A Recommended Path to

Achieve Fiscal Stability and Economic Growth and Competitiveness

Through Restructuring the Property Tax

Property Tax Working Group of 1000 Friends of Connecticut

Connecticut's economy is demonstrably among the most productive in the nation and the world.

Data from a 2016 Brookings Institution/JPMorgan Chase study show that, with nominal GDP per capita of $84,029, the Hartford metro area ranks #3 in the world, after only San Jose (at $91,437) and Singapore (at $84,309).[1] And GDP per worker ($158,428) ranks #4 in the world, after San Jose ($171,288), Houston ($166,808), and San Francisco ($164,521) – **ahead** of New York ($158,339), Los Angeles ($158,165), and Boston ($139,160).[2] Other Connecticut metro areas, like New Haven and Bridgeport/Stamford/Norwalk, were not considered in the Brookings study because they were smaller economies, but the latter ranked #1 in the nation among U.S. metros of all size for productivity per capita based on data from 2010 in a study by Arizona State University.[3] The state as a whole ranked #3 in the country ($64,511), slightly behind Massachusetts ($65,545) and New York ($64,579), in GDP per capita in 2016.[4]

Metropolitan areas that are centers of knowledge and innovation will be major engines of economic growth and competitiveness in the future.

The Brookings/JP Morgan Chase study found that there is no one way to become a global city. But one of the distinct competitive classes they identify is "Knowledge Capitals." These metropolitan areas, according to the authors, "are the world's leading knowledge creation centers. They compete in the highest value-added segments of the economy, relying on their significant stocks of human capital, innovative universities and entrepreneurs, and relatively sound infrastructure capacity."[5]

The Hartford metro area is one of those "Knowledge Capitals."

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[1] Jesus Leal Trujillo and Joseph Parilla, "Redefining Global Cities: The Seven Types of Global Metro Economies," Brookings and JP Morgan Chase, Global Cities Initiative, September 29, 2016. The data for 2015 for all 123 metros are on pages 18, 21, 24, 27, 30, 33, and 36 of the PDF report, which may be downloaded via a link at https://www.brookings.edu/research/redefining-global-cities/

[2] Jesus Leal Trujillo and Joseph Parilla, "Redefining Global Cities: The Seven Type of Global Metro Economies," Brookings and JP Morgan Chase, Global Cities Initiative, September 29, 2016. The data for 2015 for all 123 metros may be accessed by hovering over charts for the seven types of metros at https://www.brookings.edu/research/redefining-global-cities/

[3] Richard Florida, "To Get America Growing Again, We Have to Look to Our Most Productive Metro Areas," November 19, 2012, at http://www.citylab.com/work/2012/11/get-america-growing-again-we-have-look-our-most-productive-metro-areas/2822/

[4] https://www.statista.com/statistics/248063/per-capita-us-real-gross-domestic-product-gdp-by-state/

[5] Brookings and JP Morgan Chase, pp. 2, 30.

But a key basis for economic growth of competitive metro areas is the creative synergy occurring in their CENTRAL CITIES, as a result of face-to-face interaction among knowledge workers.

Michael Wasylenko, the Syracuse University professor who authored an analysis of "Connecticut's Competitiveness" for the State Tax Panel of 2015, observed that a large share of growth in urban area economies "has its origins in technological change or innovation," taking the form of "new knowledge created through interaction of educated, skilled and innovative workers. The most productive of the interactions are those that occur frequently and in face-to-face encounters."[6]

Business leaders concur:

Jeff Immelt: "I want to be in the sea of ideas," he said, announcing GE's move of its headquarters to Boston. Reports elaborated that he wanted the company to be where there is a "great innovation ecosystem."[7]

Mark Bertolini, on the move of Aetna to New York: the city has "the ecosystem of having people in the knowledge economy, working in a town they want to be living in."[8]

Ludwig Hantson, on moving Alexion to Boston: "We believe it is important that we are in an ecosystem where biotech is front and center."[9]

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[6] Michael Wasylenko, "Competitiveness: Connecticut's Economy and the Role of Fiscal Variables in Growth," presentation to the State Tax Panel, September 30, 2015, p.11. See https://www.cga.ct.gov/fin/tfs/20140929_State Tax Panel/20150930/wasylenko competitiveness ppt 9-30-2015.pdf

[7] Jon Chesto,"GE CEO tells Boston's business leaders why he's moving to Boston," bostonglobe.com/business, March 24, 2016.

