

**APPROVED/BOARD OF FINANCE MINUTES –BUDGET DELIBERATIONS MEETING
TUESDAY, MARCH 29, 2011**

A budget deliberations meeting of the Board of Finance was held on Tuesday, March 29, 2011 in the large conference room in Town Hall at 7:30 p.m.

Members Present: Peter Gomez, Chairman; Jill Bornstein, Vice Chairman; Marty Heiser; David Ulmer, and Margaret Price Sims
Town Officials: Rudy Marconi, First Selectman; Kevin Redmond, Controller; Jane-Berendsen Hill, Tax Collector; Deborah Low, Supt. Of Schools; Di Masters; Selectman
Guests: Toni Boucher, Republican State Senator representing the Towns of Bethel, New Canaan, Redding, Ridgefield, Weston, Westport, and Wilton
Nick Perna, Economic Advisor; John Frey (present, not a speaker), Republican State Representative

A G E N D A

1. FISCAL OUTLOOK
 2. GENERAL REVENUE PROJECTIONS
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Mr. Gomez called the meeting to order at 7:34 p.m.

Mr. Gomez opened with a policy about public comments during the budget-deliberation sessions, saying his sense was that both budgets have been robustly debated during multiple public hearings. The Board of Finance has received email messages that have been entered into the record. Mr. Gomez said his preference would be to welcome questions until the BOF enters into deliberations, at which time he would refrain from taking public comments. Ms. Bornstein indicated that last year's budget-deliberation meetings were conducted the same way. Mr. Ulmer stated that questions are one thing, opinions are another and it is up to the Chairman to control such things. Mr. Gomez stated that the BOF would take questions this week with information sessions, but next week it would be strictly Board of Finance dialogue, closed to questions.

REVENUES & FISCAL OUTLOOK

Mr. Heiser introduced Nick Perna and asked him to present an over-all perspective on where the economy is going and then drill down to Connecticut's economic outlook.

Stating that he had no axe to grind and that he represents no one, Mr. Perna gave a little of his background information, e.g. he used to be Chief Economist for Fleet Bank; an Economic Advisor to Webster Bank and a professor of economics at Yale University. He also served on former-governor Rell's economic advisory board.

Mr. Perna said now is the most challenging time to do a forecast in the forty years he has been forecasting. Talking about the U.S. economy he noted that the GNP stopped falling in mid 2009 and is

currently above where it was before the recession. The Dow Jones average has recovered 85% of its losses. Corporate profits are fully recovered and then some. Housing has not recovered at all. 8.8 million jobs have been lost during the recession and only 1.3 million, or 15% have returned. The unemployment rate hovers at 9%. He cited the current instability in the middle east and the resultant instability of oil prices which he opined should be resolved over the next few months. He anticipates 3%/3.5% gdp growth which will result in more jobs. He forecast that short-term interest rates will remain close to zero until the end of this year, but long-term rates could start rising sooner than that. The quantitative easing being done by the Federal Reserve affects long-term interest rates. He opined that inflation, currently at 2% if food and energy are included, and 1% if they are not, is not a threat in the near term. He said the consensus forecast is for a 2%/2.5% inflation rate.

TIPS Treasury Inflation Protection Securities... ten year treasury bond is 3.5%, on TIPS you will get a little over 1%, the only difference between the two is that TIPS give you 100% compensation for future increases in the consumer price index. So if you look at the difference between the two, it tells you what the inflation rate is expected to be, i.e. about 2/2.5%. More problematic is the possibility of a government shut down which makes the bond market very, very nervous. Up until now the federal government has not defaulted on treasury bonds, I doubt that we will, but if markets get nervous it could spill over into the bond and exchange markets. The only way you are going to get inflation is if lending picks up and spending picks up as a result of that. The Federal Reserve has a new tool, as of October 2008, it is allowed to pay interest on bank's reserves, so it can bribe the banks not to make loans. Mr. Perna said he is more concerned about higher interest rates than he is about inflation.

Mr. Perna stated that Connecticut is doing surprisingly well in this recovery, having regained 30,000 of the 120,000 jobs it lost, which is 25%, compared to a national average of 15%. Mr. Gomez asked if they were comparable jobs and Mr. Perna said probably not, that average income has been brought down or will not be growing as fast, and maybe some of the jobs do not have benefits. Mr. Perna opined that the only thing standing in Connecticut's way is the state's budget problems. He said there is plenty of room for a pickup in residential construction and then, a year or two from now, in commercial construction and in financial services. Mr. Perna noted that the cities of Stamford and Danbury are growing, whereas Norwich/New London is not, and nobody has caught up to where they were before the recession. In January and February of this year, the State Department of Revenue Services showed a definite increase in State revenues. Connecticut spends \$18/\$19 billion a year. Connecticut's budget deficit is anticipated to be \$3.2BB for each of the next two years, which does not include \$40MM of underfunded retirement benefits. The State has used up its rainy-day fund. There will be no more federal help from the stimulus package and the State cannot borrow for operating costs because it is on credit watch.

