and individuals with adjusted gross incomes above \$250,000. Were Connecticut to design a program enabling its residents to pay taxes to Connecticut rather than New York, it would make sense to steer much of the recovered funds toward cutting top income tax rates — a “bracket-based” approach.

In the post-COVID era, Connecticut has an opportunity to do just that.

As of May 2022, financial service employees in New York City (a core group of Connecticut/city commuters) were working from home 40 percent of the time, or two days per week. <sup>xiv</sup> But New York state tax law treats days worked from home as though hybrid employees were in the office, requiring them to pay taxes to New York.

Under New York’s “bona fide employer office” tax rules, however, if their employers were to establish Connecticut offices and designate them as their main work destination, these employees would pay Connecticut taxes instead on days worked both from home and from the Connecticut office. <sup>xv</sup>

Some companies are already doing this. Last year, State Street Corporation announced it would vacate its Midtown Manhattan offices and instead let employees work from Stamford or New Jersey. <sup>xvi</sup> In 2020, Elliot Investment Management, a hedge fund managed by Paul Singer, announced a move to Florida, but also opened an office in Greenwich. <sup>xvii</sup>

Connecticut should develop an incentive for New York firms to create “bona fide employer offices” in the state, linked to the amount of savings Connecticut will realize from no longer crediting those employees’ New York tax liabilities. These could include:

- Exempting any new “employer office” from Connecticut’s 7.5 percent corporation business tax — tax that the state otherwise would not collect (as a first step toward overall reduction or repeal of the CBT).
- Financing redevelopment of office space in distressed municipalities near commuter rail stations.
- Providing tenants with free Metro-North travel.

The increased revenues that result from this push should be programmed to reduce the state’s top tax rate of the rehomed employees.

The state could further finance the top-rate reductions by eliminating tax incentives that disproportionately benefit high-earners. For instance, the General Assembly recently lowered the sales tax rate on boat and related marine purchases to 2.99 percent. Restoring it to its former level of 6.35% would raise about \$11 million annually. <sup>xviii</sup>

To finance rate cuts in the mid-range brackets, Connecticut should use its personal income tax revenue gains and cancel the pre-election tax gimmicks that were adopted in 2022.

The state could eventually increase the base exemption, eliminate the three percent bracket, and lower the income

threshold for the five percent tax to make Connecticut’s tax code a true flat tax — as it was when it was created in 1991. The General Assembly could then do what it should have done that year: amend the state constitution to bar future governors and lawmakers from adding new brackets.

## Cap The Growth of Property Taxes

Connecticut homeowners and businesses lack a key protection enjoyed by their counterparts in Massachusetts and New York, where state laws limit how quickly property tax levies may rise in a year. For instance, in New York, the property tax is capped at two percent or the rate of inflation, whichever is less. <sup>xix</sup>

At present, Connecticut has no meaningful property tax limitation regime. Creating one like those in either New York or Massachusetts would provide certainty and invite more long-term investment — especially for would-be commercial investors. Additionally, a tax cap would shield local governments by making it more difficult for state law-

Flattening the income tax would send a powerful message that Connecticut is putting almost four decades of financial mismanagement behind and encouraging more high-earner migration from New York City — for which Connecticut competes on an ongoing basis with Long Island, the Hudson Valley and northern New Jersey.

makers to shift costs back to municipalities, secure in the knowledge that property taxes could be endlessly raised to pay for them.

Of the three types of property tax limitations — levy limits, rate limits, and assessment limits — the former has been found to couple the greatest effectiveness with the fewest unintended consequences. <sup>xx</sup> Most caps permit some pre-set rate of growth. In order to provide flexibility in exigent circumstances, Connecticut’s property tax cap could feature an override provision, allowing voters to approve growth outside the cap.

## Eliminate Estate and Gift Taxes

When wealthy residents weigh the option of moving to Florida, often it isn’t only — or even mostly — the search for a more temperate climate that motivates them. Rather, it’s reluctance to die as a Connecticut resident. <sup>xxi</sup>

Although our state legislature wisely decided to begin raising the estate-tax threshold in 2017, it remains an outlier by virtue of retaining the tax at all. Only eleven other states have an estate tax. <sup>xxii</sup>

What’s more, Connecticut is alone in the United States in imposing a gift tax on its people. The gift tax itself incentivizes a host of perverse and time-wasting behaviors, simply so that family members may help each other remain self-sufficient without penalty, rather than relying on state aid. Like the death tax, the gift tax is double taxation, as the taxpayer already paid tax when the funds were earned.

In 2023, the threshold for the death tax will increase to \$11.4 million and there will be a flat rate of 12 percent for the total estate above that exemption. But given that both the estate and the gift tax are highly volatile and account for only a small amount of total state revenue, it’s worth examining whether their benefits are worth the significant costs they impose.

Experts have repeatedly explained to the state legislature that by creating an incentive for affluent residents to flee our state, these taxes end up costing Connecticut consequential sums of income-tax revenue. What’s more, their spillover effects are substantial. <sup>xxiii</sup> Along with the loss of human capital, they result in reduced revenue from the sales taxes that would otherwise be paid by those who now spend half the year elsewhere. Even charities suffer, as their benefactors’ loyalties are divided between Connecticut nonprofits and their out-of-state counterparts. <sup>xxiv</sup>



Finally, the estate tax imposes heavy and punishing taxes on families with wealth based in land ownership or possession of some other illiquid asset. The tax applies not only to savings but to real and tangible business property. As a result, Connecticut farmers and small-business owners with land or business assets — but less liquid wealth — may end up ruined by the estate tax, forcing their heirs to sell off the property or business, just to pay the tax.

## Simplify and Reduce (or Repeal) the Corporation Business Tax

In 2019, more than 32,300 businesses paid Connecticut’s corporation business tax (CBT) — one of the state’s oldest taxes. <sup>xxv</sup> The CBT was created in 1915 when farmers, bristling at the growing cost of state government and the resultant assessments on towns and cities, pressed the General Assembly to target factory profits. <sup>xxvi</sup>

Corporate income taxes are among the most economically destructive taxes because capital is mobile. <sup>xxvii</sup> For Connecticut, where employment growth has been slow, targeting employers is especially counterproductive.

Connecticut’s CBT taxes profits at 7.5 percent, with the largest companies paying a 10 percent surtax on top of their ordinary bill. <sup>xxviii</sup> The tax, however, has a particularly unique and vicious feature: for most companies that aren’t profitable, the CBT assesses a tax on their “capital base” — essentially the operation’s value. This is particularly destructive for start-ups with cash reserves, making Connecticut especially unattractive for what could otherwise be new major employers.

The CBT is expected to raise an average of \$1.3 billion over the next four fiscal years — less than 6 percent of state tax revenues. <sup>xxix</sup> Unknown compliance costs decrease the tax’s actual value even more. At least half of Connecticut businesses (16,654) paid the mandatory minimum \$250 tax. <sup>xxx</sup> In many (if not most) cases, businesses actually spent more money preparing their state returns than they owed. <sup>xxxi</sup>

It makes no sense to address a problem this significant with half measures, like simply raising the threshold for imposition of the estate tax. The state gift and estate taxes should be repealed altogether.

This single, clear-cut reform would do an enormous amount to offer Connecticut an important competitive edge over New York and persuade its wealthiest residents to remain in the Constitution State.

What’s more, the CBT is unevenly administered. Connecticut has already exempted a wide range of businesses from the CBT, once again effectively picking winners and losers. And the state has credited away more than 15 percent of the liability. <sup>xxxii</sup> Nearly one-third (\$46 million) of the \$148 million in total film tax credits went toward “film production” credits, <sup>xxxiii</sup> with 25 recipients receiving an average of \$1.8 million. The plethora of credits means the effective rate is considerably lower for those who can take advantage of them. Small businesses, however, which make less use of the credits, end up paying a higher effective rate than their larger, richer counterparts.

The 2017 federal Tax Cuts & Jobs Act lowered the federal corporate tax rate from 35 percent to 21 percent, making businesses more sensitive to the tax bite posed by states and increasing interstate competition to lower corporate taxes.

It makes sense to reduce the tax, or even eliminate it altogether. An analysis by UConn estimated that simply reducing the CBT rate from 11.5 percent to 7.5 percent <sup>xxxiv</sup> in the late 1990s prompted businesses to add about 5,956 private-sector jobs. <sup>xxxv</sup>

Phasing out the CBT would intensify the job-creating effect that reduction of the tax would promote. The easiest time to contemplate phasing out the tax might be during a recession, when corporate tax receipts plunge in any case. Doing so would instantly make Connecticut a destination for businesses already shopping for smaller office space. It would encourage hiring and investment, which would bolster other tax receipts.

## Reform the Passthrough Entity Tax

Even as lawmakers reform the CBT, they should take note of another tax. Since 2018, certain entities have been taxed at 6.99 percent under a “passthrough entity tax” (PET) scheme that allows principals to deduct state taxes as business expenses and then count most of those payments toward personal income tax bills. Connecticut’s PET applies to

entities ranging from small businesses organized as LLCs to hedge funds.

The General Assembly would be well advised to consider lowering the passthrough entity tax. Many of the affected entities are as mobile as individual taxpayers.

## Eliminate Wasteful Taxes & Fees

Yankee Institute has identified 344 sources of revenue that together grossed \$22.6 billion for the state government during 2021. <sup>xxxvi</sup> Common sense dictates eliminating any tax or fee that collects less for the state than it costs to extract from taxpayers. At the very least, any tax or fee that isn’t revenue positive should be accompanied by a publicly accessible, explicit rationale for it remaining in place.

This reform should extend to local governments, which are limited in their ability to exempt businesses from personal property taxes even if the cost of collection exceeds the sum such taxes contribute to local coffers.

As part of its annual report, the Department of Revenue Services should publish a categorical estimate of the cost for collecting each tax, as well as the revenues resulting from it.

## Keep Broadening the Sales Tax Base

Connecticut’s sales tax rate (6.35 percent for most goods and services) is competitive by regional standards.

Our sales tax has been a more stable source of revenue than either the personal income tax or corporation business tax. What’s more, dollar-for-dollar, the sales tax is less of an obstacle to growth. Continually modernizing the list of goods and services to which the tax applies will offer the state the flexibility it needs to reduce other, more economically destructive taxes.

The state should revisit its various tax breaks (including but not limited to the exemption of “media advertising” and related activities) with an eye to leveling the playing field on which it can lawfully tax digital advertisements. In addition, Connecticut should reverse its exemption for aircraft repair services and parts and take specific steps to encourage other states to do the same. As always, it is not the state’s job to pick “winners and losers.”

Finally, Connecticut should continue to exclude business-to-business transactions to avoid double-taxing job creators.

## Stop Taxing Health Insurance Premiums

Connecticut collects a 1.5 percent tax on health insurance premiums, adding about \$320 to the average cost of employer-provided family coverage. <sup>xxxvii</sup>

The tax runs counter to the state’s stated goal of universal health coverage and is therefore counterproductive.

# Make Better Budget Choices

Reducing Connecticut’s tax burden will require making better decisions about how state funds are spent. It’s important for state officials always to be mindful that the money they’re spending isn’t theirs, but rather taxpayers’ — and accordingly, should always be disbursed with great frugality and care.