[8] Kenneth Gosselin and Dylan McGuinness, "Aetna Will Move Headquarters To New York City, Says Hartford Must Become a 'Vibrant City Once Again,'" courant.com/business, June 29, 2017.

[9] Stephen Singer, "Alexion Exits New Haven For Boston, Agrees to Repay Millions in State Aid," courant.com/business, September 12, 2017

The common wisdom, however, is that the cities in Connecticut do not provide that vibrant innovative ecosystem.

As Mr. Loree has phrased it in his presentation to the Commission on January 8, "central cities are not sufficiently attractive magnets for millennials, young families and economic growth in general."

Why?

In part, Mr. Loree says, because "The state's tax system permits suburbanites who work in and enjoy the cultural attractions of the cities not to pay taxes that support the cities."

The consequence of the structural defect in the overall tax system is that central cities levy property taxes at levels that discourage both businesses and families from locating in those cities.

However, as already noted, despite the impediment created by high property taxes in the central cities, the metropolitan areas in Connecticut are currently among the most productive in the world. **Our conviction is that if the tax barriers which discourage workers and businesses from locating in the cities were lowered, the cities could become the vibrant centers of innovation that everyone desires, enabling the productivity of the metro areas, and the state, to rise even further.**

This presentation addresses three specific elements of the legislative charge to your Commission:

- achieve budgets that are supportive of the interests of families and businesses and
- achieve budgets that support the revitalization of major cities within the state
- recommend actions that materially improve the attractiveness of the state for existing and future businesses and residents

The common thread with respect to these three elements is correcting the flaws in the property tax system in the state.

Property taxes are an integral part of the overall – unbalanced – state tax structure, not a separate, isolated element of the state's revenue system.

- Property taxes are an important part of the overall state tax structure – as analysts (Ernst and Young,[10] ITEP, [11] David Osborne,[12] DRS Tax Incidence Study[13]) all recognize.
- **Nearly 45 percent of all taxes paid in the state are property taxes.** (Income taxes are 28%, sales and use taxes 16%, and corporate income taxes 2%.)[14]
- As governmental bodies created by the state, towns can only tax when the state empowers them to do so – which it does mainly through the property tax.
- **The greatest share of all the taxes paid by business are property taxes** (33.7 percent).[15]

A "balanced state tax structure" requires correcting inherent flaws in the property tax system. There are two main flaws with property taxes in Connecticut: vertical and horizontal inequity. [16]

- **Vertical inequity: property taxes are regressive:**
- The 90 percent of CT taxpayers with the lowest incomes pay two to seven times higher effective property tax rates – property taxes as a share of income – than the 10 percent of taxpayers with the highest income. [17]
- For non-elderly households, property taxes as a share of family income for the bottom 95 percent are two to four times higher than for taxpayers in the top 5 percent. [18]
- High property taxes make housing less affordable and discourage both renters and homeowners with low current income (retirees, young professionals) from staying in or relocating to high property tax towns – and the state.

B. Horizontal inequity: There are significant disparities among similarly situated taxpayers:

- Owners of property with the same fair market value pay vastly different property taxes based on the town in which they live.

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[10] Ernst and Young, for the Council on State Taxation, "Total State and Local Business Taxes for fiscal 2016," 8/30/17. http://www.cost.org/WorkArea/DownloadAsset.aspx?id=96735

[11] Institute on Taxation and Economic Policy (ITEP), "Who Pays? A Distributional Analysis of the Tax Systems in all 50 States," 5th Edition, January 2015. https://itep.org/wp-content/uploads/whopaysreport.pdf The specific information about Connecticut is at: https://itep.org/whopays/connecticut/

[12] David Osborne and Peter Hutchinson, *The Price of Government*, (New York: Basic Books, 2004), pp. 55-56.

[13] Connecticut Department of Revenue Services, "Tax Incidence Report," 2014 www.ct.gov/drs/lib/drs/research/drstaxincidencereport2014.pdf The important role of the property tax in the state's overall tax structure is explicitly recognized at p. 8.

[14] Connecticut Department of Revenue Services, "Tax Incidence Report," 2014 www.ct.gov/drs/lib/drs/research/drstaxincidencereport2014.pdf, p. 2.

