

## Lamont-Bysiewicz Transition Policy Committee Reporting Template

Committee Name: Shared Services

Co-Chairs: Brendan Sharkey and Richard Porth

### Policy Goal

The Shared Services Committee believes the Lamont Administration must establish a data driven, performance-based system for the delivery of services at the regional and local level. This new approach will reduce the cost of local government, thereby lowering property taxes and increasing our state's economic competitiveness. The foundation, infrastructure and funding streams for these changes are already in place, but they require re-tooling and amplification under the leadership and vision of the new governor.

#### 1. How do you propose the Lamont Administration should prioritize the policy goals in this area, and on what timeframe?

The Lamont Administration must announce from the start that it is committed to a comprehensive realignment of the way public services at the state, regional and local level. These changes are necessary if we are to reduce our reliance on the property tax – the regressive tax that makes up 42% of all taxes paid in the state and puts Connecticut at a competitive disadvantage in the region. And while everyone acknowledges these changes are long overdue, they require executive leadership toward creating a “grand bargain” between the state and municipalities that includes input from all stakeholders.

This must be a priority for the new administration from Day One. These are big changes to a way of life to which Connecticut residents have become accustomed. The goodwill the new governor has to affect these changes is best employed right away. Further progress can then be achieved over time as the public sees the wisdom of these policies.

The Shared Services Committee has broken down its recommended policy goals into two categories: 1) Delivery of Local Services and 2) Funding for Local Services. Each of these recommendations represent a consensus of the participants, though each recommendation may not be specifically endorsed by every member or their respective organizations.

#### 1) Delivery of Local and Regional Services

This goal centers on the creation of an efficient system of service delivery that is both data-driven and transparent. To that end, the Committee agrees that the following policy changes must be implemented statewide:

- Re-tooling State Government – The state currently has no effective means of facilitating the delivery of services on the local and regional level. The state must reorganize state agencies and other state entities toward this purpose by:
  - Repurposing OPM's CPIP Division, and consider reallocating some responsibilities for local and regional services among other agencies, such as DECD.
  - Modifying the makeup and charge of the Advisory Commission on Intergovernmental Relations (ACIR) to become the policy development board among stakeholders for developing specific policy initiatives.
- Creating Data-Driven Performance Standards – Using existing analytical tools, including the Uniform Chart of Accounts (UCOA), the state must require that all local costs of services be measured for the purpose of determining their cost-effectiveness. Utilize the UCOA and other data to enable more analytical and informed decision making around service delivery.
- Enhancing the Roles of COGs, RESCs and Other Regional Agencies – Again, these systems have been created and enhanced in recent years to provide the capacity to member towns and districts to offload services that are currently provided locally. These regional entities can take the place of what other states provide on a county level.

- Moving the Needle – While town-by-town sharing of services is a start, the state must move on a bigger scale. Using data driven metrics, the state, towns and boards of education must look to their larger cost drivers, such as health care, protection services, public works and special education, for expense reductions that can have the greatest impacts on costs.
- Tying State Financial Support to Local Efficiencies – Using data-driven analyses, establish a fundamental understanding between the state and local governments that the state cannot underwrite inefficiency at either level. Statutory and competitive grant formulas to local and regional entities must include objective and measurable efficiency matrices to determine eligibility. The state must also commit to enhancing local government’s capacity to become more efficient . Focus on incentives and capacity-building to achieve real change and to avoid the “state mandate” tag.
- Evaluating Labor Impacts – In any restructuring, government must include its labor partners in evaluating their impacts. In many cases, restructuring can include improvements for both labor and management.
  - A representative from labor should be made a designated member of the ACIR
  - Coalition bargaining should be strongly encouraged, particularly for health benefits and pensions.
- State Management of Special Education – More than any other cost, Special Education is recognized as the most volatile and costly burden on local taxpayers. While many aspects of these services may still be offered through local school districts and teachers, the cost and volatility of these services can be driven downward through:
  - Statewide cost standards for all outplacement facilities
  - Coordination of transportation and other services through the RESCs
  - Reversal of the regulatory “burden of proof” standards in contested IEP cases, consistent with 40 other states
  - Exploration of a “Reinsurance Fund” among school districts that would stabilize annual budgets.
- Overriding Unnecessary Obstacles - To the extent state and local governments have provisions that might otherwise block common sense reforms, the legislature should eliminate them. Examples include:
  - Local charters that inadvertently may prevent consolidations with other towns or town departments; and
  - Statutory mandates that require local reporting or specify methods of service delivery without any identifiable purpose.