## Cancel the ‘22 Tax Gimmicks

A majority of Connecticut’s politicians recently squandered an opportunity to lower tax rates on personal and business income. Gov. Ned Lamont and the General Assembly instead used an unexpected windfall to finance a \$600 million package of tax gimmicks.<sup>xxxviii</sup>

Policymakers in Hartford decided state taxpayers should start picking up part of the cost of local car taxes, producing notably inequitable outcomes. This change may have helped alleviate some local tax burdens in cities and towns with mill rates above 32.26 mills but this excludes most of Connecticut’s residents and favors wealthy areas, paying up to 28 percent of tax bills in a handful of locations.<sup>xxxix</sup>

For instance, a family in Woodbridge (one of the state’s wealthiest towns) with two luxury SUVs valued at \$70,000 each will get almost \$1,000 shaved off their annual tax bill, courtesy of state taxpayers. Those in less affluent towns will be subsidizing that good fortune.

This year, Connecticut also increased its “property tax credit” against state income taxes from a maximum of \$200 to \$300 per year and expanded the number of households to which it applied. This credit is a class-cross subsidization of taxes with which Connecticut has toyed in recent years. Unfortunately, the tax credit is a bandage on the state’s real problem: the high cost of local government, which fuels higher property taxes.

Although caps on spending have slowed the rate of growth in state government expenditures, there remains significant room for improvement in the budget making process.

In addition, Connecticut’s misnamed “child tax rebate” was in fact a one-time entitlement payment that went to households regardless of whether they had paid Connecticut state income tax — or even filed a state income tax return.

The state is also picking up an increasing portion of tuition reimbursement payments made by businesses under the Student Loan Repayment Program. Like federal “forgiveness” of college loans, issues of fairness are worth considering. If the state is going to incentivize companies to offer a benefit (using our tax dollars to do so), is there one that might benefit more people more equitably, and not constitute a redistribution from the less affluent to those who will ultimately earn more as a result of having gained a college education?

Accordingly:

- Connecticut should cancel the car tax subsidy immediately, instead allowing local officials to set their own car tax rates below the tax on real property.
- The property tax credit should be phased out entirely in tandem with property tax reform.
- The child tax rebate should not be renewed.
- The tuition reimbursement program should be eliminated.<sup>xl</sup>

Finally, it’s worth noting that only 12 states in the country tax social security. Sadly, Connecticut is one of them. In the entire northeast, only Vermont joins the Constitution State in this

unhappy company. Rather than picking winners and losers when it comes to retirement income, our state government should either join the other 38 states that don’t tax Social Security benefits, or the phase-out of (government union)

pension and annuity income should be repealed.

## Craft An Interstate Compact Against Corporate Welfare

In recent decades, Connecticut has offered businesses a bevy of tax exemptions and subsidies on the grounds that other states are (or may soon be) providing similar incentives. Proposals to repeal these giveaways after they’ve been enacted are characterized as a form of unilateral disarmament, destined to disadvantage our state.

Yet businesses won’t hesitate to seek special treatment from states where they’re considering a move. For example, the 2017 competition for Amazon’s HQ2 site pitted states against each other, with New York ultimately offering \$500 million in cash plus job-creation tax credits.

Were Connecticut officials to lead an effort to curb such

giveaways, it’s likely they would find both fiscally conservative and progressive partners in many states willing to work with them.

Representative Josh Elliot (D-Hamden) presented a 2021 proposal that would have created an interstate agreement barring states from offering company-specific grants or tax benefits designed to lure businesses from other states.<sup>xli</sup>

Such an interstate compact, essentially immunizing states against efforts to extract special treatment, would eventually allow the state to unwind its significant economic development incentives. This would reduce both General Fund expenditures and state debt.

## End Film & TV Production Incentives

One category of tax credit warrants particular criticism: Connecticut taxpayers subsidize film, television and digital media by paying a portion of their production and infrastructure costs. In fiscal year 2021, they provided \$119 million to support \$401 million in spending.

Starstruck lawmakers have ignored the state’s own reports that prove the incentives don’t pay for themselves as Connecticut competes with established film operations in New Jersey and New York — both of which also subsidize productions. As the Department of Economic & Community Development noted in its “2019 Annual Report,” while the state’s incentives seem to support a limited number of film-related jobs, the “additional revenues gained by the state do not compensate for the loss in state tax revenue due to the credits.”<sup>xlii</sup>

Last year, Disney shuttered Blue Sky Studios in Greenwich after pocketing \$242.5 million<sup>xliii</sup> in incentives on top of support for future projects.<sup>xliv</sup> With 470 employees, it may have been the state’s largest film-related employer.

Department of Economic and Community Development Commissioner David Lehman, one of Gov. Lamont’s most effective appointees, noted, “If there was a dialing back of certain programs that we oversee, that would be one I suggest that there’s a discussion around.”<sup>xlv</sup> He called specific attention to the film and digital media tax credits, saying they were among the incentives he believes are ripe for overhaul.

# Develop A Holistic Hartford Deal

Connecticut’s complicated relationship with its capital city took a negative turn in 2018, when Gov. Dannell Malloy agreed to pick up 20 years of city debt service, sliding \$755 million in costs on to the state’s balance sheet.<sup>xlvi</sup>

Hartford faces numerous longstanding challenges ranging from the destructive effect of highway construction to the extent to which properties are owned by state government, nonprofit organizations, and other tax-exempt entities. What’s more, under the court settlement in the decades-long *Sheff v. O’Neill* litigation, the state is making supplemental payments to Hartford public schools without driving meaningful reforms to improve the school system’s poor outcomes.

Connecticut needs to take a more holistic approach in aiding its capital city by doing more to attack the root causes of Hartford’s challenges. The state should restructure its debt-

service and *Sheff* payments, tying them to meaningful reforms of city and school operations. On the state side, the General Assembly should:

- Authorize Hartford officials to sell and redevelop Brainard Airport.
- Prioritize additional charter school seats in Hartford.
- Prioritize the return of Hartford-based employees to state offices.
- Ramp up efforts to sell some of the state’s approximately 200 Hartford parcels and return them to the city’s tax rolls.
- Issue a request for proposal (RFP) for developers to purchase any underutilized state office buildings, return them to the tax rolls, and lease back the reduced square footage necessary for state operations.

# Bring Borrowing On-Budget

Gov. Lamont came into office calling for a “debt diet” — a proposal to shrink state borrowing by 39 percent, thereby saving hundreds of millions of dollars annually in debt service payments.<sup>xlvii</sup> To his credit, state general obligation bonds have received improved credit ratings during his time in office.

Notwithstanding his best intentions about a “debt diet,” however, Connecticut’s long-term borrowing has increased from \$25 billion to \$27 billion on his watch.<sup>xlviii</sup> In July of 2022, the bond commission released \$850 million for a variety of enterprises;<sup>xlx</sup> one year earlier, it had provided \$1 billion for school and transportation and infrastructure projects.<sup>1</sup>

In announcing the bonding, the governor alluded both to the need to create post-pandemic jobs and the low interest rates. Although debt service has barely increased because of extraordinarily low interest rates over the last few years, that trend is changing rapidly. The general obligation (GO) bonds issued throughout 2022 carried significantly higher cost for the state (\$200 million in March at 3.23% and \$1

billion in May at 3.68%) than the \$800 million in GO bonds issued in December 2021 at only 1.68%.

Connecticut bore the dubious distinction of having the highest taxpayer debt per capita in the country as of 2020,<sup>li</sup> totaling \$62,500 per taxpayer. It is important to take a careful look at how, when, and why Connecticut is incurring bonded debt.

At the outset, it should be noted that the bonding process has peculiarities of its own. Legislators may propose bond bills, which may pass the full General Assembly and be signed by the governor. But this bond authorization only means the bill becomes part of a queue; no funds are actually disbursed until the State Bond Commission has voted to allocate funds to a specific project. This has resulted in an enormous backlog of unfunded initiatives, notwithstanding politicians eager to take credit for having secured money for some particular enterprise.<sup>lii</sup>

What’s more, each year the General Assembly authorizes additional state borrowing, but not the recipients thereof. They are determined by the State Bond Commission, which has a track record of steering scarce resources to local amenities under a political spoils system.

Recent examples include a \$400,000 assist to Rocky Hill for updates and a redesign of the fields at Elm Ridge Park;<sup>liii</sup> \$224,415 for new lighting and a new fitness area at Arbor Park in Ellington, among other items;<sup>liv</sup> and a whopping \$7,750,000 for Hartford neighborhood and streetscape improvements, including at Pope Park.<sup>lv</sup>

Favored nonprofits benefit as well. The United Way received a \$700,000 grant for an emergency generator at its new office space,<sup>lvi</sup> and TCB Connecticut, Inc. (or another eligible applicant) was provided with a \$4,000,000 50-year loan, at zero interest, to finance the construction of a community center and to renovate the existing buildings including soil remediation at Northside Terrace in Torrington.<sup>lvii</sup>

Given the obligations being incurred in the name of state taxpayers, the full General Assembly should scrutinize and vote on the individual project recipients, rather than simply approving the total amount and recipients through the State Bond Commission. What’s more, the state should only borrow money to pay for projects remaining in the possession of the state government or a political subdivision.

# Challenge Stakeholders to Control Medicaid Costs

Enrollment in HUSKY, Connecticut’s Medicaid program for the poor and disabled, has swollen in recent years. First, eligibility was expanded; later, temporary federal rules barred the state from scrutinizing eligibility for the program.

Today, in a state of 3.6 million, almost 1 million Connecticut residents are enrolled. This compares to just 553,000 at the end of 2013.<sup>lx</sup> The skyrocketing enrollment means the state

State bonding should be limited exclusively to high-priority capital projects, with the rainy-day fund similarly reserved for unforeseen emergency circumstances. In addition, careful attention must be paid to expense overruns. The state pier development project in New London, originally estimated at a total cost of \$93 million, is now projected to cost more than \$255 million, with the state share at a whopping \$178 million.<sup>lviii</sup>

With a statutory bonding cap of roughly \$2 billion for fiscal 2022,<sup>lix</sup> it makes sense for Connecticut to restrict borrowing to capital repairs and projects, and budget for debt service realistically in this new, high-interest-rate environment. The original appropriation for debt service in 2023, set in 2021, was \$3.44 billion. Despite rising interest rates, a new appropriation set in May 2022 was \$28 billion lower. These figures are likely to end up being unrealistically low, thereby forcing either tax increases or the spending cuts required by the fiscal restraints put in place in 2017.

Finally, in some cases, it is time to stop bonding altogether. Targeted “economic incentives” historically provided to businesses in the hope of securing meaningful economic growth and significant job creation come to mind. These “investments” have had negligible impact on Connecticut’s economy, instead placing government in the inappropriate position of picking “winners and losers” from among state businesses, rather than creating a business climate in which all corporate citizens can prosper. Accordingly, it is time to dismantle the First Five initiative, the Small Business Express, and similar “economic development” projects.

faces a financial cliff when the supplemental federal aid ends Oct. 13, 2022.

The last major effort to control costs involved the state taking direct control over program costs and paying on a fee-for-service basis rather than through managed care. But left unchecked, Medicaid threatens to become even more difficult to manage as it consumes a larger share of the state budget.