Mr. Ulmer: "You never want to borrow for operating costs, although we did it last year."

Governor Malloy has said no more budget gimmicks and will use GAAP accounting. The State did defer payments into the State Pension Fund and counted that as a cost savings and an employee concession. Governor Malloy has said that savings will come out of concessions or from layoffs. Mr. Perna said he does not think the Governor has any alternative unless he raises taxes above and beyond what he has already said. In the long run, what you do about the budget affects job growth.

Mr. Perna said there are many opportunities for restructuring State spending, i.e., reinventing the way things are done. He used the States Community Colleges as an example, noting there are twelve community colleges in Connecticut, each with its own president and administrative staff, plus the

University of Connecticut with four or five branches. Mr. Perna opined that these should be combined into much a smaller and adaptable group, without compromising the future of education in the State. Mr. Perna proposed running the schools year-round and granting three-year baccalaureate degrees, thereby mitigating the biggest cost of going to college, which is loss income. He also suggested eliminating the State Senate and having one full time legislature with decent pay. The budget is going to come out reasonably balanced which will make it harder to get back the lost jobs. He stated that we don't need to worry about inflation, but we should worry about interest rates. Don't need to worry about jobs declining, we need to worry about slow growth.

Mr. Heiser asked Mr. Perna

1. If he was concerned about "rich flight" from the State; and
2. Is Connecticut one of the most business "unfriendly" states' and
3. If you take the names off the top of the balance sheets of Wisconsin and Connecticut, are they comparable and do we need to make the same tough decisions that Wisconsin has made?

Responding to the last question first, Mr. Perna opined that Wisconsin is a very different situation, and the composition of Connecticut's state legislature makes it unlikely that the same "tough decisions" (doing away with collective bargaining) will have to be made in Connecticut.

Mr. Gomez asked if New York and Governor Cuomo was more comparable, and Mr. Perna noted that Governor Cuomo has made sizable cuts to New York State spending, but, again he questioned whether the Connecticut legislature would be able to do that.

Noting that Connecticut has a progressive income tax (from 0% up to 6.5%), he observed that, if you lose jobs at the 6.5% tax level, it has a big negative impact on State revenues, whereas if you lose jobs at the lower tax bracket, it doesn't affect the State's revenue very much. He noted that the job competition comes from overseas, not the neighboring states of New York and Massachusetts. When people move, they move to Florida which has no income tax. Mr. Perna noted that General Electric's headquarters is in Fairfield. GE moved from New York because Connecticut has a more favorable tax structure. Connecticut has the second highest electric rates in the country, only Hawaii's rates are higher. Mr. Perna said he had no data to support flight from the State, but he believes there is such a phenomenon.

GENERAL REVENUE PROJECTIONS

Ms. Bornstein asked about the composition of the Revenue Committee and was told that it is made up of department heads.

Ms. Berendsen-Hill reported that prior-year tax collections are going up because the Town is collecting deferred taxes and she does not see any reason for that to fall off. She did not see a deterioration in the collection rate on current taxes, nor does she see any reason that it will go up. Collection on current taxes is a little soft at the moment but the gap is closing. Supplemental Motor Vehicle taxes are always a guess. This fiscal year saw a big increase over the previous fiscal year. The collection agency employed by the Town is doing well at collecting past-due motor vehicle taxes. If a company has gone out of business it is virtually impossible to collect past-due personal property taxes, but those taxes continue to be put on the list.

Ms. Bornstein asked about the manufacturer's exemption money the Town collects from the State and Mr. Marconi explained that those funds would no longer come from the State, but would be collected in personal property taxes.

Mr. Redmond noted that licensing and permit fees are a little under budget for the current year and he does not anticipate that will change much.

Mr. Gomez asked what upsides Mr. Marconi and Mr. Redmond saw, and Mr. Redmond answered there was a possible upside on tax collections, that prior-year tax collections were strong.

Mr. Redmond opined that the revenue projections were "a little bit aggressive".

Mr. Marconi said he thought the revenue projections were "a little conservative" rather than aggressive because the Boehringer Ingelheim construction project(s) were not taken into consideration.

In response to a query from Mr. Heiser, Mr. Redmond said reviewing capital projects to close out completed projects and move any unexpended funds to the capital reserve account was a big project that he plans on undertaking after budget season.

TONI BOUCHER, Republican State Senator representing the Towns of Bethel, New Canaan, Redding, Ridgefield, Weston, Westport, and Wilton

Mr. Heiser, tongue in cheek, informed Senator Boucher that she had arrived too late and missed the recommendation of a preeminent economist to do away with the State Senate. Senator Boucher agreed with the recommendation, stating that she would love a unicameral chamber.

Mr. Gomez asked Senator Boucher to share with the BOF where we are with the State budget, and provide a general sense of where the budget is now in terms of tax increases, spending cuts, union concessions, etc., and how that translates to the average individual, particularly in Ridgefield.

