Westport RTM Greg Kraut's Three-Part Plan to Revive Connecticut's Economy

Phase 1 – GENERATE REVENUE – *Stop the bleed without raising taxes!*

1. **MONETIZE STATE OWNED PROPERTY**– Sale or Sale Leaseback of state-owned properties. Connecticut owns over 55 million square feet of properties. Selling properties will not only generate significant revenue, but it will help local governments generate additional revenue. Arizona successfully did a sale/leaseback on some of its owned/ occupied assets generating approx. $750m. In addition, local governments have had their payment in leu of taxes on state-owned properties taken away so by monetizing some of the state owned property, it would allow them to generate additional revenue. This can be used for upgrading infrastructure, paying our unfunded liabilities, or increasing funding for education.

2. **MODERNIZE LOTTERY**– Our lottery has been stagnant and needs to be upgraded. We should begin accepting credit cards and upgrade the packaging of our lottery program. Connecticut receives approximately $300 million per year from the lottery. Spending per person is approximately $300. Our neighbor states that accept credit cards (like Rhode Island and Massachusetts) spend $500 and $700 per person. In addition to credit cards, Massachusetts has season passes that are very popular, and as a result, drive more revenue than any other state.

3. **CASH AWARD SAVINGS ACCOUNTS**– Banks in Connecticut can now provide cash prizes instead of interest. With interest rates low, this helps to increase savings for lower income residents and is very popular for all income levels. This revenue is taxed at the same rate as the lottery. The first large-scale prize-linked savings program in the U.S. was created in Michigan six years ago. The program is called Save to Win, 56% of the participants were non-savers before the program and Michigan has saved almost $100m. This program is rapidly growing and we must promote this program in Connecticut.

4. **UNLOCK UNCLAIMED MONEY**– Our state has more than $750 million in unclaimed money, but we should do a lot better job in collecting. Only a small percentage gets returned to the rightful owner. Other states like Delaware have made this a primary revenue source for the government. Last year, we brought in approx. $121 million of unclaimed funds and paid out $40 million. This money should be used for education and infrastructure, whereas now it goes to political campaigns and the general fund. NJ has done a much better job and brought in $4.5 billion. We need to audit companies more aggressively by using third-party auditors to conduct unclaimed property audits, shorten

dormancy periods (which is the length of time that must lapse before property is considered abandoned) and add unused gift card balances as unclaimed property. In 2017, there were $176 billion in gift cards sold in the US. We need legislation to require the names and addresses of the gift cards and when they were sold, so we can gain that revenue for our state. Gift cards are appealing because it is almost impossible to determine the rightful owner of a gift. That means that the state will ultimately end up permanently retaining a much higher portion of gift cards than of other forms of unclaimed property.

5. **CENTRALIZED AND CONTROLLED PRIVATIZATION** - Several states have saved hundreds of millions of dollars through privatization. The most successful states create permanent centralized entities to oversee and review business plans. Connecticut is in the process of privatizing the Department of Developmental Services and plans to convert 30 group homes to private operations. It is expected to save the department $42 million in 2017 and $70 million in 2018. Other successful state privatizations have included the lottery, property, agencies and tolls.

6. **CASH IN ON LEGALIZED MARIJUANA MONEY–** The legalization of marijuana has been successful elsewhere, including Massachusetts. The best practices of other states should immediately be implemented here. Colorado in 2017 made $247 million in taxes and fees and several states already have legalized it.

7. **TEMPORARILY FREEZE DISCRETIONARY SPENDING AND HIRING-** If the municipalities have had to do it, then why not the state. We will institute a discretionary spending freeze, hiring freeze and any new contractual agreements will be reviewed.

8. **UNBIND ARBITRATION -** Binding Arbitration, or what it should be called is "pattern negotiation", costs Connecticut tax payers millions of dollars per year. We are only one of a handful of states that has this type of binding arbitration, which weighs past compensation levels and a municipality's wealth and capacity to pay employees in the process. Connecticut has the broadest binding interest arbitration law among New York, Massachusetts and Rhode Island. New York only includes public safety unions, and Rhode Island wages are statutorily exempted from binding arbitration. This unfairly favors labor and has driven excessive municipal compensation and benefits for decades. This has also materially widened the compensation gap between public and private employees doing similar jobs. A study by the Manhattan Institute's Empire Center for New York State Policy has found that for New York government workers in jobs covered by arbitration, pay increased over a 10-year period by 59 percent compared to a one-third gain for other government workers. In some states, like New York, laws ban arbitrators from considering a local government's fiscal limitations when ruling on new contracts. In other states, arbitrators calculating an award for workers in one city can base the amount on the pattern of pay increases in nearby cities, even if those cities are much wealthier and can afford to pay more. Many have felt that unions claim that negotiations with local

officials are at a standstill because it works in their favor to go to arbitration. We should unbind this type of arbitration.