The constellation of political interests impacted by the program — hospitals, doctors, labor unions, drug companies — results in HUSKY’s political inertia. Administrative or legislative adjustments are prohibitively difficult.

The state should empanel a commission of HUSKY providers and challenge them to reduce per-patient costs by 5 percent (on a real dollar basis) by 2025. Each group is more likely to negotiate over its cherished interests if it’s clear others are being required to do the same.

*“The constellation of political interests impacted by the program... results in HUSKY’s political inertia.”*

## Modernize the Special Transportation Fund (STF)

Since 1983, Connecticut has directed gas taxes and other transportation-related receipts into its Special Transportation Fund (STF), a dedicated fund that voters protected in 2018 with a constitutional amendment. Its solvency has been threatened in recent years as the state struggled with debt service payments and legacy employee costs, among other issues.

Gov. Lamont and other state officials pressed to collect tolls on state highways in a bid to stabilize the STF. A new “High-

Focusing on cost containment decreases the likelihood of sudden, less strategic cuts during the next state budget crunch.

The savings should be targeted first into eliminating the tax on health insurance premiums, and subsequently into other state health priorities. These include measures like early intervention, screenings, and immunizations that will reduce state and healthcare-sector costs overall.

way Use Tax” was ultimately created in 2021 to further shore up the fund.

First and foremost, Connecticut must trim its outsized operation and construction costs related to transportation infrastructure. In the long term, the state must also modernize the STF to reflect the declining role of fossil fuels in transportation, and the fact that more vehicles will be using the roads without paying gas taxes.

## Direct Electricity Taxes into the STF

With electric vehicles constituting a growing share of vehicles, the General Assembly must prepare to finance state roads using other mechanisms.

Electric utilities in fiscal year 2021 paid \$138 million in state Public Service Companies Tax. <sup>lxi</sup> State law should divert a portion of this tax into the STF to reflect the share of state-registered vehicles which are electric or hybrid.

## Deposit Ride-Hailing Revenues in the STF

Connecticut collects 30 cents on each prearranged vehicle ride through its Transportation Network Company Fee. <sup>lxii</sup> The Department of Revenue Services (DRS) does not disclose

how much revenue this fee produces, reportedly on the basis that it would violate the privacy of the handful of companies that pay it. <sup>lxiii</sup> These funds should be deposited into the STF.

## Create Registration Reciprocity Agreements

Neighboring states have no short-term recourse when a Connecticut driver refuses to pay a toll on their highways. But if they’re caught, Constitution State drivers will pay exorbitant fines and fees far more than their original unpaid toll. <sup>lxiv</sup> Residents essentially roll the dice on each subsequent visit to the neighboring state.

Connecticut drivers incurred \$2.1 million in unpaid tolls, fines and fees on Massachusetts roads in 2019. They racked up \$824,000 in unpaid tolls in New York the same year. <sup>lxv</sup>

This presents a win-win opportunity for Connecticut: A reciprocity agreement with state highway operators could let Connecticut collect unpaid tolls as part of the Connecticut registration process and put a percentage in the STF. At the same time, Connecticut could negotiate protections against exorbitant fees.

## Repeal the Citizens’ Election Program (CEP)

Since 2005, Connecticut has forced residents to subsidize political speech by funding its Citizens’ Elections Program (CEP). Proponents take issue with this characterization, arguing that interest on unclaimed property is used to finance the program, rather than a direct tax. Even so, there’s no dispute that public funds, which otherwise would be directed to the General Fund and offset the need for further taxes, are used to subsidize politicians’ campaigns.

The program has been a repeated target for abuse. In 2019, former State Senator Ernest Newton pleaded guilty to charges

related to making false statements to access a CEP matching grant <sup>lxvi</sup> and federal prosecutors last year charged State Senator Dennis Bradley with defrauding the program. <sup>lxvii</sup>

CEP also incentivizes incumbents to spend state funds unnecessarily to benefit themselves in future elections. The relatively low threshold for accessing CEP money, although no doubt a boon for the candidates that receive the money, may be unnecessarily subsidizing individual campaigns that the public has no interest in supporting.

## Sunset the Partnership Plan

The Office of the State Comptroller (OSC) sells health insurance coverage to local governments and school districts that mirrors the state employee health insurance plan.

The coverage, known as the Partnership Plan, has two key advantages: first, the plan is exempt from state insurance regulations and taxes; second, delaying payment to hospitals, doctors, and other providers allows the program to operate at a loss.

Between 2016 and mid-2019, the plan did just that, incurring about \$63 million more in claims than it collected in premi-

ums but remaining in business. <sup>lxviii</sup> If the Partnership Plan had been a traditional private insurance plan, state regulators would have closed it down years ago. Meanwhile, Connecticut taxpayers were carrying a significant debt burden that hadn’t been authorized through any formal legal mechanism.

As an example, the Partnership Plan offered unsustainably low premiums for Fairfield County municipalities, which failed to reflect the region’s relatively high costs and lead to significant rate increases.



In late 2021, the state effectively bailed out the Partnership Plan by quietly pouring in almost \$40 million in federal COVID funds, ostensibly to cover pandemic-related costs. <sup>lxi</sup>

The Office of Policy & Management should undertake a forensic audit of the Partnership Plan to ascertain how much

debt the state is carrying. Meanwhile, the General Assembly should repeal OSC’s authorization to sell the Partnership Plan and empanel a select committee to investigate what steps were taken to conceal its debt from the General Assembly.

*“If the Partnership Plan had been a traditional private insurance plan, state regulators would have closed it down years ago.”*

## Reform Spending on Affordable Housing

Connecticut borrows large sums that it spends to develop subsidized housing — or, rather, that it uses to provide grants to well-connected private developers who build affordable housing. In April 2021, the Bond Commission provided \$49 million in state funding for that purpose. <sup>lxx</sup> It included housing in Salisbury at a cost of \$150,000 per unit.

It is possible to meet the need for low-income housing in a more cost-efficient way that empowers consumers, rather than enriching developers. State leaders could expand the state’s rental-assistance program, and grant vouchers to low-income families. This approach would provide those in need of housing with options and ensure that developers are building to meet the needs of those they’re supposed to be serving, rather than the government’s.

## Privatize More Social Services

One of the core functions of state government is ensuring that those in need and the most vulnerable among us have access to vital services. Those services should be provided with respect and compassion — but they should likewise be delivered as efficiently as possible.

In too many cases, inflexible and relatively expensive state and municipal agencies provide public services in Connecticut. Yet private nonprofits have proven they can do the same work and are far better situated to provide high-quality care.”

The Department of Mental Health and Addiction Services (DMHAS) and the Department of Social Services (DSS) — which serve our state’s disabled and mentally ill residents — are among Connecticut’s most expensive agencies, accounting for a sizable portion of the state’s overtime pay. Even so, the agencies still struggle to serve all who need their help. The most recent reports available reveal that more than

2,000 Connecticut families have members on a state list awaiting a place in a residential facility. <sup>lxxi</sup>

Cost savings and efficiencies could be realized by eliminating redundancies in services that are currently provided by both government agencies, like DMHAS and DSS, and private non-profit organizations. This would eliminate waste in both time and resources.

Connecticut could realize savings of more than \$300 million per year simply by allowing non-profits to become the primary provider of services, according to the Connecticut Community Non-Profit Alliance. <sup>lxxii</sup> Shifting more social services to private non-profit groups would not only reduce labor costs, but it would also enable state employees to cover more work shifts, thereby helping the state to reduce expensive overtime spending.

# Rebalance Connecticut’s Relationship With State Unions

Public sector unions play a disproportionately powerful role in our state’s finances. They incentivize complacency in our political leadership see state and local government as a jobs program instead of a service to Connecticut’s residents. Indeed, much of Connecticut’s high cost of government stems directly from the outsized influence of its public-sector unions, and their resistance to the efficiencies that would

reduce the size of the state workforce, and with it, the size of their membership (along with the corresponding dues).

But government exists to protect and serve its people; it is not intended to provide paychecks for those who could otherwise be productively employed in the private sector. Every additional government job beyond what is necessary to conduct state business is an abuse of Connecticut’s taxpayers.

## Notify New State Employees About Their First Amendment *Janus* Rights

Most state workers are hired believing they have no choice but to pay a union as a condition of employment. The truth is that the U.S. Supreme Court ruled these forced payments violate First Amendment rights in *Janus v. American Federation of State, County, and Municipal Employees* (2018).

Every newly hired Connecticut state worker should be informed that paying union dues is a choice, not a requirement. Deciding not to join the union will not affect any term or condition of a worker’s employment, nor will it deprive

her or him of any perquisite she or he would otherwise have had.

For existing employees, management should insist that each government union contract explicitly spell out workers’ First Amendment *Janus* rights, to ensure that workers are aware of them.

This could be done for new employees immediately, and for existing employees through the negotiation process.

## Make Collective Bargaining More Transparent

Taxpayers have the right to access, read and understand all agreements that are being executed in their name. Unfortunately, collective bargaining agreements are sometimes given other titles (“stipulated agreement” or “memorandum of understanding” or “grievance settlement”) to thwart the public’s legitimate discovery rights. In other cases, there isn’t widespread awareness of the adjudication at issue.

To end this game of cat-and-mouse, there should be a requirement that all contract documents executed between labor and management at all levels of government be posted online within 72 hours. This could be done immediately through management policy.

## Disclose All Disciplinary Records

As the state workforce’s ultimate employers, the people of Connecticut have a right to know how disciplinary issues arising among state and municipal workers are being resolved. For this reason, whenever supervisors render discipline beyond a verbal warning, the document should be posted within 72 hours on the state or municipality’s web site.

In addition, whenever a state or municipal employee is placed on administrative leave, a short, written explanation should be posted online within 72 hours so that the public is aware of the reason for that judgment. This could be done by written policy.

## Decrease the Number of Topics Subject to Collective Bargaining

Connecticut is an outlier when it comes to the number of topics that our state allows government workers to bargain collectively. For example, Connecticut is one of only four states in the nation that permit collective bargaining for public pensions.<sup>lxxiii</sup> Our state’s people — and finances — would be well served if we reduced the number of topics subject to collective bargaining, particularly pensions and health care.

It should be noted that this would need to be accomplished

not through one but two pieces of enacting legislation: first, the law specifically terminating collective bargaining for the topic at issue; and second, a law ending supersedence (see below), so that the law could not be overridden by a contradictory labor contract term.

Because workers in Connecticut surrendered their right to strike in exchange for binding arbitration, it would be important to exempt public safety workers (police, firefighters, prison guards and perhaps teachers) from this reform.

## Strip Pensions from Those Convicted of Workplace Crimes

Like most of the American public, most of Connecticut’s workforce is made up of good, law-abiding state residents. Unfortunately, however, crimes do sometimes occur in the workplace. At present, Connecticut may revoke state employee pensions only for financial malfeasance committed on the job — not for any other felony, no matter how heinous.

This policy is as morally perverse as it’s financially inexplicable. There is no reason taxpayers should be subsidizing the retirement, for instance, of a former employee of the Department of Social Services. Despite raping two severely disabled women in his care for years before finally being arrested and convicted, he remains entitled to his pension<sup>lxxiv</sup> — as confirmed by both the Attorney General’s Office and

the State Comptroller’s Office. Nor can the pensions of several employees arrested for the extensive, sadistic abuse of William Shehadi at Connecticut’s Whiting Forensic Hospital be stripped.<sup>lxxv</sup>

It’s axiomatic: Connecticut’s taxpayers should not be compelled to pay the pensions and post-employment benefits for state employees convicted of illegal behavior *in the course of their work for those taxpayers*. Other states have similar laws. This is a common-sense reform that is long overdue.