[15] Ernst and Young, for the Council on State Taxation, "Total State and Local Business Taxes for fiscal 2016," 8/30/17. http://www.cost.org/WorkArea/DownloadAsset.aspx?id=96735, p. 22.

[16] See The Property Tax Work Group, 1000 Friends of Connecticut, "Connecticut Property Taxes 2015: Time for a Change."

[17] Connecticut Department of Revenue Services, "Tax Incidence Report," 2014 www.ct.gov/drs/lib/drs/research/drstaxincidencereport2014.pdf, p. 21.

[18] Institute on Taxation and Economic Policy, "Who Pays? A Distributional Analysis of the Tax Systems in all 50 States," 5th Edition, January 2015. https://itep.org/wp-content/uploads/whopaysreport.pdf The specific information about Connecticut is at: https://itep.org/whopays/connecticut/

- Taxpayers in different towns receive very different levels of public services for the same amount of taxes paid.
- Great differences in funding for public schools produce vast educational inequities between children in richer and poorer towns.
- High property taxes drive businesses to lower property tax towns, where additional infrastructure often must be built, thus increasing long-term overall costs.
- High property taxes induce companies to move jobs away from cities – key to economic growth – where infrastructure already exists and where cross-fertilization of ideas maximizes innovation (because of the synergy of knowledge workers in an urban agglomeration economy[19]).
- Disparate property taxes reinforce regressivity since low-income households are overwhelmingly located in high property tax towns.

[19] Agglomeration economies are the benefits that come when firms and people locate near one another together in cities and industrial clusters. (National Bureau of Economic Research)

We specifically want to call your attention to the obstacles to business competitiveness caused by the gap between the objective underlying costs of providing (non-educational) services in central cities, and the capacity of the city to raise revenue to pay for those costs. See the NEPPC study provided to you.

As the analysts are careful to point out, the NEPPC analysis does NOT depend on "actual spending or revenues, but instead are based on factors that are outside the direct control of local officials. Thus, under this framework, a town that engages in wasteful spending would have higher actual expenditures but the same underlying costs as an otherwise identical town that is better managed. Likewise, two communities that have access to the same amount of economic resources have identical capacity, even if one chooses to levy a higher tax rate than the other." [20]

The study identified five key cost factors outside the control of local officials: the unemployment rate, population density, private-sector wages, miles of locally maintained roads, and the number of jobs located within the community relative to its resident population. [21] The underlying data, in Appendix Table 2 of the data Appendix to the report, also provided to you, starting on page 6 of the Appendix, show that objective cost in what we call the most "distressed" municipalities is not much more than 35% above the average cost in all towns.[22]

But the more important factor in the "need-capacity gap" is the disparity in municipal capacity – the result of huge differences in revenue-raising capacity. "Because municipalities in Connecticut rely almost exclusively on property taxes for own-source revenue, this is directly tied to the uneven distribution of the property tax base." The most resource-poor towns had, on average, 1/8 the per-capita revenue capacity of the average resource-rich communities.[23] For specific information, see the data Appendix. [24]

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[20] NEPPC, pp. 1-2. New England Public Policy Center at the Federal Reserve Bank of Boston (NEPPC), "Measuring Municipal Fiscal Disparities in Connecticut," Spring, 2015. https://www.bostonfed.org/publications/new-england-public-policy-center-research-report/2015/measuring-municipal-fiscal-disparities-in-connecticut.aspx A PDF of the report is available directly at: https://www.bostonfed.org/-/media/Documents/Workingpapers/PDF/economic/neppc/researchreports/2015/neppcrr1501.pdf

[21] NEPPC, p. 2. A full discussion is on pp. 4-8.

[22] See Data Appendix, pp. 6-10. A PDF of data appendices for the report is at: https://www.bostonfed.org/-/media/Documents/neppc/neppcrr1501-appendices.pdf?la=en

[23] NEPPC, p. 2. A full discussion is on pp. 2-4.

[24] Data Appendix, pp. 6-10.

The gap between objective cost and objective capacity in Connecticut's central cities is a major impediment to revitalizing the central cities, supporting the interests of families and businesses, and promoting economic growth and competitiveness. We recommend implementing a state grant formula to close the gap.