## 2) Funding for Local and Regional Services

This goal requires reimagining how Connecticut residents pay for local services, and how the state incents efficiency.

- Bifurcation of Local Taxing Authority – Municipal bodies and boards of education would each set their own mill rates and levy their own property taxes. This is the standard in all but a few states nationwide, and this change will create greater visibility into the costs of providing local education, and enable greater flexibility to local boards in implementing their own efficiency measures.
- Diversification of Local Revenue Sources – Exclusive reliance on property taxes for local revenue is regressive for all taxpayers and untenable for major cities whose property tax base cannot sustain reasonable service delivery costs. While local sales and income taxes would provide more progressivity in our tax system, they may not impact the overall tax burden. Instead, the Committee recommends:
  - Increasing the basis for service fees beyond the cost of providing the service;
  - Abolishing local taxing districts that encourage inefficiencies; and
  - Enabling greater use of regional tax strategies for specified economic development purposes (e.g. Regional Asset Districts, etc).

- Repurposing Existing State Revenue Streams – Over the past ten years, the legislature has created dedicated revenue streams to promote local and regional policy goals. Specifically, a portion of the Hotel and Car Rental Tax was established in 2011 to pay for the successful Regional Performance Incentive Program, and a portion of the Sales Tax was dedicated in 2013 to finance the equalization of a statewide car tax cap. These funds, which together generate over \$30 million annually, have been swept in recent years to cover budget deficits but must be re-purposed to effectuate our policy goals, including re-staffing state agencies and enhancing service capacities for COGs and RESCs, without otherwise raising taxes at the state or local level to pay for them.

**2. Which goals are achievable in the first 100 days of the Administration?**

Prior to the inauguration, the Administration will need to produce a package of proposed legislation, to be introduced on the opening day of the session, that implements its policy objectives in this area. Those policy goals that require legislation must be decided immediately during the transition.

After the inauguration, the governor should deliver the overall vision for the reimagining of local service delivery through a series of speeches at traditional venues (i.e., CCM, COST, Chambers of Commerce, CBIA, etc.), with a focus on data driven efficiency, lower property taxes, and increased competitiveness.

Concurrently, in its first 100 days the Administration, through executive order, can utilize an existing infrastructure of organizations and systems to set these policy goals in motion and create momentum for the larger policy initiative. These systems are either neglected or underutilized due to bureaucratic indifference and budget constraints, but provide a valuable launch pad for implementation. Specifically, the governor should:

- Appoint an interim Undersecretary of Comprehensive Planning and Intergovernmental Policy at OPM, whose job will be to prepare a reorganization of OPM - and other agencies - toward the implementation of the governor's overall policies surrounding local and regional service delivery.
- Restructure the Advisory Commission on Intergovernmental Relations (ACIR) as the policy development board for maintaining state-local communication and input on proposed policy changes. The governor should set a date for new members to be designated by the appointing authorities and for his own appointments, with a first meeting date in January.
- Require every municipality and board of education to produce and report its financial data in conformance with the Uniform Chart of Accounts (UCOA), by or before June 30, 2019.
- Require each Council of Government (COG) and Regional Education Resource Council (RESC) to prepare a "readiness report" regarding its existing services and staffing as well as its capacity to take on new functions, such as consolidation of back office operations in IT, HR and property services, on behalf of its members.
- Require the State Department of Education to open a regulatory proceeding regarding its current regulatory stance on the burden of proof for contested special education cases to bring Connecticut more in the mainstream of other states and prevailing Supreme Court decisions.

**3. Which goals will require legislation to move forward? Which items can be advanced through the actions of the Administration alone? What is the fiscal impact of these legislative or executive actions?**

Goals to consider requiring legislative action include:

- A. Re-tooling state agencies including OPM, DECD, SDE – Limited fiscal impact
- B. Repurposing existing revenue streams – No fiscal impact, and provides financial sourcing for new initiatives
- C. Reconstituting the ACIR with both school and municipal labor representation – No fiscal impact
- D. Mandatory bifurcation of school and municipal tax levies – no immediate fiscal impact, longer term local savings
- E. Reformulating state grants to municipalities – no fiscal impact, some possible savings in FY 20-21
- F. Diversification of local revenue streams – no fiscal impact, positive impacts locally
- G. Strongly encouraging coalition bargaining – positive fiscal impact locally
- H. Burden of Proof – (if governor would consider a bill) – positive fiscal impact locally
- I. Addressing local charters and state mandates – no fiscal impact

**Goals to consider which can be advanced by Administration alone:** the goals outlined for the first 100 days can all be carried out by action of the Administration.