Phase 2 – RETHINK THE FUTURE

1. **RESTRUCTURE STATE EMPLOYEES' BARGAINING AGREEMENT (SEBAC)** - It is only a matter of time before local taxes spike, and as a result, Connecticut loses significant businesses and individuals. More importantly, we also want to honor our current obligations to our state workers. The following solutions have been successful in other states: new hires to be given a 401-k plan with 9% matching funds from the state (still gold standard); buy out existing state benefit plans discounted to the current value of the plan; and lower the discount rate to make it a market value of liabilities and tie the formula for cost of living adjustments (COLA) directly to the Consumer Price Index (CPI) with no minimum or maximum.

2. **REDUCE STATE INCOME TAX** - Connecticut instituted a state income tax in 1991. Since then, it has raised the top income tax bracket six times, and the number of high paying jobs has dropped from 158,000 to 124,000. It is the only state in the region that has not recovered jobs from the recession, with more residents lost to Florida (0% income tax) than to any other state. Most studies show that besides corporate tax cuts, lowering state tax burdens is the top economic driver of growth. This will be a clear value proposition compared with our neighbors and will work to reverse the migration out of the state.

3. **SAVINGS SAVE SENIORS** - Connecticut is one of the most unfriendly states for seniors and as a result, we are rapidly losing our senior population. We need to fully exempt all retirement income from taxation. This includes private and public pensions, Social Security, and annuities. We must contain the migration south and become the go-to place for seniors in the northeast. We are one of only thirteen states that tax social security. Connecticut does offer some Social Security tax exemptions but considering that the state also features one of the highest annual incomes in the country, a higher exemption limit or simply no tax makes sense. Twenty-seven (27) other states exempt all Social Security benefits from income taxes including Mass, NJ and NY. We are also only one in seven states that have a progressive estate tax of up to 12 percent beyond the $2 million exemption. Connecticut also taxes pension benefits unlike Mass, NY and NJ, which exclude all federal, state, and local pension income from taxation. In Rhode Island and Mass, they don't tax government pensions and in NY and PA, they don't tax private pensions.

4. **ELIMINATE THE "DOUBLE" ESTATE TAX**- Keep family-owned businesses and high-revenue citizens in the state. Connecticut relies on the top 1% more than any other state. When they leave, they take a significant amount of revenue with them. Only seven

states have this tax. Eliminating it will get capital back into the economy. It will also protect small businesses that are asset rich, but cash poor. When an owner dies they are forced to pay up to a one third, and they often must sell their business. This only applies to a few people, raises a tiny amount of revenue, and has been devastating to small business.

5. **<u>FORGIVE STUDENTS DEBT FOR RESIDENCE</u>**- Forgiving student debt would likely lead to a material increase in GDP, an increase of additional new jobs and reverse the Millennial migration trend. Connecticut is one of the few states that doesn't have a student loan forgiveness program. Connecticut's college graduates carry the fourth-highest student loan balance in the nation thanks to significant payments of $326 per month. Workers in this state are also up against costs of living that exceed the national average by a whopping 24.1 percent. Despite also earning higher wages, our student loan borrowers are in a tough spot. We are also ranked #3 in highest amount of debt per student and have the highest cost of living. Eliminating student debt would also help keep the high cost of borrowing down and shrinking the achievement gap between those that have and those that don't.

