

## Policy Brief: Prosperous, Vital Urban Centers

### The Issues

Perhaps one of the most intractable challenges facing Connecticut and many other states is the condition of many small and mid-sized cities, particularly those with a manufacturing legacy. In the *Connecting to Compete* report CERC quantified the impact of urban growth on state growth and found that in just about every growth arena urban performance was weaker, or even negative, compared to more suburban communities. With the exception of a handful of cities, it was noted that economic conditions in urban centers have weakened or stagnated over the past few decades and it seems unlikely to reverse itself absent major policy shifts. Further, the 2007 Brookings Institution report entitled "Restoring Prosperity" identified Connecticut's three largest cities among those that lag behind in terms of revitalization. The study suggested that urban revitalization in cities such as these could only occur with strong coordination of state and local policies.

National experience has shown that effective urban revitalization solutions are not simply a matter of increasing expenditures. Further, public sector physical redevelopment alone has seldom stimulated revitalization on a large scale. Connecticut has targeted a great deal of public resources to large capital projects as a method of stimulating the recovery of its cities. For the most part, these have failed to jump-start market growth or overall economic recovery. Connecticut's urban markets benefited only marginally from the rapid economic gains of the past few years. In the current market, they are facing losses in real estate, employment and business that outpaces the rest of the state. Our cities never recovered from the previous decline and now they face unprecedented erosion of their economic base. As the resources and tools at the municipal level erode, it is unlikely that the cities alone will be able to counter the current trends of decline that face them.

Effective urban strategies have a few basic principals:

- They take a strategic approach to stimulating growth
- They use public sector investment to stimulate private investment, not replace it.
- They employ comprehensive strategies that link physical, economic and social development.
- They work at multiple levels of geography, coordinating neighborhood, city-wide and regional strategies.

There is a strong role for the public and private leaders to play collaboratively in urban revitalization. It will require, however, strong leadership or champions from both sectors. In addition, this process will be long-term and, of necessity, will have to bridge administrations, the implication being that it requires that this focus be insulated, to the maximum extent possible, from the vagaries of election and budget cycles.

Due in large part to their industrial legacy, many of these underperforming cities have a higher concentration of brownfields, unmet infrastructure needs, abandoned housing and commercial buildings, and sub-par grand list growth. Another key shortcoming is that there is no entity, be it public agency or an NGO, which 'owns' the urban dilemma. Lacking a coordinating or advisory group of some sort at the state level, Connecticut's urban centers are not the focus of any sustained effort on their behalf.

### Fiscal Implications

Since these cities cannot raise enough revenue to meet their own need, they are dependent, to varying degrees upon the largesse of state government, and to a lesser extent, federal government. The primary source of revenue for cities remains the local property tax, supplemented somewhat by local fees. Based on Connecticut's educational cost sharing formula, many urban areas are particularly reliant on state funds to cover local education costs....given the state fiscal condition, can towns continue to rely on this source? In light of sluggish grand list growth and increasing demand for social services, these cities remain in a permanent fiscal bind that, in turn, puts pressure on state fiscal resources which has its own set of problems.

### Competitiveness Implications

Urban centers in Connecticut will continue to experience economic stagnation. Perceptions and realities about public safety will remain a big disincentive for businesses and residents to remain in, or relocate to, these cities. The quality of public education and extremely high dropout rates remain a strong deterrent for revitalizing cities. A nonstop barrage of shootings and stabbings on a weekly basis amounts to millions of dollars of adverse public relations.

### Policy Options

- Business as usual
- Regional
  - √ growth strategies
  - √ tax sharing
  - √ economic development districts
  - √ school districts
- Strategic and comprehensive neighborhood and community development
- Paid tuition program as incentive for achievement among urban students
- Early childhood education and intervention
- Human service models focused on prevention as opposed to intervention
- Establish Urban Growth Strategies Board

A working group should be established consisting of representatives from the executive and legislative branch, municipalities, business and other stakeholders with the charge of restoring these communities to a more competitive position. This group should be structured in such a way as to transcend political administrations. Its work should focus on both short-term issues, such as reducing cost differentials between cities and suburbs through various mechanisms, as well as long-term issues such as fundamental reform in public education.

### Budget implications

Business as usual leads to continuing weakness, unproductive workforce, chronic fiscal problems and high demand for public services.....

Any regional initiatives that require new ways of conducting public business will probably meet strong local resistance.