Senator Boucher complimented the BOF for being the only finance board to ask her how the State budget would impact the average family.

Connecticut's pension funds are funded at 60% where most states are at 80%. Current returns are close to 5/6% on the State's pension funds. Taxing of the electric bill which was to be a eight-year stream of revenue, which the State borrowed against for \$500MM this year and \$200MM next year, and a State Senator took it Court and the State cannot access that money until the case is decided. CT Association of CPA's did a thorough analysis of CT's financial statement which it determined was very bleak. The CT Association of CPA's tells us that we have no working capital at all and that the State is not going broke, but it is currently broke. The good news is that Governor Malloy wants to halt the borrowing for operating expenses. He wants to support education and transportation. Unlike Connecticut municipalities, the State can approve or disapprove a union contract that was negotiated by the executive branch. Currently they do not do it, which allows it to pass without anybody's fingerprint on the increased cost. It is a bad practice, it should not be continued and I applaud him for bringing that up. She pointed out that the proposed states taxes would be retroactive to January 2011, so, if approved in June, paychecks would be assessed five months of back taxes. CT's unemployment fund is currently insolvent. The federal government has loaned funds to the states and it has to be repaid, if the State does not find a way to fund that repayment, it could mean an assessment of \$30.00 per employee. In time of little or no

population growth, the number of Connecticut State employees increased from 33,000 to 57,000 State employees. There are currently slightly less than 56,000, still the largest employer in the State. Budget deficit projections going forward, securitization = borrowing against a future revenue stream. Transportation reimbursements of 80% from the federal government because we gave up tolls. \$300MM/\$400MM from gambling goes to distressed cities. 48% of our tax revenues come from Fairfield County which represents one quarter of the State's population. 30,000 more jobs in Fairfield County than any other county. Fairfield County used to have the highest per capita income in the nation, now it is #3. Losing individuals making \$76k per year, gaining people making \$44k per year = study in 2005. High unfunded pension liability; debt very high; very high health insurance mandates, which pushes up the cost of health care; chairman of insurance commission regularly adds 10 new mandates, rather than pursuing an a la carte offering so that users can pick and choose. Governor's budget has yet to put the brakes on spending, it is a work in progress. He said he wants to see the budget on May 6, 2011. R.I. 5.9% income tax; MASS 5.3% on high earners; CT out there alone with 6.5%. 6.35% increase in the sales tax, proposed. Gas tax highest in the country. 10% corporate tax surcharge inactive for the last two years – has businesses really worried, that it might be extended and become permanent. "Throw back rule." @ \$2MM you will have an inheritance tax. Clothing under \$50.00 is currently not taxed, \$500.00 property tax credit is on the block. List of new tax brackets – there will be 8 different brackets starting at \$50k. A Ridgefield family of our earning \$120k could see a State income tax increase; the loss of the \$500 property tax credit; that could have a \$1k impact from the proposed State, potentially.

Things that could be done, Consolidate 33 agencies, Governor Malloy started the consolidation process at higher education, not UCONN, particularly in the administrative area for the community colleges. Senator Boucher is concerned about jobs for 18-34 year olds who are leaving the State, because jobs are not here. 70/80% of businesses in the State are small businesses with ten people or less and are run through LLC.

The four things that she is worried about:

1. Luxury tax of 9.25% embedded in the Governor's proposal, in addition to what is listed expensive clothes, jewelry and cars, only State in country to enact it. When a national tax on boats was imposed years ago, it had to be eliminated within two years because it destroyed the boating industry and all the crafts that serve that industry.
2. A tax on electric generation to go into the general fund – only state to have this, again it is a business issue
3. Paid sick live, mandatory time off for small companies, part-time with one paid hour for every week worked could be as much as a week off, again only state in the union to do this.
4. Fuel gross receipts tax, only state in New England, started at 5% in the Governor's proposed budget it goes up to 8.1%. This is not a good thing – create a dual program
- 5.

Mr. Ulmer stated that he had a lot of questions. He challenged the popular perception of the property tax credit, stating that, like any tax credit, is it actually a discretionary government **spending program**. Normally tax credits have some social purpose. It is the government giving taxpayers \$500 because it likes what you are doing. Mr. Ulmer said the property tax credit should be moved from the tax column to the spending column. Mr. Ulmer would like to see the property tax credit eliminated. He pointed out that other States have a renters' tax credit. "We have come to believe that the property tax credit is an entitlement and it is not, it is a spending program."

Mr. Gomez, acknowledging the truth of Mr. Ulmer's analysis, noted that any loss of tax credit on your tax bill will yield a higher tax bill.

Mr. Ulmer stated: "we will be a better state with a balanced budget."

ADJOURNMENT

A motion was made by Ms. Sims and seconded by Mr. Heiser to adjourn the meeting at 10:22 p.m. Vote 5-0. **Motion APPROVED.**

Respectfully submitted,
Karen Rodgers, Recording Secretary