We are not alone in making this recommendation. After reviewing the NEPPC study in 2015, the State Tax Panel adopted the following recommendation, without dissent:

> in view of evidence presented to the Panel that there are significant differences in property tax capacity of municipalities (fiscal disparities) across municipalities, the Panel concludes that state grant policies should be re-examined in an effort to further relieve pressure on the property tax and to equalize fiscal disparities.
> 1. Property taxes are regressive.
> 2. The property tax fails to meet requirements of horizontal and vertical equity.
> 3. The property tax system is detrimental to Connecticut's economic competitiveness.
> 4. State grant policies should be re-examined in an effort to further relieve pressure on the property tax to address fiscal disparities across municipalities.
> 5. The State needs to look at the distribution formula which addresses closing the "need-capacity gap." [25]

Because property taxes constitute the largest share of state and local taxes paid by businesses in Connecticut,[26] closing the need-capacity gap should also support the interests of business.

We also observe that reducing the vertical inequities (regressivity) in the system will support the interests of families.

Accordingly, we recommend that the state provide aid directly to disadvantaged taxpayers, by creating a refundable property tax circuit breaker to homeowners and renters, and maintaining or increasing the Earned Income Tax Credit (EITC).

Again, this recommendation was reinforced by the findings of the State Tax Panel.[27]

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[25] Report of the State Tax Panel, volume 2, p. 12. The Panel also recommended – as do we -- preserving the PILOT programs for state property and non-profit colleges and hospitals, which help fill the need-capacity gap. See p. 13 if the Report.

[26] Ernst and Young, for the Council on State Taxation, "Total State and Local Business Taxes for fiscal 2016," 8/30/17. http://www.cost.org/WorkArea/DownloadAsset.aspx?id=96735, p. 22.

[27] Report of the State Tax Panel, volume 2, pp. 12-13.

Providing sufficient funding to enable municipalities to provide an adequate education for students within their jurisdictions is also required to support the interests of families and businesses, and support economic growth and competitiveness.

Education is essential to build the skills of the current and future workforce, giving them opportunities to find and keep a job and earn more pay. In addition, companies benefit by having more productive workers who are able to learn quickly and adjust to changing workforce conditions. And the entire state benefits by being able to attract firms and investment because it has a skilled workforce.[28]

Even as the Connecticut Supreme Court ruled "that courts simply are not in a position to determine whether schools in poorer districts would be better off expending scarce additional resources on more teachers, more computers, more books, more technical staff, more meals, more guidance counselors, more health care, more English instruction, greater pre-school availability, or some other resource," it urged the state "to do all that it reasonably can to ensure not only that all children in this state have the bare opportunity to receive the minimally adequate education required by article eighth, § 1, of the Connecticut constitution, but also that the neediest children have the support that they need to actually take advantage of that opportunity."[29]

A minimally adequate education for all students wherever located is a critical element of economic growth for the future. Although the courts have declined to examine what funding level may be necessary to provide that level of education, a number of analysts have found that there are ways to estimate the foundation funding level required, based on various factors of need. For instance, consultants for the plaintiffs in *CCJEF v. Rell* have produced a study (which needs to be updated) that considers a number of factors that should be weighted in order to estimate the costs of providing a minimal foundation. [30] That study is provided for your examination.

Because of the great need for adequate education for all, we urge the Commission to recommend that the state create and implement a principled <u>educational</u> cost-sharing formula to provide the foundation for an adequate education for every PK-12 student in the state.

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[28] Overall, the state has been able to produce a knowledgeable workforce capable of adapting to the requirements of the future economy. See the Brookings Institution study, "Digitalization and the American Workforce," November 2017, which finds that the Hartford metro area ranks #4 in the country on a "digitalization" scale, while the Bridgeport metro ranks #7 and New Haven metro ranks # 39 (among the 100 most populous metros). However, the study "concludes by stressing the importance of improving digital education and training, both to expand the high-skill talent pipeline and ensure that underrepresented groups can connect to an increasingly digital economy. In addition, the discussion notes how important it is becoming for all workers to cultivate durable "soft" or human skills as a way to get better at being "what we are that computers aren't." P. 4. In short, the state must continue to invest in education for ALL.

[29] Chief Justice Rogers, *CCJEF v. Rell*, January 17, 2018, p. 4 of the PDF slip opinion.