## In Felony Arrests, Place Employees on Unpaid Administrative Leave

Right now, when government employees are arrested for having allegedly committed a felony, they are placed on paid leave. It is wrong that taxpayers continue paying the salaries of those credibly accused of criminal activity as cases work their way through the legal system, sometimes for years. Should the employee subsequently be cleared, he or she of course should be entitled to back pay with interest.

This should not bar the state or municipal employer from conducting its own investigation and making its own determination about whether to terminate the employee prior to the resolution of any formal legal action in the courts.

## Repeal Prevailing Wage & Ban Mandatory Project Labor Agreements

A shrinking share of construction work in Connecticut is performed by union members. But as that share has declined, the unions have turned to increasingly creative machinations to steer more work to their employers.

In some cases, state agencies force would-be contractors to sign agreements, known as Project Labor Agreements (PLAs), as a condition of bidding on construction jobs. PLAs lay out rules such as hours and pay rates for the project, and generally include requirements that most, if not all, workers pay dues to a construction union.

A 2020 study found that using a project labor agreement increased the cost of school construction in Connecticut by nearly 20 percent, and that the state would have saved \$500 million between 2001 and 2019 if PLAs hadn’t been used.<sup>lxxvi</sup>

Using a PLA should be a decision made by contractors as part of the competitive bidding process, not something mandated by a government agency. The state should ban mandatory PLAs in all instances.

Connecticut state law separately sets an artificial floor known as “prevailing wage” for the pay and benefits on public construction jobs. Prevailing wage laws were adopted in the northeast in part to deter contractors from bringing workers from other parts of the country, often for profoundly disgraceful reasons.<sup>lxxvii</sup> Whatever the original motivation, this century-old practice does not advance any public interest in 2022.

In 2017, Connecticut exempted some projects from the state’s prevailing wage standards, but the law continues to increase the cost of everything from building renovations to road construction. The General Assembly should join the 24 states without prevailing wage laws, including Michigan, Wisconsin and New Hampshire, and repeal the statute entirely.<sup>lxxviii</sup>

*“..the state would have saved \$500 million between 2001 and 2019 if PLAs hadn’t been used.”*

## Phase In Realistic Pension Discount Rates

Connecticut’s fixed discount rates — that is, assumed rate of return on its pension investments — plays a significant role in our state’s current pension-funding crisis. In other words, the state assumed its pension-fund investments would grow at a much faster rate than has been realized. As a result, there are sizable shortfalls.

The discount rate justifiably has been reduced in recent years for both funds. There have been decreases in the State Employee Retirement System (SERS)’s and the Teachers Retirement System (TRS)’s discount rates from 8 percent to 6.9 percent.<sup>lxxix</sup>

Nonetheless, there remains a discrepancy between reality and what we wish return rates would be — and it must be addressed. It would make sense to set by statute the

discount rate for SERS, TRS and the Municipal Employees Retirement System (MERS) at the average rate of return earned in the preceding decade. An automated discount rate would be more aligned with real world conditions and would curb any ill-judged temptation on the part of the state investment board for excessive risk taking (as that itself could generate an improperly low discount rate in the future). As an alternative, an assumed rate of return tied to U.S. Treasury bond yields would provide a “risk-free” retirement system.

Because a lower discount rate will necessitate more (in some cases, much more) money being placed into the retirement accounts, the statute making this reform should allow it to be phased in gradually so as not to impose undue hardship, especially on municipalities.

## Clarify the Purpose & Responsibilities of State & Municipal Pension Board Membership

Connecticut’s pension boards are supposed to invest taxpayer funds to maximize returns to ensure retirement security for our state’s government workers. Aside from actuaries, who are selected by union leaders and the governor, every member of the state boards is either a gubernatorial appointee or a government-employee-union member.

Thus, potentially all board members — and generally a significant majority of them — may hold similar (if not identical) political views. In an age where Environmental, Social and Governance (ESG) principles have come to dominate board-

room discussions, it is important to clarify the purpose of government pension boards.

It must be clear that taxpayer money is not to be used to advance the board members’ personal social and political agendas. Rather, it should be explicitly articulated, in statute or elsewhere, that all pension board members serve as fiduciaries with the sole responsibility of investing to maximize gain and minimize risk on behalf of government employees. No other criteria are to be taken into consideration.

*“In an age where ESG principles have come to dominate boardroom discussions, it is important to clarify the purpose of government pension boards.”*

# Make State Operations More Efficient & Transparent

Meaningfully reducing Connecticut’s state tax burden will require modernizing state operations.

A 2021 Boston Consulting Group (BCG) report highlighted opportunities to make state government more efficient by, among other things, embracing digital services and improving agency management.<sup>lxxx</sup> The report provides a good starting

point, but state officials should not settle until Connecticut state government is a model of lean, responsive government.

Some improvements can be made administratively, while others would require the state to change the ground rules by statute.

## Have DAS Perform All Core Functions

Connecticut state agencies to a certain extent operate as independent fiefdoms. Many have their own business offices which perform identical bookkeeping roles, while some hire their own cleaning staff. To an outsider, many state agencies would appear to be entirely separate organizations sharing little more than the state seal.

Gov. Lamont took a good first step in 2021 in consolidating information technology (IT) roles from more than 40 agencies and departments into a single operation. Putting these positions under a more focused management system can improve training, succession planning, and overall efficiency.<sup>lxxxi</sup> A

similar move a decade earlier let New York trim its IT headcount by almost 10 percent.

The state college system has been emblematic of what’s wrong with letting agencies operate as fiefdoms, with state auditors finding — sometimes repeatedly — problems with utility payments, travel, payroll management and IT.<sup>lxxxii</sup>

Therefore, it makes sense for all basic financial functions to be performed by a business-focused office under the Department of Administrative Services (DAS), and physical plant functions, such as cleaning, groundskeeping and other maintenance roles, should also be undertaken by DAS.

## Consolidate the State Car Fleet & Close Fuel Stations

Connecticut’s agency-fiefdom mentality is especially visible on state roads. The Department of Administrative Services (DAS) provides and maintains automobiles for most state agencies, but with a few key exceptions. The Department of Energy and Environmental Protection (DEEP) alone has more than 500 vehicles, and other agencies (including the Judicial Department and state universities) maintain separate fleets of vehicles, as well.

At least one agency, DEEP, operates its own automotive repair facilities in addition to those run by DAS.

Outside of highly specialized equipment unique to an agency, the state should bring all motor vehicles under DAS control, lease them to the agencies as needed, and consolidate the state’s automotive maintenance operations into one more



tightly tailored to the state’s actual needs. Auditors this year found DEEP had 79 cars that weren’t driven during February 2020 and 125 were used five days or less for the month; meanwhile, no change in mileage was found in two DAS-leased vehicles and 14 were used five days or less for the month. <sup>lxxxiii</sup>

Connecticut’s car fleet is supported by a network of 76 state-owned gas pumps. <sup>lxxxiv</sup> Many are located within walking distance of commercial fuel stations. Four stations are in New Haven.

## Return More Unclaimed Property

A January 2022 CT Mirror exposé revealed that state officials have done a poor job of reconnecting residents and businesses with their unclaimed property, having returned less than 37 percent of the \$2.3 billion it had gathered over the past 20 years. <sup>lxxxvi</sup> Among other deficiencies, the state website that lists unclaimed property failed to inform residents about items valued at less than \$50.

To his credit, State Treasurer Shawn Wooden proposed a bill reforming several elements of the unclaimed property program. That measure would have removed the \$50 threshold; enabled the treasurer’s office to return individuals’ money or property without an application; fast tracked payments of \$2,500 or less; and provided data-sharing tools with the Department of Revenue Services and the Department of Labor to locate and verify the identities of owners of unclaimed property.

Ultimately, the General Assembly included a diluted version of the Wooden proposal in the 2022 budget implementer. It requires the Treasurer’s office to notify anyone with unclaimed property of \$2,500 or less and authorizes the

Besides presenting an ongoing liability for taxpayers, the state’s fuel pumps have been a repeated cause for concern in state audits. Repeatedly presented are issues ranging from sloppy recordkeeping to what appear to be frequent thefts. <sup>lxxxv</sup>

The state pumps should be closed. State vehicles should instead be fueled at public stations using a credit card system that can be more tightly monitored.

Treasurer to fast-track payment to them. Unfortunately, however, provisions providing for data-sharing were stripped from the bill, diminishing the chances of locating those individuals.

Connecticut’s General Assembly should strive to make our state the most proactive in the nation for ensuring its residents’ property is where it belongs: in their hands, not the government’s. In working toward this objective, New Jersey would be a worthy model to emulate.

The purpose of its Unclaimed Property Administration (UPA) is to reunite abandoned property (plus accrued interest) with its owner. The UPA includes a dedicated Outreach team that conducts mass mailings and media campaigns, in addition to attending state fairs and establishing a presence at community centers and other public locations. In fact, organizations can even request that UPA Outreach team members attend their events. In addition, the UPA publishes a statewide newspaper advertisement, raising public awareness of newly received unclaimed property.

## Publish More Data & Allow More Competition

Service delivery needn’t involve a state employee in a state building. Connecticut previously published data allowing businesses and nonprofits to scrutinize the costs of service delivery, especially in the human services sector.

The quality of that data has dropped significantly in recent years, making it more difficult to present savings opportunities to the state. This situation needs to be rectified, whether

through legislative or executive action, with transparency about service delivery and costs mandated.

Connecticut taxpayers deserve a workforce that watches their dollars carefully. The state should be encouraging nonprofits and businesses to approach government with lower-cost, more effective mechanisms for service delivery.

But doing so is impossible if it’s neither clear what the state does nor what it costs to do it.

## Digitize State & Local Government Records

The General Assembly Legislative Library and the Connecticut State Library together hold more than a century of paper and microfiche records detailing the legislative history of Connecticut’s constitution and laws.

Legislative records are scanned only on an as-needed basis. This means transcripts, committee records, and other documents that explain legislative intent are in constant danger of being lost to time.

The state library has not catalogued the percentage of documents that need to be digitized, nor does it have the resources to achieve full digitization. American Rescue Plan Act (ARPA) money should be allocated, for the plan allows libraries, local

governments and municipalities to use funding to preserve documents. In addition to ARPA, the state should help local governments file for more grants.

Full digitization of the legislative and state libraries’ historical records would make the data more readily available, searchable, and shareable to the public. It would ease the labor for library staff in the long run, as well as improve storage efficiency — limiting costs for warehouses — and keep records safe in the event of natural, accidental, or purposeful disasters.

The state should set a goal to digitize every state record in a searchable format by 2030.

## Ban Self-Promotion by State Officials (Shawn’s Law)

In election years, the deadline for campaigning incumbents to send constituents mail is July 15, one month before primaries. The motivation for the restriction is clear: often, in the hands of a clever politician, official correspondence can bear an uncanny resemblance to campaign literature. Permitting candidates to use taxpayer money for the purpose of self-promotion would, of course, constitute an unfair advantage.