6. **<u>MORE MONEY FOR TOWNS</u>** - Give communities more autonomy with their revenue streams so they can wean off property tax. A high percentage of property tax revenue compared to overall revenue has been shown to be unsustainable. We need to diversify our revenue sources available to local governments and create sufficient flexibility for property tax relief. This will also increase the fiscal security of municipalities. This high percent of property tax revenue also widens the education achievement gap between higher income and lesser income municipalities. We need to give towns creative and custom revenue options that work specifically for their citizens. We are one of only a few states does not allow local governments the ability to diversify its revenue streams. In 2007, approximately 80 percent of Indiana local governments' budgets were funded by property taxes. Today, property taxes fund just 39 percent of all local budgets (including public schools) and 60 percent of all municipal budgets. A complex mixture of property tax caps and other factors affecting Indiana's property tax system caused that change. They gave local governments additional options for replacing the revenue including Local Option Income Taxes (LOIT). This is one of the reasons that Indiana has accumulated a $2 billion rainy day fund and is running a $210 million budget surplus.

7. **<u>TOMMOROW'S TOURISM</u>** - Visitors are staying longer and spending more. Room occupancy tax is up, and jobs have increased. We need to spend more on out of state advertising and public relations, highlighting all that Connecticut has to offer. We also need to create a clear tourism strategy for the future and invest in modern attractions.

Phase 3 – REVIVE AND GROW OUR ECONOMY

1. **GAMING FOR EDUCATION** – By doubling gaming revenue for education, Connecticut can increase the current $600 million to $1.2 billion through the creation of internet sports betting and better-located high-end casinos. Municipalities will continue to benefit directly, but incremental revenue would go to a separate education fund.

2. **RECRUIT AND RETAIN BUSINESSES EFFECTIVELY** -Connecticut needs a public/private grass roots assistance program to retain talent and pay cash to companies bringing high paying jobs to the state. Florida and Virginia already have successful programs. “Come to Connecticut” will take the best programs and leave the rest. Incentives should be targeted toward the localities and regions most in need of an economic boost as well as toward areas where adequate transit options exist so that workers without vehicles can benefit from any newly created jobs.

3. **EDUCATE OR DIE -** “Reinstate, Increase, and Restructure” all education funding. Connecticut needs to create the best and most affordable public schools in the country to attract companies that want knowledgeable and skilled workers. The number one reason companies ultimately decide to move from one state to another is the access to skilled workers. If we don’t make education paramount to Connecticut’s future, we will continue the migration of people and business out of the state. We also need to review additional fundraising options for public schools. Across the country, private and nonprofit organizations have adopted centralized independent fundraising methods to make sure additional money is generated and then equally spread within a region. In contrast to private schools, most U.S. public schools don't have infrastructure in place to raise money. This type of fundraising also fosters relationships among schools, local neighborhoods, and businesses. The Santa Monica-Malibu Unified School District has been successful with raising money and redistributing the donations collected across the district. We also need to level the playing field on burden of proof, which has tilted far away from the school and state income tax forgiveness for retired teachers. These are both atypical compared to other states and costs Connecticut millions of dollars per year.

4. **INFRASTRUCTURE UPGRADE** – Create tolls solely for updating trains, rail, and traffic congestion. Studies show we can generate between $700 million to $1 billion to be used for ailing train and highway infrastructure, higher-speed trains, and traffic decongestion (specifically on the most congested areas of I-95). States have successfully privatized their tolls to cut down on cost and time.

5. **FAIR SHARE FROM THE FEDERAL GOVERNEMENT**- Increase Connecticut’s proportion of federal funds. Connecticut gets back far less than it contributes to the federal government. Our population is dwindling, and we are basically insolvent. It is not a surprise that the money is going to higher growth states. When we show this financial turnaround, we will have more influence with the federal government as they tend to back growth regions. Currently, we are number three on the list of state money paid to the federal government per capita and at the bottom of the list of money received in return. We need a better lobbying strategy for more proportional federal funding.

6. **DEDUCT PROPERTY TAXES** – Bring back the tax break to allow a deduction of property taxes for primary and secondary residences from Connecticut state income tax. This is now possible as we are in the growth phase and it will help our per capita spend by having more money.

7. **REBALANCE CONSUMPTION TAXES-** The goal is to be on par with our neighbors, but not hurt the lower earners, this will drive significant revenue, and we will use tax credits, instead of tax exemptions on utilities, groceries, and clothing. Twenty-five years ago, we got all our revenue from sales tax; we need to rebalance for growth.

OVERALL RESULTS

We created approximately 10,000 new high paying jobs that will provide the margin needed to properly run the state.

We restructured our SEBAC agreement which helped us grow.

We have a long term balanced budget where we can deliver on our obligations to our state workers.

Do all this and Connecticut is again the "go to destination" in the Northeast.