[30] Plaintiff's Trial Exhibit 715 in *CCJEF v. Rell*: Augenblick, Palaich 2014 update to 2005 Cost of Adequacy in Education in Connecticut, which may be found at https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=7&ved=0ahUKEwjozeaTk5bUAhWo5YMKHeiiBdsQFghFMAY&url=https%3A%2F%2Fassets.documentcloud.org%2Fdocuments%2F3452501%2FAdequacy-Study-Update-in-2014-Exhibit-715.pdf&usg=AFQjCNG0daNsfswHVR4Rb1h3hBHqvl831g&cad=rja

This should be a “rational, substantial and verifiable” formula to connect education spending with educational need.[31]

[31] This is the standard established by Judge Moukawsher in his Superior Court decision in *CCJEF v. Rell*, (September 7, 2016), pp. 43, 44.

Because the above reforms require state appropriations, exempt appropriated aid to distressed municipalities from the spending cap.[32]

And repeal the ill-considered bond lock.

[These topics will be addressed in a complementary presentation.]

[32] The statutory spending cap adopted in 1991 included this exemption. See also the discussion of this issue in "Report of the Chairpersons, Spending Cap Commission," January 2017, pp. 30-33, available at a link ["Complete Set of Reports and Separate Statements Produced by Spending Cap Commission Members"] at https://www.cga.ct.gov/app/taskforce.asp?TF=20160330_Spending%20Cap%20Commission

Where will funding come from in a stable revenue structure to support the required state appropriations?

Revamp TRS [Teachers Retirement System] in line with SERS [State Employees Retirement System], so that there will not be an unsustainable spike in required funding of unfunded past service liability in the late 2020s and early 2030s.

After the outline of the SERS agreement[33] was announced, in December 2016, a bond-rating agency, Moody's Investor Services, quickly termed the agreement a "credit positive" for the state.[34] And the state's business community, which had been very concerned that the prospective spike in future pension payments might lead to unpredictable tax increases, appeared to be pleased with the action: Mr. Smith, the Co-chair of this Commission, was reported to have said at a business meeting that it brings the type of stability that business leaders are looking for. "It will be better to manage"[35] because it avoids "the deadly spike in ARCs by terming out the obligation and resetting the actuarial investment return to something more reasonable that can be levelled out and funded over time."[36]

Expand the base of the sales and use tax to additional goods and services.

The current sales and use tax applies to all sales of goods, except those goods that are specifically exempted. But it does not apply to sales of services, except those that are specifically named. In the "goods" category, there are numerous exemptions – categorized as "tax expenditures" – that could be taxed. And although the economy is becoming increasingly service-oriented, especially digital and technology services, only a few services are enumerated as taxable.[37]

The State Tax Panel specifically recommended the following adjustments:

- Tax digital downloads (retail consumption of digitized versions of goods) at the same retail sales tax rate
- Ensure that the sharing economy (E.g., AirBnB, Lyft, Uber) is taxed similarly to the traditional economy
- Eliminate sales tax holidays[38]

Continue to seek automatic application and remission of the sales and use tax to sales in other states for goods and services used in Connecticut. The General Assembly has sought numerous methods of circumventing the barrier to such automatic taxation which was erected by the U.S.

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[33] The agreement lowered the assumed rate of return to a more realistic level, adopted a "level dollar" funding mechanism instead of a "level percent of payroll" method, and extended the payoff period until the mid 2040s. The result was a leveling off of the required funding for the unpaid past service liability.

[34] http://ctmirror.org/2016/12/15/wall-street-agency-gives-ct-pension-deal-a-credit-positive/

[35] Russell Blair, "Malloy Touts Long-Term View," Hartford Courant, December 13, 2016, page B3, quoting Jim Smith of Webster Bank.

[36] See the CT-N on-demand video, MetroHartford Alliance Rising Star Breakfast with Governor Malloy, December 12, 2016, minutes 21-22, http://ct-n.com/ctnplayer.asp?odID=13525

[37] A complete review of the sales and use tax is in a study completed for the State Tax Panel in 2015. See William Fox, "Sales and Use Taxation in Connecticut," Report of the State Tax Panel, Volume 2, pages 343-388. Available through a link at https://www.cga.ct.gov/fin/taskforce.asp?TF=20140929_State%20Tax%20Panel

[38] Report of the State Tax Panel, Volume 2, page 8.