But in 2019, it raised eyebrows when State Treasurer Shawn Wooden approved ads reminiscent of his election marketing to promote the Connecticut Higher Education Trust (CHET)

and, perhaps, himself. <sup>lxxxvii</sup> The ads were paid for by the CHET program manager at the time, TIAA-CREF, working through Cronin, a Glastonbury advertising firm.

Just as the law shields taxpayers from subsidizing politician self-promotion, it’s worth considering whether the General Assembly should bar any company doing business with the state from paying for ad campaigns — especially when using a politician’s likeness to promote a product — in order to avoid even the appearance of corruption.

*“...state officials have done a poor job of reconnecting residents and businesses with their unclaimed property, having returned less than 37 percent of the \$2.3 billion it had gathered over the past 20 years.”*



## Grow, Don’t Mow, on State Land

Connecticut has struggled with its responsibility to maintain highway rights-of-way amid budget crunches and hiring challenges. In 2019, the state began designating “conservation areas” on highway rights-of-ways, reducing the frequency of mowing with an eye to the environmental and agricultural benefits.<sup>lxxxviii</sup>

The state should, instead, follow the Ohio Department of Transportation’s (OHDOT) lead. Over the past decade, OHDOT began replacing swathes of grassy state land with

wildflowers, while also reducing the frequency of mowing. Besides benefiting local agriculture and reducing carbon emissions, OHDOT is saving about \$2 million annually.<sup>lxxxix</sup>

Proactively replacing grass with plants that require less cutting will reduce costs and improve safety for drivers and pedestrians. The state’s reduced mowing duties should be handled by a single agency (see above) instead of the numerous agencies that task employees with those responsibilities.

*“OHDOT began replacing swathes of grassy state land with wildflowers, while also reducing the frequency of mowing. Besides benefiting local agriculture and reducing carbon emissions, OHDOT is saving about \$2 million annually.”*

## Improve The Business Climate

Connecticut owes a great deal of its historical success to its once-welcoming business climate. Although the lack of a personal income tax played an important part in burnishing Connecticut’s reputation as the northeast’s low cost, verdant haven strategically positioned between New York and Boston, its recent challenges can’t be blamed on taxes alone.

Factors including the price of energy (see below), above-average workers’ compensation costs, looming unemployment insurance hikes,<sup>xc</sup> and regulatory compliance costs play a role in determining the health of Connecticut’s business climate.

This is a crucial issue for all of us. When a prospective job creator declines to come here because she or he deems our regulations too burdensome and expensive, that’s a missed opportunity for our state to grow. Likewise, if an employer leaves the state, that has a ripple effect that spreads widely. Bad regulation hurts all of us, all the time.

Fortunately, there are common sense reforms that would do much to make our state more appealing — for established and prospective employers alike.

## Eliminate Taxation of Business-Owned Personal Property

Connecticut state law authorizes taxation of business-owned personal property, which is an enormous deterrent, particularly to small businesses that might otherwise consider locating here. It’s worth noting that Connecticut’s tax puts it at a significant competitive disadvantage compared to many

of its neighbors — neither New York, New Jersey, New Hampshire nor Pennsylvania imposes such a tax.

If our state is serious about encouraging businesses of all sizes to invest in Connecticut, bringing with them jobs, it’s time to reexamine the taxes that penalize them for doing so.

## Create an Office of Regulatory Review (ORR) Within DECD

The Department of Economic and Community Development (DECD) is billed on its official website as “the state’s lead agency for strengthening Connecticut’s competitive position in the rapidly changing, knowledge-based global economy.”<sup>xc</sup>

It could turbocharge its stated mission to support existing businesses and help them prosper by a mechanism allowing them to seek relief from unduly burdensome, vague, or outdated regulation. An easy way to achieve this goal would be to establish an Office of Regulatory Review (ORR) within DECD. ORR’s mission would be to review and, when necessary, limit or revoke flawed regulations.

Members of the public seeking regulatory relief would, at last, have a place to direct petitions and an entity empowered

to receive them. Such petitions, of course, would need to identify the regulation at issue, the reason for the challenge and any supporting evidence. In a statutorily defined manner and period, the ORR could review these petitions.

Were the petition deemed colorable (under the generally court-approved standard of colorability), ORR could undertake a notice-and-comment process, ultimately either issuing a revised regulation or repealing it altogether. And if the implicated agency failed to participate within a reasonable, established period, the regulation at issue should be suspended until the agency participates.

ORR should also have the power to initiate a review of potentially misbegotten regulation on its own authority, without a public petition.

## Subject All New Regulations to Cost-Benefit Analysis

Whenever a resident of Connecticut must spend time and money to adhere to a state regulation, it is reasonable for him or her to expect that the investment of time and money is justified. Why would it ever make sense to impose a regulation that imposes more costs than it yields in benefits?

Regulations can cripple enterprises that provide our state’s people with jobs, paychecks, benefits, goods and services. And if they’re unnecessary, Connecticut is mistreating its residents. That’s why any agency promulgating a new regula-

tion should be required to subject it to a comprehensive cost/benefit analysis analogous to that required of federal agencies under Executive Order 12866 (1981) and its successors. For a regulation to be adopted, its quantifiable benefits would have to exceed its quantifiable costs as demonstrated by competent evidence.<sup>xcii</sup>

Furthermore, all cost/benefit analyses could be challenged at the ORR, subject to the same rules and procedures governing challenges to other regulations.

## Establish Regulatory Safe Harbors

One of the most difficult parts of running a business in a heavily regulated state like Connecticut is first identifying, then interpreting and finally complying with all relevant regulations. A streamlined way to gain assurance they are taking all necessary actions to avoid potentially crippling fines or other penalties — possibly incurred through a simple lapse in navigating Connecticut’s regulatory thicket, rather than any malfeasance — would provide job creators enormous peace of mind and offer our state a great competitive advantage.

Here is how such a result might be secured. Before promulgating further regulations, agencies should audit those already in existence. After a review for vagueness, duplication, overbreadth, irrelevance, or any other defect, regulators should revise or withdraw them as appropriate.

Thereafter, state agencies should (a) compile a list of all regulations they enforce, including for each its title, a short explanation and links to its language and any explanatory or supporting authority. Along with that material, agencies should (b) prepare safe harbor regulatory-compliance worksheets. These would identify the types of regulated entities to which they apply, so that every regulated entity qualified for some safe harbor.

Under this framework, complying with the regulations indicated under the current, applicable worksheet would allow every regulated entity to obtain some degree of security. They could be assured they would not incur penalties (including fines) for failing to comply with any regulations not specifically indicated on the applicable worksheet, until that failure had been brought to their attention and a reasonable period for compliance had been provided.

*“One of the most difficult parts of running a business in...Connecticut is...complying with all relevant regulations.”*

## Create Agency Dashboards

To understand which agencies and regulations pose the greatest hindrance to economic activity, measuring their performance is an indispensable first step. It’s not immediately clear how long businesses wait either for permits or for resolution even of relatively routine disputes. Dr. Fred Carstensen, one of the foremost authorities on the state economy, has recounted instances in which a company waited 16 months for a permit to paint its headquarters, while another waited at least nine years for a water permit. <sup>xciii</sup>

Nor does Connecticut have any comprehensive listing of the different types of permissions or licenses a business needs to operate within the parameters of the law. Such a listing would allow lawmakers to evaluate the scope of the regulatory burden upon our state’s businesses.

What’s more, Connecticut should require each agency regulating business activity in Connecticut to show, for each permit, license, or other permissive application, how many applications are pending and the average time from accepted submissions to final approval. This would allow applicants to plan accordingly.

The state regulatory reporting system should be modeled on the Canadian Institute for Health Information dashboard, which shows the waiting time for different procedures under the Canadian healthcare system. <sup>xciv</sup> Such a system would yield valuable information for established and prospective business owners, lawmakers and state residents alike.

## Allow Warnings for First-Time Violators

Businesses’ attitudes about Connecticut’s economic climate are, of course, shaped by their experiences and interactions with government regulators. While bearing in mind that public health and safety must always be paramount, any sort of enforcement regime should strive to foster a relationship of mutual respect and cooperation between regulators and the regulated.

That is why the state should require agencies, with exceptions for dangerousness or recklessness, to issue a warning rather than a fine or other penalty the first time a business

is found to have violated a rule or regulation. The process would involve informing the offending business where it should have seen the rule that was violated; clearly instructing how it can come into compliance; and setting a timeline for it to do so.

Offering businesses a mulligan would help their relationships with government regulators begin on a more positive note. An initial chance to come into compliance would make employers more likely to engage with agencies in good faith and improve outcomes.

## Link Unemployment Benefits to the Unemployment Rate

Connecticut unemployment insurance premiums are poised to rise.

Connecticut issues unemployment insurance (UI) benefits in the same amount and for the same duration whether the unemployment rate is 2 percent or 10 percent. This system makes no sense, given the relative ease of obtaining employment in a low unemployment job market.

Linking unemployment benefits to the unemployment rate would conserve scarce unemployment insurance resources. This would be particularly helpful as businesses stagger under tax increases imposed in order to replenish the state unemployment insurance fund, which was depleted during the pandemic. <sup>xcv</sup>

## Pause the Minimum Wage Hike

On June 1, 2023, Connecticut is poised to raise its minimum wage to \$15 per hour. Having just hiked the minimum wage to \$14 this past June and with Connecticut’s small businesses already decimated by the pandemic, it is time to consider a pause.

Over one-third of the state’s small businesses closed in 2020 — the sixth highest in the country. <sup>xcvi</sup> And even as the nation fully recovered all the jobs lost during the pandemic in July 2022, Connecticut had regained only 88 percent. <sup>xcvii</sup>

Increasing the minimum wage often forces job creators — especially those operating on narrow margins — to choose

between raising the wage and terminating employees. This is a particular problem in an era when businesses are being battered by inflation and broken supply chains.

Given that almost half of small businesses are struggling to fill open positions, there is little reason to fear that valuable employees are being undercompensated. Rather, the greater threat is that unreasonable labor costs will force job creators to eliminate their low wage jobs, thereby depriving those who need it most — like young or low-skilled workers — of a foothold on the ladder of opportunity.

# Implement Healthcare Lessons from the Pandemic

If there were a silver lining to the pandemic, it at least forced Connecticut to confront many of the needless burdens state government has imposed on the healthcare sector.

Notable among them is the state’s Certificate of Need (CON) requirement. Connecticut regulates using certificates of need, requiring government approval for, among other matters, all health care entities acquiring equipment “utilizing technology that has not previously been used in the state.”<sup>xviii</sup>

The state eased CON requirements in 2020 to “increase access to critical healthcare services” related to the pandemic — a tacit acknowledgement that the state’s practice of essentially requiring government permission to provide healthcare services reduces access in many instances.<sup>xcix</sup> As a starting point, Connecticut should eliminate CON requirements for outpatient surgery outfits and for imaging centers.

Likewise, Connecticut eased rules on telehealth services during the pandemic. The reforms, however, are only temporary. The state also temporarily recognized healthcare licenses issued by other states.

Yet to the extent these modifications facilitated health care access without any meaningful, corresponding decrease in the quality of care, they should become permanent.<sup>c</sup> What’s more, Connecticut should seek not just to continue operating under modified or relaxed rules. Rather, the state should undertake a fundamental reassessment of every policy that was determined to inhibit the efficient and effective provision of medical care during the pandemic.

