METRO CHAMBERS POSITION ON BUDGET NEGOTIATIONS – JUNE 12, 2009

Connecticut is facing unprecedented financial challenges in our homes, in our places of employment, and in our State and municipal governments. Our business community, the principal source of Connecticut employment and tax revenues, is eager to work with the Governor and the Legislature to address this extraordinary and difficult situation. Teamwork, creative thinking, and dramatic action must be the foundation of solutions that rectify the $8 billion cumulative deficit for the FY'09, FY'10, and FY'11 budgets, that aggressively attack the structural deficits that will plague our State and municipal budgets well into the next decade, and that protect our current jobs and allow the State to continue to compete aggressively and successfully for new employment, for increased capital, and for talent.

I. Philosophy

In an op-ed piece in the April 20th edition of the New York Times, Tom Brokaw cited Rahm Emanuel about "not letting a serious crisis go to waste" and Jeff Immelt about recognizing that "our current recession is not a cycle but a reset." Brokaw then posed a most challenging and provocative question: if we are requiring our automobile and financial services companies to reorganize to meet today's realities rather than those of the last century, should we not do the same of our state and local governments. If our recession and related job losses constitute an economic "reset," we in Connecticut must seize this extraordinary opportunity, indeed this obligation, to reorganize our state and local government structures so that both we and subsequent generations receive valued services on an effective delivery structure at a cost that we can afford.

Our collective goal must be to achieve sustainable balanced State and municipal budgets that are coupled with better and more effectively delivered government services. Attaining that goal will require a five to seven year time horizon and the teamwork of business, civic, government, institutional, and labor leaders to identify and implement steps that replace public governance structures that no longer meet today's current economic realities with a 21st Century approach to defining, funding, and delivering public services. It is incumbent that we do so now with a genuine sense of urgency as failure to do so will only result in greater job losses, further reduction of private sector investment, an older demographic, and increased deficits.

II. Actions to Improve Quality and Efficiency

Examples of the type of dramatic actions that we must evaluate immediately to strengthen the financial foundations of our State and municipalities include:

- the ongoing negotiation, building on the current success of the Governor and labor leaders to date, to address the staffing, work rules, and benefit components of our state union contracts and the establishment of a dedicated revenue source (e.g. a percentage of the sales tax) to fund State and municipal pension obligations;
- the consolidation and reform of our Probate Court System, which was initiated in this legislative session;
- a moratorium on all unfunded mandates that the State imposes on municipalities and a subsequent evaluation to determine which ones to reinstitute in this continuing jobs recession;
- the option for the State and municipalities to contract with private entities to provide services to the indigent, the elderly, and those with special needs particularly in cases where we can reduce costs by allowing people to remain in their own homes;
- the option for the State to contract with business and trade associations to provide certain services such as economic development and tourism;
- the consolidation of the administration of our public higher education system;
- the use of technology to allow citizens to access services and State and municipal employees to deliver them electronically and the concomitant reduction of the number of government facilities currently required to deliver such services in person;
- the explicit link of State aid to municipalities combining certain public safety, public works, and public education departments; and
- the establishment (by constitutional amendment if necessary) of dedicated revenue sources (e.g. gasoline tax; gross receipts tax; an electronic toll system) to fund necessary infrastructure improvements.

In addition to these specific steps, we must conduct a comprehensive analysis of those activities that the State must monitor or regulate but leave to the private sector to deliver. The recently passed legislation that would significantly expand the State's involvement in health insurance illustrates the very type of counterproductive and expensive activity that must be eliminated in order to have the size and type of State government that we can afford. We suggest, as one constructive alternative, that the State focus on working with employers, insurers, and medical professionals to improve wellness, the management of chronic diseases, and the overall quality of care and on attacking the root causes of the cost of health care and of those who have no health insurance coverage (e.g. mandates on coverage; the expansion of multi-lingual marketing of existing State programs).

III. Revenue Adjustments

We reiterate our emphasis on first implementing the aforementioned principles related to achieving advancements in the quality and cost of government services. Only after these and similar ideas have been carefully reviewed and meaningful actions adopted should we consider any increases on any class of taxpayer. Any tax increase must also be predicated on the establishment of the Working Group described in Section IV below.

With respect to the State's tax structure, we have an overriding concern to retain the State's extremely important tax credit and sales tax exemption programs. In particular, we urge the Governor and the Legislature to remain cognizant of the dangerous combination of harmful legislative proposals, such as new mandates on the municipal and private sectors, with reductions in credits or the elimination of exemptions. We cite the extremely positive impact that credits for capital investments in plant and equipment and for growing specific types of jobs, such as those in R&D, have had on the labor market in Connecticut and the real threat that such reductions or eliminations would result in the relocation of those jobs to more favorable business climates. Accordingly, any tax increases must:

- avoid structural changes that weaken the State's economic base and make Connecticut's business and industries less competitive;
- be temporary in nature with specific sunset dates, none of which extend beyond June 30, 2011; and
- be as broad-based as possible to avoid placing too large a burden on any particular industry or class of taxpayer.

In short, we must avoid wholesale changes to our tax structure but rather identify thoughtful and creative steps that address our immediate needs while simultaneously laying the groundwork for a more competitive Connecticut that grows jobs, stimulates investment, and attracts talent.

IV. Structural Deficits

While we recognize that the Governor and the Legislature must adopt a two year budget, we urge them to focus on the short–term actions needed to achieve a balanced budget in FY'10. At the same time, we urge the Governor and the Legislature to establish a Working Group of not more than 15 individuals, representing key components of the private and public sectors, who would evaluate the types of dramatic actions summarized above.

We recommend that the Working Group be chaired by a prominent business executive, staffed by OPM, and provided with an appropriate budget, funded by public and private sectors, to hire consulting assistance. More importantly, the Working Group must be directed to conduct its analysis with a bold and aggressive attitude, to review the ideas of prior efforts that had a similar charge, to focus on results–based governance as defined from the taxpayers' perspective, and to do so with the assurance that such analysis and focus can be free from any "sacred cows" bias. The Working Group will deliver to the Governor and the Legislature, by January 15, 2010, a blueprint of specific actions that address the structural deficits along with a timeline for implementing those specific recommendations as part of the 2010 adjustments to the FY'11 budget and for inclusion in the FY '12 and '13 and the FY'14 and '15 budget cycles.

We fully recognize that the responsibility for resolving the State's financial challenges for FY'10 and beyond belongs to all of us. On behalf of all of our investors and members, we pledge our willingness to work with the Governor and the Legislature to address the immediate actions needed to balance the FY'10 budget and to take the bold steps needed to attack the structural deficits. We owe ourselves and future generations no less an intense and coordinated effort.

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