Supreme Court in *Quill* Corp. *v*. *North Dakota*, 504 U.S. 298 (1992), but the efforts have not been sufficient to gather all taxes due. The Supreme Court is now reconsidering the principle it established in *Quill*,[39] so there is hope that additional revenue might soon be available. Moreover, placing out-of-state merchants under the same taxation regime as in-state brick-and-mortar retailers should be supportive of instate businesses (which are currently disadvantaged by the 6.35% difference in final bills paid by their customers as opposed to bills from out-of-state merchants). The issue involves more than mail-order sales (which totaled $35.5 billion nationally in 1992); ecommerce (internet) transactions are exploding. In 2016, web sales nationally totaled $394.86 billion, slightly under 12% of all retail sales.[40]

Eliminate most tax expenditures.

In addition to sales and use "tax expenditures," there are several tax credits, especially those that erode the corporate income tax base, that could be revised to ensure that they are achieving their intended objective, or jettisoned entirely. As the State Tax Panel noted, if tax credits "are intended to provide general tax reduction, then phase out the credits and lower the statutory rate. If credits are intended to promote economic development, then efforts [should] be made to identify alternative transparent policies that can promote economic growth at lower revenue costs to the state."[41] Any additional revenue garnered by elimination of such tax expenditures could be used for property tax relief.

Transition from the corporate income tax to a commercial activities tax,

like that levied in Ohio. In a report prepared for the State Tax Panel in 2015, consultants reviewing the state's business tax structure proposed that the state consider replacing the corporate income tax with a gross receipts tax at a very low rate (00.22%) that would raise substantially the same amount of revenue as the corporate tax.[42] The current corporate income tax is highly volatile, is subject to erosion from a substantial system of tax credits, which add complexity and are subject to frequent policy changes that lead to instability and uncertainty in business tax liabilities. Moreover, the corporate tax does not apply to all business entities, especially pass-through entities like S Corporations, LLCs, LLPs, partnerships, etc., which increasingly dominate the marketplace. Many types of these entities, some of which are quite large, benefit from limited liability protections that were originally extended only to C corporations, but pay only a small business entity tax in return for that privilege.

There are some downsides to moving to a commercial activities tax like a gross receipts tax, especially the potential problem of pyramiding taxation in business-to-business transactions. The issue of pyramiding is minimized, however, because of the very low rate at which the CAT would be

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[39] On January 12, 2018, the U.S. Supreme Court agreed to review *South Dakota v. Wayfair, Inc.*, which involves the same issue as *Quill*.

[40] Data from https://www.avalara.com/blog/2017/11/27/challenging-quill-started-north-dakota-end-south-dakota/

[41] Report of the State Tax Panel, Volume 2, p. 10.

[42] Lee Ann Luna and Matthew Murray, "General Business Taxation: An Evaluation of Connecticut's Corporate Income Tax and Its Alternatives," Report of the State Tax Panel, Volume 2, pages 389-450. Available through a link at https://www.cga.ct.gov/fin/taskforce.asp?TF=20140929_State%20Tax%20Panel

imposed. This alternative, however, is clearly superior to a continuation of the corporate income tax. As observed in an article published subsequently to the work for the State Tax Panel, the consultants concluded that the corporate income tax failed "to capture trends in the nation's economy, demography, and the changing structure of business organization. Moreover, . . . the CIT has become the political playground of tax base erosion ranging from the proliferation of economic development incentives to the abandonment of the once nearly uniformly applied, evenly weighted three-factor apportionment formula in favor of the single sales factor. The result is a general business tax that departs from the rationally broad-based taxation of the business enterprise and violates nearly every principle of a high-quality state tax system. Indeed, the only case for the state CIT appears to be fiscal expediency — because the other states do it."[43] This analysis was probably the reason why the State Tax Panel unanimously recommended that the Department of Revenue Services conduct a comprehensive study of the alternatives to the corporate income tax.[44]

Increase the rate of the sales and use tax.

The new national tax plan, by limiting the previous deduction for state and local taxes to a total of $10,000 per return, dramatically diminishes the potential for making the state income tax more progressive. So to generate new revenue, one alternative is to increase the rate of the sales and use tax.

Make strenuous efforts to bend down the cost curve for health care. Not just for government employees, but for all residents.