**Fiscal Impact of these legislative or Executive actions:** Initially, these recommendations will be revenue-neutral at the state level while generating immediate savings at the local level. We recommend paying for more capacity in OPM, COGs and RESCs and for technology and service delivery dashboards with existing revenue from the hotel tax and sales tax (\$30 million +/-). We recommend implementing local revenue diversification and reduction in the property tax burden with the commitment to remain revenue neutral overall. Over the FY 20-21 fiscal years and beyond, these changes will have positive impacts by lowering the cost of local government and presumably reducing the need for state aid to local government.

4. **Are there specific challenges you can identify with regard to achieving the Lamont Administration's goals, and how would you suggest to address those?**
- Connecticut's tradition of local control and its lack of any county government. This can be addressed by building on existing regional governance provided by COGs and RESCs, where chief elected officials and local board of education members represent local governments and school districts.
  - Lack of local authority granted by the state for local government to pursue revenue options other than the property tax (including fees and other taxes). Focus on Connecticut's over-reliance on the regressive property tax and how it comprises 42% of total tax incidence. Explain how reducing this burden will make us more competitive economically, with resultant growth in jobs.
  - Perceived differences in quality and cost-effectiveness of services across different municipalities and school districts (especially city-suburb-rural). Using the Uniform Chart of Accounts to develop municipal and school district dashboards which break down local expenditures for various services and functions will more fully inform how the public perceives the costs and benefits of sharing services and serve as a basis for determining the level of state funding necessary to support local government.
5. **How will implementation of policy in this area create jobs and spur economic growth?**
- Based on the most recent Connecticut Tax Incidence study (2014), the property tax is the largest single tax source in Connecticut, comprising 42% of the entire tax incidence in the state. By comparison, the personal income tax is 33% of the total, and the sales tax is 15%. The goal of the shared services recommendations is to reduce the overall property tax burden—first by promoting more cost-effective service delivery, thus saving tax dollars, and second by diversifying revenues (preferably with more progressive new sources) to mitigate Connecticut's over-reliance on the regressive property tax. We believe that by reducing the property tax burden in Connecticut, we will be more competitive for economic growth and job creation.
6. **Are there opportunities for cost savings for CT state government in the context of implementing this policy?**
- In the short-term, the shared services and collaborative procurement recommendations should reduce local service costs, and the moderate increases in state investment in its own capacity (OPM, ACIR) and that of COGs and RESCs as well as technology and dashboards can be achieved by repurposing existing state revenues already dedicated to regional efficiencies and targeted property tax reform (i.e., portions of hotel tax and sales tax). It is difficult at this time to project the amount of local cost savings that can be achieved, but a 2013 Boston Fed report (State Options for Promoting Cost-Efficient Local Government: Regional Consolidation) indicates that "roughly 20 percent of local government spending goes to services that are characterized by demonstrated economies of scale"—with the best opportunities being public safety dispatching, public health and high-level administrative and financial functions.
7. **What examples of success from other states, countries, or the private sector in this policy area should the Administration study?**
- Massachusetts Community Compact Cabinet and Municipal Finance Trend Dashboard at Mass.gov.
  - Maine closed 61% of its public safety answering points (PSAPs), ranking it first in the nation for this.
  - Minnesota Best practices reviews for local government.
  - The Shared Services Policy Committee created a Google docs site to share materials, including examples of success elsewhere: [https://drive.google.com/drive/folders/1yZ7KvrrmnQsSsPx\\_qQ2fxtneo1C1t52](https://drive.google.com/drive/folders/1yZ7KvrrmnQsSsPx_qQ2fxtneo1C1t52)

**8. Are there any other issues/considerations you would like to highlight with regard to this policy area?**

Please consider framing the shared services discussion as a leadership challenge issued at the highest level (Governor) to work toward reducing property tax burden as a percentage of total tax incidence in Connecticut from the latest calculation of 42% by say one-tenth, to 37%. Then you can use this marker/goal as a broad goal over time to achieve a more competitive standing for economic growth and job creation.

The members of the Shared Services Policy Committee bring extensive knowledge and experience to the issues covered in this report. Should the Lamont Administration wish to delve more deeply into any of these issues, we will gladly reconvene to support your work.