## **Policy Brief: Transportation & Infrastructure**

### The Issues

Connecticut faces a \$3.1 billion shortfall through 2017 for needed road, highway and bridge repairs and improvements, which, if not addressed, will leave numerous critical projects to repair and modernize Connecticut's roads and bridges unfunded and unable to proceed. This investment does not include 7 billion in new projects that have been identified.

According to the TRIP report, nearly half – 48 percent – of roads in Connecticut are in poor or mediocre condition, with conditions expected to worsen in the future under current transportation funding projections.

Improving the condition of Connecticut's roads, highways and bridges will be made more challenging by the continued and forecast increase in vehicle travel, particularly by large trucks, which put significant wear and tear on the state's key transportation links. Vehicle travel in the state increased 20 percent from 1990 to 2005.

Commercial trucking in Connecticut is expected to increase 48 percent by 2020, placing even greater stress on the state's already overburdened and deteriorated highways and bridges

Nine percent of Connecticut's bridges were structurally deficient in 2007, and an additional 25 percent were functionally obsolete. A bridge is structurally deficient if there is significant deterioration of the bridge deck, supports or other major components. Functionally obsolete bridges no longer meet current highway design standards, often because of narrow lanes, inadequate clearances or poor alignment

Congestion on I-95 in the New Haven – Greenwich corridor remains at unacceptably high levels and there does not appear to be any reasonable solution forthcoming.

Data suggest that the state may have been under-spending on roads & bridges over the past few years,

### Fiscal Implications

Given the condition of financial markets will the state be able to sell enough bonds to cover the costs?

What is the role of the transportation fund?

Should not balance the budget by deferred maintenance

In the absence of an infrastructure stimulus package,  
Federal transportation funding is projected to shrink considerably over the next decade

### Competitive Implications

Increasing traffic congestion reduces quality of life in parts of the state .  
Increasing congestion leads to environmental degradation  
Increasing congestion increases business costs

### Policy Options

Electronic tolls  
Congestion pricing  
Raise gas tax  
Greater emphasis and investment in public transit  
Other

### The costs of, and impediments to, investing

The timing could not be worse to talk about increased capital investment in our transportation infrastructure

Federal transportation funding is projected to shrink considerably over the next decade

## **Policy Brief: Business & Economic Growth**

### The Issues

Job growth and business growth in Connecticut have been sub par for the past couple of decades. The long-term job creation trend is close to zero and, if trends continue, will probably enter negative territory within the next few years. The employment base is shifting from high-wage industries to low-wage industries

According to the federal government CT is the only state in the nation with fewer businesses in 2006 than it had in 1989.

CT is a high cost state with a decidedly unfriendly business climate, excessive regulatory and permitting requirements, high taxes, high energy costs, and high entitlement costs.

Business & economic growth are directly related to population growth and in that category we are among the slowest growing in the country.

The gap between top earners and bottom earners is large and getting larger. (Gini coefficient) Total Real personal income is projected to decline by 2020.

### Other?

Currently, strong technology and innovation capacity but slow growth will make us less competitive as time goes by

### Fiscal Implications

Without sustainable economic and business growth, we will not have stable revenue streams for local and state government. Declining inflation-adjusted income will have pronounced impacts on personal income tax revenues.....a revenue stream that currently accounts for more than 50% of total state revenues. Declining incomes lead to declining spending and sales tax revenues.

Declining state revenue coupled with slower grand list growth will increase fiscal pressures on localities.

### Competitive Implications

Business investment goes elsewhere  
Number of establishments continue to shrink  
Fewer private sector job opportunities  
Qualified, innovative workers seek employment elsewhere

Policy Options

streamlined permitting

improved local and state regulatory/permitting requirements

entrepreneurial incentives

capital investment incentives

job creation tax credits

Other?

The costs of, and impediments to, investing

Any new money is highly unlikely, existing resources are at risk



## Connecticut 2020: Fiscal Implications of Economic & Demographic Change



## 2008 Research & Policy Conference

### **Policy Brief: Demographics & Human Capital**

#### The Issues

Connecticut's economic growth and prosperity is dependent on innovation, productivity and highly skilled workers, with human capital deemed by many to be at the root of our region's competitiveness. Long-term demographic trends have had, and will continue to have, a significant impact on the size and quality of Connecticut's future workforce. We are, however, facing some headwinds, including:

- Connecticut has the slowest growth rate of young workers among all states.
- Population growth is projected to be among the slowest among all state
- Minority population among those aged 25-29 is projected to grow by 48 percent
- The fastest growing segment of our population – Hispanics – is significantly under-represented in terms of college readiness, participation, and degree completion.
- Forty percent of new workers will come from inner cities by 2020
- While CT is strong in its K-12 educational attainment, other states are catching up or are outperforming us.
- Educational achievement gap by socioeconomic status will continue to widen
- Young professionals continue to leave state in search of economic opportunity
- High school drop-out rates for Hispanic and African-American students in urban areas are in the 30-50 percent range
- Connecticut's national standing in educational attainment of its adult population is projected to fall substantially.
- Connecticut is not producing enough teachers in critical shortage areas, particularly the STEM-related fields
- Connecticut under-produces college graduates in nursing and other allied health fields, engineering and the natural sciences
- Positive growth of 65-year olds contrasted with negative growth of 22-year olds

#### Fiscal Implications

Declining productivity leads to four percent reduction in inflation-adjusted income by 2020. Lower income leads to reduced revenues from personal income tax. Currently, personal income tax accounts for 52 percent of total state revenue and may be as much as 60 percent by 2020. Loss of personal income tax revenue would have dire state fiscal consequences. Reduced income will reduce retail sales which will have a direct impact on sales tax collections. Due to changing skill mix, it is likely that there will be increased demand for public social services. Due to aging population there will be increased demand for services for seniors. Dependency ratio becomes top heavy. Lower income leads to lower standards of living, ability to afford homes, more health issues, higher rates of substance abuse, etc

#### Competitiveness Implications

Businesses struggle to find entry level workers that have the right skills at a price they can afford. Manufacturers face a chronic shortage of skilled workers. Flat to negative business growth as population growth flattens. Competition for expansions and relocations becomes increasingly difficult. Higher taxes adds further downward pressure on business growth.

Continued

### Possible Policy Options

There are a few different options that might be considered:

- Increase access to, and participation in, birth to five programs
- Implement more rigorous high school graduation requirements
- Provide adequate levels of student financial aid for needy students
- Increase student support services at our colleges and universities to ensure that students who enter college persist and earn a credential
- Provide employer incentives for adult learners to earn a degree. (About 17% of CT population or some 410,000 have some college, but no degree)
- Offer incentives for good grades
- Student vouchers
- More magnet schools
- STEM academies
- Fast-track bright young people at an early age to ensure maximum opportunity and stimulation
- Complete overhaul of educational system a la *Tough Choices, Tough Times*
- Realign school year away from its agrarian roots, lengthen school year
- Increase resources for incumbent and displaced worker training
- Other?

### The costs and impediments of investing

#### Impediments

- Inertia
- Teacher unions/Management negotiations
- k-12 public education resistance
- resistance from tourism and summer related businesses
- government fragmentation
- local resistance to property tax increases

#### The cost of not investing

Continued widening education gap

Growing number of economically disenfranchised younger people

Marginal skills for entry level workers,

Increased cost of post-secondary remediation

#### Potential Benefits

Research has shown that for every dollar invested in early education programs, there is a two to five dollar rate of return:

Ready to learn leads to better performance and lower drop-out rates

Lower drop rates lead to:

- Higher lifetime earnings
- Reduced likelihood of incarceration
- Reduced need for social services
- More taxes paid
- Healthier individuals
- Less substance abuse
- Reduced poverty

## Policy Brief: Housing

### The Issues

- Connecticut is 46<sup>th</sup> in the nation in housing units built per capita since 2000 (HBA of CT). Housing supply has not kept up with demand, causing prices to increase. Because of a lack of supply, many housing experts expect prices to increase rapidly once the market turns around.
- The supply we have been building is largely 55+ Active Adult communities and large 4- and 5-bedroom homes. The supply of affordable rentals and starter homes has not grown.
- To avoid production of housing in their communities, municipalities have zoned to allow mainly low-density development, encouraging sprawl, but discouraging developers from producing enough of the housing we need.

Of the 404,000 renting households in Connecticut, 93,000 (or 23%) earn 50% of the median income or less and spend more than 50% of that income on housing

72% of the jobs projected to be created between now and 2014 will pay under \$40,000, much less than what it takes to buy or rent a home

The \$278,000 median sales price, while down almost 6% this year, still requires a household income of about \$80-90,000 to qualify for a mortgage

### Fiscal Implications

- Connecticut is 2<sup>nd</sup> most dependent on property tax to fund municipal government. Need to maintain and grow housing to maintain and grow grand lists.
- Residents unable to afford Connecticut housing prices leave and recruits choose jobs in states with lower housing costs, impacting income tax revenues

### Competitive Implications

- Lose potential labor force to state's with lower housing prices
- Lose jobs in construction industry

### Policy Options

Fully implement home Connecticut proposals

### The costs of, and impediments to, investing