# Eliminate the Minimum Bottle-Pricing Law

Most of us would agree that price competition is a positive benefit to consumers. So it’s unfortunate that Connecticut is the only state where — when it comes to wine and liquor — price competition is against the law.

In the Constitution State, it is illegal for any alcohol industry business to sell below cost. Each month, liquor wholesalers set the bottle price, which is then posted with the Department of Consumer Protection. No wholesaler may post a price less than the price for a case of bottles divided by the number of bottles in the case, in addition to an amount contingent on bottle size. What’s more, retailers are prohibited from selling below the “posted bottle price” plus delivery charges.

This price-setting scheme results in an excessive markup — which sometimes means Connecticut’s thirsty residents pay up to 24 percent more<sup>ci</sup> for alcohol than those in neighboring

states. Those who live near the Massachusetts border may be tempted by that state’s “drive for savings” advertisements, which put in-state retailers at a competitive disadvantage — and deprives our state of tax money that it would otherwise collect.

No doubt the more than 1,300 small package stores<sup>cii</sup> across Connecticut favor the minimum bottle pricing law and understandably so; it allows them to keep their prices on par with those of larger liquor retailers. But this regulatory scheme prevents our state’s people from accessing affordable alcohol and prevents Connecticut from competing with neighboring states.

Connecticut should put consumer well-being and price competition before any special interest. It is time to eliminate the minimum bottle-pricing law.

# Improve The Energy Picture

Connecticut residents and businesses pay some of the nation’s highest electricity costs. What’s worse, the gap between these costs and national norms has grown.

State policy should center on a recognition that Connecticut’s high costs are largely self-inflicted and that reducing energy costs is central to fostering long-term investment and job creation. Unfortunately, in many respects, the state is already committed.

The Federal Energy Regulatory Commission (FERC) regulates the interstate transmission of electricity, natural gas and oil. Connecticut is also captive to New York. New England can’t import enough natural gas from the rest of the country. Demand for gas has climbed in recent years because it produces less carbon dioxide for each megawatt it

generates, and in many instances has been more economical than oil or coal. But resistance to natural gas infrastructure, specifically pipelines in New York, has left New England relying on oil for electricity and heat when the gas can’t flow fast enough.

In 2020, New York Governor Andrew Cuomo succeeded in blocking the Constitution Pipeline, which would have brought gas from Pennsylvania into existing pipelines that supply New England. Several other gas projects were subsequently withdrawn or rejected because of various obstacles imposed by New York agencies. As a result, Connecticut attained the dubious distinction of paying the highest electricity prices in the continental U.S. in 2020,<sup>ciii</sup> when the average price of electricity was more than double what customers paid in Pennsylvania.

# Update and Merge the Renewable Energy Credit Tiers

In 1998, Connecticut required utility companies to purchase renewable energy credits to support the construction and operation of solar panels, wind turbines and similar projects. This program, known as the Renewable Portfolio Standard (RPS), arbitrarily separates different renewables into tiers and requires arbitrary levels of support for each. Utilities must buy renewable energy credits (RECs) from each category.

At the same time, Connecticut’s RPS excludes most hydro-electric dams from its definition of “renewable” energy, and instead pushes utilities to support more intermittent sources of generation from which outputs can’t be controlled to match the grid’s needs. This exclusion is especially silly because the New England electric grid abuts that of Quebec — which gets nearly all its electricity from hydroelectric dams and has almost limitless potential to generate more.

The RPS is an energy lobbyist’s dream. Just this year, the General Assembly essentially ordered utilities to buy more energy (presumably at a higher cost) from waste-to-energy plants — from which the state collects \$3 million annually in special taxes.<sup>civ</sup>

State-level interventions in the wholesale energy market are extremely inefficient, and the state’s climate goals would be better served by a carbon price mechanism set at the federal level. But if Connecticut is going to continue subsidizing renewables, the state’s approach should be generator-independent, and should make more types of renewables eligible so that REC purchases flow to the most efficient providers.



# Allow Utilities to Show State Compliance Costs on Bills

Connecticut’s high electricity prices stem directly from policy decisions in Hartford. These include mandatory support for the Millstone Nuclear Power Plant, mandatory renewable energy purchases and a range of state taxes and surcharges. Although utilities are authorized to show some of these, other parts are baked into their overall transmission costs.

The state’s electrical utilities operate under strict rules about how their bills can be printed. Easing those rules to allow greater cost transparency will help the public understand — and make more judgments — about state energy policies. The utilities should be authorized to show the cost of RECs, the state’s power purchase agreement with Millstone, and any other compulsory spending.

# Encourage Interconnectivity with Long Island

As New York and Connecticut both shift toward relying on intermittent renewable electricity generators, particularly offshore wind turbines, the ability to buy and sell electricity into neighboring states is more important than ever.

An additional, privately financed connection to the New York grid would increase reliability in New England. Meanwhile, the ability to sell into Long Island, where wholesale electricity prices can triple those in Connecticut (or higher) on some days, will make investment in Connecticut more likely and benefit the state overall by encouraging greater competition.

The Cross Sound Cable between New Haven and Long Island came online in 2003 after years of legal squabbles, allowing up to 330 megawatts to flow, one way at a time, between the states. No interconnection between Connecticut and New York has been built since, even as each side of Long Island Sound regularly experiences price spikes.

Connecticut should work with New York and federal agencies to develop a streamlined process for developers interested in building more interconnections but who are reluctant to commit capital to projects because of the high regulatory uncertainty.

# Allow Small Nuclear Reactors

Advances in nuclear technology will soon allow for the widespread production of small modular reactors (SMRs), which require less capital investment and are easier to site. Saskatchewan Power Corporation, the Canadian province’s main electric utility, has taken steps to build a distributed network of SMRs over the next 15 years, going so far as to select a provider. <sup>cvi</sup>

Assembly should eliminate the ban altogether to avoid giving a single business a leg-up.

Given the state’s push for greater electrification in transportation and home heating, it’s more important than ever that the state eliminate obstacles to emerging technologies.

Welcoming SMRs and other emerging generation technologies will give Connecticut a better chance to reverse its unfortunate distinction of having some of the country’s highest electricity costs.

This year, the General Assembly opened the door to building an SMR at Millstone Nuclear Plant in Waterford by adding an exemption to the state’s 1979 restriction on new reactors. <sup>cvi</sup> With small reactor technology advancing rapidly, the General

# Ask Congress to Repeal the Jones Act

The federal Merchant Marine Act of 1920, also known as the Jones Act, blocks foreign-flagged ships from moving goods between United States ports. Shielded from competition, the aging fleet of Jones Act-compliant ships has shrunk to below 100 <sup>cix</sup> and effectively eliminated maritime shipping as an option for people looking to move goods between Connecticut and other U.S. ports. What’s more, at present, there are no U.S. flagged, U.S.-built liquified natural gas (LNG) ships.

The effects range from higher gasoline prices and higher winter electricity costs to a greater volume of heavy traffic on Connecticut highways and difficulty replacing cross-sound ferries. The law has thwarted private-sector efforts that would have taken thousands of tractor-trailers off I-95 in Fairfield County. It has left New England relying on Russian liquified natural gas during cold snaps.

Although this isn’t a state policy matter, Connecticut state officials haven’t shied away from weighing in on federal decisions that have even marginal ramifications for the state. One of the most immediate benefits from repealing the Jones Act would be that foreign-flagged ships could move LNG from Texas to New England, rather than making the region dependent on more distant foreign sources.

Repealing the Jones Act would also benefit Connecticut ports by expanding the number of ships eligible to use them. Bridgeport area officials have long touted the potential value of the city’s harbor as an economic engine, especially as an alternative to the busier ports of New York and New Jersey. <sup>cx</sup>

# Reform Public Education

For Connecticut’s children, the road to opportunity is narrow and full of obstacles without a strong educational system that will prepare them — not just for a job — but for a life as an educated, informed citizen. Currently, our K-12 system, though strong in some areas of our state, is not serving all Connecticut’s children to the standard we would demand for our own. <sup>cx</sup> And that means reform is essential.

In school year 2019-20, <sup>cxii</sup> per-pupil spending was \$21,346, making Connecticut the second-highest spending state in the nation. That level placed our state 14 percent above Massachusetts schools, which posted comparable (if not superior) results and 58 percent above the national average.

As of 2022, Connecticut ranked dead last for overall return on investment in education spending. <sup>cxiii</sup> Cost per pupil had

risen to \$22,163 — but more remarkably, our state employs only .78 teachers for every non-teacher in our public schools. <sup>cxiv</sup> In other words, most school employees aren’t even teachers. This status quo may swell union coffers, but it does considerably less to advance our children’s education.

Meanwhile, public K-12 enrollment — which was already shrinking prior to the pandemic — declined nearly three percent in 2021, compared to 2020. <sup>cxv</sup> Conversely, the chronic absenteeism rate increased from 12.2 percent to 19 percent in this time frame. More importantly, students’ proficiency in key subjects, as well as scores in college-readiness examinations have declined considerably. <sup>cxvi</sup>

Since the pandemic, education has become a national “hot button” political issue. Controversy swirls around not only



critical race theory and the other fringe agendas seeping into curricula, but also student loan debt forgiveness, and how much the costs of higher education will be redistributed.

Connecticut government currently remains mired in the 19<sup>th</sup>-century mindset that it is best-positioned to operate K-12 schools — a belief that has been surmounted in other facets of public service delivery from trash collection to package delivery. What’s more, it is time to reexamine the assumption that residents’ tax dollars are best spent funding school systems, rather than school children; Connecticut should follow the lead of states where public funding follows a child, whether to a public school, public charter school, or private school.

## Fund Every Charter School Seat and Authorize More

In 1996, the state authorized charter schools — public schools operated by someone besides the government. Connecticut’s 21 charter schools served about 11,000 students during the 2021-2022 school year, or 2 percent of all Connecticut public school pupils. <sup>cxvii</sup> A peculiar provision in state law has made it difficult for more families to access seats in charter schools: the state Board of Education allows charter schools to open, and the General Assembly separately appropriates the money. This arrangement gives charter opponents (most prominently the teachers’ unions) an effective veto over something other states allow automatically.

## Enact Tax Credits for Homeschoolers

Connecticut boasts a vibrant homeschool community, made up of more than 15,000 Connecticut families. <sup>cxviii</sup> Although this is a tiny proportion of our state’s schoolchildren (totaling an estimated 512,000 students in 2020-21<sup>cxix</sup>), their families bear the expense of state and local taxes to support schools they do not use. This is in addition to paying the necessary costs of homeschooling, which can easily exceed \$1,000 per year for books, supplies and enrollment in a homeschool program. <sup>cxx</sup>

At the post-secondary level, like most of the country, Connecticut has placed excessive emphasis on college enrollment and degrees. It makes sense instead to broaden young people’s horizons, to increase access to vocational options, and to educate our young people in conformity with their talents, interests, and the needs of our job creators.

There are few easy fixes. We can all agree, however, that simply throwing money at the problems will not bring about the reforms that students, parents, educators and taxpayers deserve. Even as transformational changes are explored nationwide, there are immediate steps that can be implemented here in Connecticut.