One small step forward in the continuing quest to reduce the cost of health care, which is far higher in the United States than in any other country, would be to require all teachers, teacher retirees, municipal employees and municipal retirees to join the state employee health care plan. Open the plan to all non-profits and small businesses employing 100 or fewer people. Municipal participation would be compulsory. Non-profit, self-employed and small business participation would be strictly voluntary. Since all new pool members would pay full cost, there would be no cost to state taxpayers.

Some estimates are that small businesses could cut their premiums by 20% or more. If this plan did nothing but reduce health care costs for small business at no cost to taxpayers it would be worth the effort. By easing the two heaviest burdens on small business, property tax reform and health care reform are the two reforms that directly address both commission mandates: fiscal stability and economic development.

Increase efforts to seek additional revenue from the national government.

Although the current national administration does not appear to be eager to send funding to state governments, in the long term it makes sense to try to gain more dollars from the feds. Certainly, at the present time, it appears that federal grants to Connecticut state government make up a far smaller share of total state revenue than the national average, and a smaller share than surrounding states. The

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[43] Ebel, Luna and Murray, "State General Business Taxation One More Time: CIT, GRT or VAT?" National Tax Journal, December 2016, 69(4), pp.730-762, at p. 757. An abstract and a link to the full article may be found at http://www.ntanet.org/NTJ/69/4/ntj-v69n04p739-762-state-business-taxation-CIT-GRT-VAT.html

[44] See the recommendation of the State Tax Panel at page 15 of Volume 2 of its Report.

National Priorities Project reported that in FY 2013, "Connecticut got $6.1 billion dollars from the federal government, which is 23.4% of its total revenue." The national average was 30%.[45] The Pew Charitable Trusts recently updated the data to FY 2014, and found that federal funds constituted 24.6% of state revenue in that year – third lowest in the country – as opposed to the national average for states of 30.8%. Assuming that 24.6% was $6.1 billion (as Pew estimated for FY 2013), simply moving to the national average share of 30.8% would have meant a roughly estimated additional $1.5 billion in federal funds[46] If Connecticut would be able to receive, on a consistent basis, its fair share of federal funds which Connecticut taxpayers have paid federal taxes to support, those additional funds could mean the creation of thousands of additional jobs, increased household incomes and, as a consequence of additional jobs and income, improved state revenues. Receiving those federal funds could also potentially supplant current state expenditures for public services, freeing dollars for property tax relief.

These potential outcomes are just, at this time, potential opportunities. It may be that the low poverty rate in Connecticut will mean that the federally determined low reimbursement rate for traditional Medicaid will continue to be the lowest in the country. Given the policy priorities in the current national administration, it may be that federal funding for all programs in all states will be reduced. But without thorough investigation of the possibilities, we will never know if the state would qualify for additional funding for existing and other programs.

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[45] The National Priorities Project, "State Smart: Federal Funds in 50 States." Last updated, November 13, 2015. See the data at https://www.nationalpriorities.org/smart/connecticut/

[46] Anne Staufer and Justin Theal, "Federal Funds Supply 30.8 Cents of Each State Revenue Dollar," Pew Charitable Trusts, July 28, 2016. http://www.pewtrusts.org/en/research-and-analysis/analysis/2016/07/28/federal-funds-supply-308-cents-of-each-state-revenue-dollar A complete data table for all fifty states going back to FY 2000 is linked at this site.
In addition, the Pew Charitable Trusts has provided a visualization tool which enables comparison of one state to the national average, and to other states. See http://www.pewtrusts.org/en/multimedia/data-visualizations/2014/fiscal-50#ind0 Data in the table and on the visualization tool show that the corresponding shares were 27.8% in Massachusetts, 32.8% in New York, 34.7% in Rhode Island, 28.1% in New Hampshire, 33.6% in Vermont, and 36.6% in Maine

In conclusion, let me say that there is a need for prudent expenditures, prudent expenditure reduction, and continued investment in worthwhile programs. "[J]ust as driving the price of government too high can damage an economy, so driving the price too low can undermine its viability. In the Information Age, the keys to economic success are education levels, quality of life and connectivity (the ability to reliably move information, goods and people) – and these things cost money." [47]

[47] David Osborne and Peter Hutchinson, "The Price of Government," pp. 57-58.