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POLICY REPORT NO. 1



Charter For Change

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

Introduction

Connecticut is America's jewel, 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 48th in job growth and 49th in wage growth.¹

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 in 2021, 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.

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.

**This is an excerpted version of the Charter for Change, which can be found at yankeeinstitute.org*

Make Connecticut Less Taxing

Each Connecticut taxpayer bears an overall state debt burden of \$62,500.² And despite the extra payments deposited last year into state pension funds, Connecticut's per capita pension debt remains among the highest in the nation.³ Meanwhile, the state'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 1977.⁴

In 2022, Connecticut ranked 49th in state and local tax burdens.⁵ According to the Tax Foundation, a whopping total of 15.4 percent of our net product goes to state and local taxes.

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 2022.⁶

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.⁷ 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.

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.

One noteworthy feature of the current tax structure is how little of the revenue — about 10 percent⁸ — 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, who were targeted with repeated rate increases during the period.⁹

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 2020.¹⁰

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.

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.¹¹

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 lawmakers

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.¹² 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.¹³

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.¹⁴

What's more, Connecticut is alone in the United States in imposing a gift tax on its people. 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.¹⁵ 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.¹⁶

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.

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.

Simplify & 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.¹⁷ 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.¹⁸

Corporate income taxes are among the most economically destructive taxes because capital is mobile.¹⁹ 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.²⁰ 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.²¹ Unknown compliance costs decrease the tax's actual value even more. At least half of Connecticut busi-

nesses (16,654) paid the mandatory minimum \$250 tax.²² In many (if not most) cases, businesses actually spent more money preparing their state returns than they owed.²³

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.²⁴ Nearly one-third (\$46 million) of the \$148 million in total film tax credits went toward "film production" credits, with 25 recipients receiving an average of \$1.8 million.²⁵ 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.

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 percent²⁶ in the late 1990s prompted businesses to add about 5,956 private-sector jobs.²⁷

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.

“For Connecticut, where employment growth has been slow, targeting employers is especially counterproductive.”

Eliminate Wasteful Taxes & Fees

Yankee Institute has identified 344 sources of revenue that together grossed \$22.6 billion for the state government during 2021.²⁸ 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.

“Our sales tax has been a more stable source of revenue than either the personal income tax or corporation business tax.”

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.

Although the combined effect of Connecticut's volatility, revenue, spending and bonding caps have slowed the rate of spending growth, there remains room for improvement.

Cancel the '22 Tax Gimmicks

A majority of Connecticut's politicians recently squandered an opportunity to lower tax rates on personal and business income. With Gov. Ned Lamont and most of the General Assembly running for re-election in 2022, they instead used an unexpected windfall to finance a \$600 million package of tax gimmicks.²⁹

It's also 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.

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.³⁰

“...Gov. Ned Lamont and most of the General Assembly...used an unexpected windfall to finance a \$600 million package of tax gimmicks.”

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. 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.³¹ In July 2022, the bond commission released \$850 million for a variety of enterprises;³² one year earlier, it had provided \$1 billion for school and transportation and infrastructure projects.³³

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%.

What's more, as of 2020, Connecticut bore the dubious distinction of having the highest taxpayer debt per capita in the country, totaling \$62,500 per taxpayer.³⁴ 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.³⁵

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.

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.

In addition, 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.³⁶

With a statutory bonding cap of roughly \$2 billion for fiscal 2022,³⁷ 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.

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 "Highway 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 trans-

portation, and the fact that more vehicles will be using the roads without paying gas taxes. 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.³⁸ 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.

Meanwhile, Connecticut collects 30 cents on each prearranged vehicle ride through its Transportation Network Company Fee.³⁹ 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.⁴⁰ These funds should be deposited into the STF.

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 premiums but remaining in business.⁴¹ 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.

What's more, the Partnership Plan used a bait-and-switch approach, offering unsustainably low premiums to Fairfield County municipalities that did not reflect the region's higher costs. Rates subsequently increased significantly.

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.⁴²

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.

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.⁴³ 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.

Make State Operations More Efficient & Transparent

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

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

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.⁴⁴ The report provides a good starting

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.

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.⁴⁶

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.

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.⁴⁵ A

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.⁴⁷

Connecticut's car fleet is supported by a network of 76 state-owned gas pumps.⁴⁸ Many are located within walking distance of commercial fuel stations. Four stations are in New Haven.

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.⁴⁹

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.

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.⁵⁰ Among other deficiencies, the state website that lists unclaimed property failed to inform residents about items valued at less than \$50.

To his credit, former 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 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.

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.

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.

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

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.

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.

Factors including the price of energy, above-average workers' compensation costs, looming unemployment insurance hikes,⁵¹ and regulatory compliance costs play a role in determining the health of Connecticut's business climate.

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 Hampshire, New Jersey, 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.

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?

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.⁵²

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-

Furthermore, all cost/benefit analyses could be challenged at the Office of Regulatory Reform (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.

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.

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.

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.

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 9 years for a water permit.⁵³

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.

Allow Warnings for First-Time Violators

Businesses' attitudes about Connecticut's business 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

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.⁵⁴ Such a system would yield valuable information for established and prospective business owners, lawmakers and state residents alike.

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.⁵⁵

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 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.⁵⁶ And even as the nation fully recovered all the jobs lost during the pandemic in July 2022, Connecticut had regained only 88 percent.⁵⁷

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 coronavirus 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.”⁵⁸

The state eased CON requirements in 2020 to “increase access to critical healthcare services” related to the coronavirus pandemic — a tacit acknowledgement that the state's practice of essentially requiring government permission to provide healthcare services reduces access in many instances.⁵⁹ 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.⁶⁰ 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.

“...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.”

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.

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.

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.

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.

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.

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.

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.

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).

That's not all. Union contracts may be required to list the statutes they override, but subsequent contracts or contract extensions often fail to include the statute listings, although the supersedence itself continues. In such situations, it

Rebalance Connecticut's Relationship With State Unions

Too often, big government is viewed with a degree of complacency — the government unions, which play a disproportionately large role in our state's elections, tend to see government as a jobs program. 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).

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.

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

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.

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.⁶⁰ 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, 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.

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.

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 pension⁶¹ — 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.⁶²

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.⁶³

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.⁶⁴ 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.⁶⁵

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.⁶⁶

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 ESG principles have come to dominate boardroom 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.

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.⁶⁷

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.

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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.