New charter schools in Norwalk and Danbury, authorized in 2018, seek eventually to serve more than 900 students. They have been blocked indefinitely by the General Assembly’s refusal to fund them.

Connecticut should unleash the full potential of charter schools by allowing funding to flow automatically to authorized schools. Unlike district-run schools, charter schools succeed only if parents choose to send their children there; schools that don’t perform adequately are closed. This level of accountability makes every approved charter school seat a worthwhile investment.

As burdensome as homeschooling costs can be, they are still considerably less than families pay in state and local taxes. Providing a tax credit for the sum that families spend to homeschool their children would offer some relief without imposing any significant hardship on the state. Currently, five states offer a tax deduction for home schooling expenses, <sup>cxxi</sup> and Connecticut should follow their lead.

## Reform Teacher Retirement

The growth of unfunded liabilities in the Teachers Retirement System (TRS) is a source of continued fiscal peril for Connecticut, contributing to its dubious achievement of boasting the highest per capita taxpayer debt of any state in the nation. <sup>cxxii</sup> In fact, unfunded teacher pension liability represents 15.6 percent of our state’s GDP. <sup>cxxiii</sup> In the current fiscal year (FY23), Connecticut will pay \$1.6 billion, which doesn’t include extra contributions made from state reserve funds. At the same time, about two-thirds of this spending is covering liabilities from the pension plan promising more than it could afford.

The state’s practice of picking up the cost of teacher retire-

ments — through the state’s TRS — provides a disproportionate benefit to the highest-paying school districts, since the state’s liability is a function of pay.

Instead, the state should allow school districts to keep placing new hires in TRS, but only on the condition that they not only fund their employer contributions at a realistic rate of return, but also place new employees in a defined contribution (DC) plan. Additionally, new employees joining TRS should be enrolled in Social Security, with districts responsible for the cost. This would result in immediate financial savings for the state, coupled with a decrease in future liability.

## Prohibit Unionization of School Principals

In 1993, as part of a very successful education-reform effort, Massachusetts abolished unions for public-school principals. Given the difficulty of removing ineffective or underperforming principals here in the Constitution State, coupled with the Bay State’s gains in educating low-income and minority

students compared to Connecticut, leaders here would be well-advised to take notice of Massachusetts’ experience.

It is time to grant immediate authority for school districts to de-unionize principals and other school administrators as soon as permitted by contract.

## Require Fewer College Degrees for State Jobs

State agencies routinely require job applicants to hold a college degree, regardless of whether it’s needed for the position at issue. But employers across the economy are revisiting the assumptions behind this, and state government should do the same. Maryland officials have taken deliberate steps to remove the requirement from state jobs, <sup>cxxiv</sup> and some

airlines have stopped requiring pilots to hold four-year degrees. <sup>cxxv</sup> This single reform alone would do much to broaden and diversify the pool of applicants eligible for public service.

*“...employers across the economy are revisiting the assumptions behind this, and state government should do the same. This single reform alone would...broaden and diversify the pool of applicants...”*

# Re-Evaluate All Public College Degrees

The goal of higher education is to create educated citizens and prepare young adults for the workforce with the prospect of increased wages. Our state invested \$1.4 billion in fiscal years 2021 to help students achieve those ends. <sup>cxxvi</sup> However, half of young adults still do not “even earn an associate’s degree,” <sup>cxxvii</sup> and higher net earnings depend on the field of study. <sup>cxxviii</sup>

Of the students who do go to college, even after six years, less than 60 percent of those at four-year colleges have earned a bachelor’s degree, with more than a million students dropping out every year. <sup>cxix</sup>

A student’s field of study has a significant impact on future earnings. The median bachelor’s degree is worth \$306,000 for students who graduate on time. Yet majors such as engineering, computer science, nursing, and economics can “produce returns of \$1 million or more,” while other majors — such as the humanities, philosophy and psychology —

## Establish Tax-Credit-Funded ESAs

Education Scholarship Accounts (ESAs) are the educational tools of the future. They put parents, rather than the government, in charge of their children’s education.

As state-supervised spending accounts entrusted to parents to pay for approved educational services, ESAs empower parents to tailor their children’s educations in accordance with their needs, maximizing each child’s natural learning abilities. Funds can be directed to state-approved schools, courses, programs, and services, with the remainder from each school year eligible to be saved for future K-12 or in-state college expenses. With an ESA, education is no longer “use it or lose it.”

With ESAs, children aren’t trapped in underperforming schools. They enjoy the kind of options currently available only to the well-to-do, because parents have the power to direct funds in the most personalized and efficient way for their child’s individual needs. Children with special needs could use the scholarship to receive therapy on the side but benefit from the services provided by a public school.

“often have a zero or even negative net financial value.” <sup>cxix</sup> Meanwhile, even as funding increases, enrollment continues to drop precipitously. In 2017, the state achieved peak enrollment since 1980 at 90,404. That fell by nearly 20,000 in only a few short years to 74,538 in 2021. <sup>cxixi</sup>

With the state funding numerous public universities, it is time to re-evaluate the degree programs that limit or negatively impact a young adult’s financial standing in a post-graduation world. Connecticut should use state Department of Revenue Service earnings data to study the retrospective effect of each degree program. Connecticut’s young people — and all those who attend our colleges and universities — deserve the information that will help them make informed decisions about their futures.

An exceptionally promising student could access advanced math and science online, study English and foreign language at home, meet with a tutor twice a week, and save leftover money for future approved education expenses. The options are endless.

ESAs can be established easily. Simply permit businesses and individuals to donate to nonprofits that offer ESAs to students. In return for the donation, these taxpayers become eligible for a credit against their state income taxes. The program could begin with a modest cap of \$25 million, <sup>cxixii</sup> a sum subject to adjustment thereafter in accordance with parental demand. Students who meet eligibility requirements could apply for ESAs and use them — at no cost to their parents.

Certainly, that pool of students should first come from families most in need. This would include students whose families have incomes lower than twice the threshold for participation in the federal free- and reduced-price lunch program; those who are diagnosed with a learning disability; or those who come from military families.

It is time to acknowledge that education excellence comes in a variety of forms, and that all families deserve the educational choice now reserved exclusively for the affluent. Not only do ESAs level the educational playing field, they also save state money. The maximum amount awarded to

## Provide Multiple Paths to the Classroom

Teacher shortages continue to affect Connecticut, <sup>cxixiv</sup> and it is time to think innovatively about how to find motivated adults eager to positively impact children’s lives by entering the teaching profession.

One solution would be to offer a pathway to certification to military veterans or public safety professionals who have served at least four years and been honorably discharged or retired with unblemished records; accrued at least 60 college credits with a 3.0 GPA; and passed a state exam in the subject matter area they would teach. They would then be connected with a teaching mentor for a set time period and offered a specified amount of time to complete their

each student is less than the amount per student spent in a public school. ESAs currently operate in eight states, <sup>cxixiii</sup> and 24 states have introduced legislation to establish their own ESA programs.

college degree (if needed). They could earn their teaching certification while working, and thereafter be eligible to teach any elementary or middle school classes not requiring a master’s degree.

Not only would a plan focused on recruiting veterans and public safety professionals reduce the teacher shortage, but it would also likely increase the number of males teaching. This would provide role models for the growing number of children coming from fatherless homes, and — in an age where attacks on schools are not unknown — add an additional defensive component to our classrooms and playgrounds.

*“It is time to think innovatively about how to find motivated adults eager to impact children’s lives by entering the teaching profession.”*

## Spin off UConn Health Center

UConn Health Center (UHC) is a \$1.4 billion operation that, this year, received a quarter of its revenue (\$339 million) from state taxpayers. <sup>cxixv</sup>

There is no compelling reason for the state government — let alone the state university system — to be in the business of operating a hospital. UHC remains a state government operation because establishing it as an independent entity would be a complex, multi-year process that might not

immediately yield massive budget savings. But removed from Connecticut’s public-sector collective bargaining rules, and with new hires no longer participating in the state pension system, the operation would not only be leaner; it would be less of a burden on our state’s taxpayers.

The move would likewise benefit hospital operations, shielding UHC from being pulled into Hartford’s future fiscal gimmickry and additional raids on what should be dedicated

UHC funds. It would free UConn leadership to focus on its traditional educational mission.

The state should invite area hospital networks to make proposals to integrate UHC into their networks. Alternatively,

the state could consider making current employees and recent retirees the facility’s owners, trading them stock in the new independent organization for a portion of their unfunded legacy benefit costs.

# Strengthen Local Government

Connecticut’s strong tradition of local government predates the founding of the United States by more than a century. A dozen towns were established before 1650, and local governments had been established across the entire state by 1780.<sup>xxxxvi</sup> Local governments in many respects have enormous autonomy, to the point where they can restructure themselves and their elected bodies.

significant problems for municipalities with relatively low property values (where each mill of property tax brings in a proportionally smaller amount of revenue), plenty of public property, or land and buildings owned by nonprofits. If a town or city’s residents are likewise poor, the difficulties are only increased; it strains their finances to pay the comparatively high tax rates.

However, in recent years, the state government has betrayed this tradition, eroding the discretion historically left to llocalities, while shifting costs and mandates to towns and cities. Municipalities are struggling under the burden of state-dictated restrictions that inhibit their efforts to bring their budgets under control. The General Assembly has treated the resultant growth in property taxes as though it were unrelated to state policy — but it is not.

It’s worth noting that municipal aid is the largest non-fixed cost in Connecticut’s state budget. Municipalities are dependent on state government largesse. As a result, whenever Connecticut confronts a budget crisis, municipalities find themselves receiving less funding from the state than they feel they need. Local taxpayers therefore end up shouldering even more of the costs of municipal government.

In fact, property tax remains municipalities’ primary tool for generating revenue. Although this system works well in affluent towns where land is privately owned, property is valuable, and landowners are well-to-do, it can create

Despite some shortcomings, however, Connecticut’s town governance, and the local participation it enables, are well worth preserving. Common sense reforms can help restore and preserve our state’s tradition of robust municipal leadership.

*“Connecticut’s strong tradition of local government predates the founding of the United States...the state government has betrayed this tradition, eroding the discretion historically left to localities”*

# Let Towns & Cities Share More Services

Connecticut’s nine planning regions provide a geographic framework within which municipalities can jointly address common interests and coordinate such interests with state plans and programs. The municipalities within each region have voluntarily created a Regional Council of Governments (RCOG). Yet municipalities are still beholden to the state.

Service sharing is, in fact, the highest and best use of regional collaboration. It could improve outcomes and lower costs. For instance, the Capitol Region Council of Governments

(CRCOG) developed regional IT support, including online building permitting for towns and cloud-based servers for towns to replace their computer systems. The result was lower-cost data storage and cybersecurity.<sup>xxxvii</sup>

When stewarding taxpayers’ hard-earned dollars, every cent matters — and hundreds of millions of dollars each year is a significant savings. Connecticut should promote efficiency and cost-saving wherever possible. Voluntary regionalization offers just such an opportunity.

# Increase Municipal Authority to Consolidate Schools

Municipalities should have the authority to voluntarily consolidate their schools. There should be every incentive to allow local leaders to obtain a high quality of education

at a lower cost. Streamlining the process and allowing the towns to realize the potential savings is an important way to induce prudent management of local taxpayer resources.

# Reform Local Retirement Practices

Right now, mayors and first selectmen must negotiate these changes, which benefits the unions. Changing state law will handle a major ask for municipal officials which has been a frequent topic in arbitration.

Likewise, state and local officials should negotiate for employees to pay more into their pensions and shoulder more of the burden of the healthcare cost share to reflect the private market.

# Let Municipalities Leave CMERS

The Connecticut Municipal Employees Retirement System (CMERS) lets local governments offer a defined-benefit pension, but with a big catch: municipalities must keep enrolling their new employees into CMERS. If they want to leave, they must pay out their full liability for every current employee and then pull those workers out from all CMERS benefits.

Towns such as Hamden<sup>xxxviii</sup> and Thompson<sup>xxxix</sup> have sought unsuccessfully to divert their new hires from CMERS, leaving the towns tethered to employee retirement costs that far exceed what municipalities could pay were they able to offer a defined-contribution plan instead.



## Separate Pensions & Retiree Healthcare from Union Negotiations

Union collective bargaining agreements intentionally tie their employers’ hands, keeping local officials from making changes to the terms and conditions of employment. In Connecticut, however, the state has allowed inappropriate items to be inserted into the collective bargaining process, including the benefits offered to future workers. This creates

a serious obstacle for municipalities trying to improve their bond rating.

Local officials should not have to beg permission from a union to modify benefits offered to employees who haven’t even been hired yet.

## Decrease the Number of Topics Subject to Collective Bargaining

In many states, government employees do not negotiate their wages, pensions, working conditions and other retirement benefits. Much of their work and other rules are set — not through the opaque, back-room, and self-interested process of collective bargaining — but by statute and/or ordinance. This allows elected officials to be held accountable for the deals they provide for government workers.

It is time that Connecticut adopted this approach. Municipalities should have the authority to set non-compensation employee benefits, employee work rules, and other details of municipal employment by ordinance. These ordinances could take effect when present municipal contracts expire.

## Eliminate Binding Arbitration for Municipal Negotiations / Public Safety & Teachers Exempted

Binding arbitration is an administrative process designed to reconcile contract disputes between management and labor unions without the courts’ involvement. Although it deprives unions of the right to strike, too often, it results in judgments that offer government unions inordinate benefits when it comes to wages, hours, and working conditions. <sup>cxl</sup>

Eliminating binding arbitration would enable town leaders to set pay, benefits, and other working conditions by local ordinance. This would allow municipal residents to hold their elected officials accountable for the pay packages and other privileges granted to municipal employees.

*“Eliminating binding arbitration would enable town leaders to set pay, benefits, and other working conditions by local ordinance.”*

## Improve Reporting on Retirement Costs & Liabilities

The state should require uniform reporting from municipalities on their retirement costs and liabilities to give a more current view of their financial well-being, and an annual valuation of any system with gross liabilities more than \$100 million. For its own part, Connecticut performs an annual valuation for the State Employees Retirement System and should require the same from the state Teachers’ Retirement System.

To assist in improved reporting, the state’s Freedom of

Information Act should be amended to require municipalities to post all audited financial reports and actuarial reports on their websites within two weeks of their receipt for residents to inspect. To make data in audited financial reports more accessible, the state should establish a standard for machine-readable disclosure, based on extensible Business Reporting Language (XBRL). The XBRL standard is used for public company financial reporting and is being applied to municipal financial reporting in Florida.

## Let Towns & Cities Set Their Own Rates

Municipalities are beholden to the state regarding setting rates on taxes and fees. For example, towns and cities are required to tax motor vehicles at the same rate as real property such as homes and businesses if their mill rate is below 45. <sup>cxli</sup>

Additionally, municipalities with few exceptions must collect late fees on overdue property taxes at a rate of 18 percent

annually. <sup>cxlii</sup> The current level was set in 1982, amid higher interest rates and faster inflation than the country has experienced in any year since. This approach diminishes municipal discretion, makes it less practical for people who owe taxes to pay them, and increases the likelihood that a municipality will have to take possession of and sell a property.

## Eliminate the Minimum-Budget Requirement

Minimum-budget requirements <sup>cxliii</sup> are predicated on the flawed notion that educational results are dictated by spending levels. Although the state certainly is responsible for ensuring that local schools are providing excellent education to their students, spending is not a proxy for quality. Minimum-budgeting requirements should be eliminated.

Until they are, Connecticut should institute zero-based minimum budget rules that include variables for cost components including number of students served, and facilities maintained by school districts. Municipalities should be rewarded for educating their students in rational and results-oriented ways, and rewarded for voluntary efforts to consolidate schools, districts, and services.

*“Connecticut should institute zero-based minimum budget rules that include variables for cost components including number of students served, and facilities maintained by school districts.”*



# Institute Structural Reforms

Our state is only as strong and effective as the structures that undergird it. Over time, processes and procedures can accrete. Some may have had defensible rationales at their inception, but over time, they have become obsolete or worse, counterproductive.

## Adopt Zero-Based and Priority-Based Budgeting

Connecticut’s people already stagger under the highest overall debt burden per capita of any state in the nation. With skyrocketing inflation and a succession of tax increases over the past decade, clearly, neither additional taxes nor additional indebtedness is the answer to our state’s fiscal challenges.

Instead, it makes sense to scrutinize practices that embed useless or antiquated spending into Connecticut’s budget. When families shop, they decide what they need, then they prioritize and budget accordingly. When their children are babies, they allocate funds for diapers and pacifiers. But by the time the children have reached preschool, those expenses are no longer necessary.

Under Connecticut’s current budgeting techniques, however, it’s as if the family continued to purchase diapers and pacifiers even as the children were graduating from college — with annual increases into the diaper and pacifier funds. In the usual course of business, state instrumentalities work from previous budgets, add money for new programs and seek general increases for other items. It is surpassingly rare for any state organ to eliminate an expenditure as unnecessary, inefficient, or unjustifiably extravagant. As a result, government inevitably grows, becoming increasingly expensive, regardless of taxpayers’ inclination or ability to shoulder an ever-heavier burden.

Budgeting from a “zero base” would be one straightforward way to slow the growth of government. Rather basing the next year’s budget on that of the previous year and increasing from there, the state and its instrumentalities would be

Below are some suggestions for ways that Connecticut’s procedures can be adapted to make them more rational, constructive, and likely to produce outcomes that can make all of us proud.

required to budget with the understanding that funding is contingent on their ability to justify each line item of their budgets, based on evidence of expected need for the funds sought. This approach eliminates “legacy” spending and begins to push back on the one-way ratchet that seems to dictate spending must always rise.

Agencies, like families, should also be expected to prioritize — ranking their proposed expenditures in order of importance. This would enable appropriators to allocate money to the purposes that the agencies themselves have identified as being of greatest value to the state, should state revenues be insufficient to fulfill all properly justified requests.

It’s worth noting that Washington state adopted a “zero-based” budgeting system, which played a central role in closing that state’s spending gap. More than that, it is a tangible demonstration that our state’s public sector values taxpayer money enough not to take it for granted.

There are some who have argued that this approach to budgeting requires too much of government. Conversely, given all that state government requires of taxpayers, is it unreasonable to require the instrumentalities of government simply to document that the money it claims to need is, in fact, necessary? If the funds are indeed central to an agency’s ability to discharge its responsibilities and are being used effectively, an agency should be able to document its proper use of them, thereby providing evidence of the need for similar funding in the future.

The concept of zero-based budgeting holds enough promise that should be tried as a pilot program at an appropriate agency. Independent outside auditors could monitor the process to ensure it’s being undertaken in good faith and with sufficient dispatch to enable a fair test of the system. They could then report on the trial’s results.

## Adopt Revenues Before Setting Spending

Families across Connecticut must determine how much money they have before they decide how much they can afford to spend. Our state’s government operates under no such constraint.

At present, the Appropriations Committee determines the state’s spending plan without the benefit of any Finance Committee revenue estimates. In fact, it decides what to spend before knowing what state revenues are.

## Eliminate Supersedence

In a democratic republic, the people are supposed to rule through their elected representatives. In Connecticut, government unions enjoy vast powers — to an extent that makes the Constitution State an outlier even among other union-friendly states.

There is no more egregious example of this phenomenon than supersedence: collectively bargained government-worker contracts can actually override properly enacted state law. As a result, union bargaining units have exempted themselves from state freedom-of-information laws and signed on to contracts that contravene state laws designed to protect the public.

That’s not all. Union contracts may be required to list the statutes they override, but subsequent contracts or contract

For agencies reluctant or unable to adopt zero-based budgeting, the program could include an alternative. In any year when an agency finds it impossible to develop a zero-based budget, it might instead choose (either actively or by default) to absorb a permanent three-percent across-the-board budget cut, which would then be built into any “automatic” (i.e., non-zero-based) future budget considerations.

The sequence of this process is backward and cries out for reform. The state should adopt revenue estimates first, understanding how much money there is to be spent. Only then should legislators appropriate the money it expects to collect, doing so in accordance with the zero-based budgeting process outlined above.

extensions often fail to include the statute listings, although the supersedence itself continues. In such situations, it becomes nearly impossible for the public to understand which state laws or local ordinances have been effectively countermanded by contract. This is not only anti-democratic; it’s an affront to the principles of transparency and open government.

Supersedence erodes the rule of law and undermines foundational principles of representative government. It creates an elite class, exempt from the laws that govern everyone else, and privileged above all the other segments of society that are denied opportunities to shape the rules to their liking behind closed doors. This unjust and unequal treatment should not stand. The legislature and governor should repeal Title 5, Chapter 68, Sections 5-278 (b) (d) and (e).

# Conclusion

At Yankee Institute, we constantly strive to empower our neighbors to forge a brighter future for themselves and their families. Yet, as previously stated, Connecticut continues to lag in economic recovery from the pandemic and even the Great Recession; the state has lost more residents to other states than it attracted since 2003; job creation had essentially stalled, with the state adding no private-sector jobs between 2017 and 2020; and resident income, measured by the Internal Revenue Service, has risen at the nation’s third-slowest rate. <sup>cxliiv</sup>

If we continue operating at the status quo, we will only harm those who have stayed and want to stay in our great state. They need to know Hartford cares about them and are willing to work together to address the issues plaguing their everyday lives. And they need the hope that things will improve — that there is potential to ‘pursue happiness’ here.

Our Charter for Change is hopeful. As clearly demonstrated, there is no shortage of opportunities to improve outcomes

for everyday people in the Constitution State. But we need to start a conversation that will drive effective policy change. That is the goal of our Charter for Change — we hope it serves as a resource to elected officials who are focused on improving government and increasing prosperity for their constituents.

We look forward to building new relationships with people from all backgrounds to achieve this uplifting mission. Let’s forge a brighter future together.

*“Our Charter for Change is hopeful... there is no shortage of opportunities to improve outcomes for everyday people”*

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Connecticut is America's jewel. Compact and conveniently located between New York City and Boston, it's replete with natural beauty — waterfalls, lakes, islands, beaches, caves and stunning autumn foliage.

But Connecticut has a problem...

This *Charter for Change* does not claim to contain an exhaustive list of all that can — or must — be done to restore Connecticut to the glory of its full potential. Rather, it's designed both to challenge flawed assumptions and to inspire good ideas.