



STATE OF CONNECTICUT
OFFICE OF POLICY AND MANAGEMENT

TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE
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Testimony Regarding Senate Bills 43, 156, 157, 172, 246, 1123 and 1124
and House Bills 5096, 5098, 5143, 5303, 5305, 5309, and 6679

Senator Harp, Representative Geragosian and distinguished members of the Appropriations Committee. Thank you for allowing me to submit written testimony concerning various bills on your agenda. As always, my staff and I are available at your convenience if you have any questions.

SB 43 AA ESTABLISHING THE UNITED MUNICIPAL ASSISTANCE GRANT PROGRAM

HB 5143 AAC THE DATE FOR ADOPTION OF THE MUNICIPAL AID PORTION OF THE STATE
BUDGET

Senate Bill 43 (An Act Establishing The United Municipal Assistance Grant Program) would replace the Town Aid Road (TAR) Grant and the Local Capital Improvement Program (LoCIP) with the United Municipal Assistance Grant. This new unified grant program would provide for expenditures similar to those currently authorized under TAR and LoCIP, and would include incentives for regional or multi-town cooperation. This proposed legislation would also allow a municipality's chief executive officer and legislative body the discretion to use one-third of the municipality's grant for "other expenditures." Finally, Senate Bill 43 would also appropriate a total of \$72,000,000 for this new grant program.

We must oppose Senate Bill 43, which would appropriate \$20,000,000 more for this new municipal grant program than the total amount of funding Governor M. Jodi Rell has recommended for both TAR and LoCIP. The State of Connecticut simply cannot afford

to increase municipal aid beyond the level for which the Governor's Recommended Budget provides.

House Bill 5143 (An Act Concerning The Date For Adoption Of The Municipal Aid Portion Of The State Budget) would require the General Assembly to adopt the municipal aid portion of the state budget no later than March first in each year, in order to provide municipalities with greater certainty regarding the amount of state aid they may expect, before they finalize their budgets for the next fiscal year. While well intentioned, the Office of Policy and Management believes that this proposed bill is unworkable. Under this bill, the General Assembly would have to approve the municipal aid portion of the state budget less than one month after the Governor presents it in a short legislative session year. Even in a long legislative session year, the date for approving municipal aid is unrealistic given the complexity of the budget making process and the impact that April 15 revenue receipts have on policy makers' decisions.

For the above-stated reasons, we oppose SB 43 and HB 5143, and respectfully request that the Appropriations Committee take no action with respect to these bills.

SB 156- AN ACT DEFINING TERMS RELATED TO THE SPENDING CAP.

SB 172 - AN ACT REDEFINING TERMS CONCERNING THE SPENDING CAP.

HB 5096- AN ACT CONCERNING THE IMPLEMENTATION OF ARTICLE XXVIII OF THE AMENDMENTS TO THE CONSTITUTION CONCERNING THE LIMITATION ON EXPENDITURES AUTHORIZED BY THE GENERAL ASSEMBLY.

HB 5098- AN ACT REDEFINING TERMS CONCERNING THE SPENDING CAP.

HB 5305 - AN ACT CONCERNING THE IMPLEMENTATION OF ARTICLE XXVIII OF THE AMENDMENTS TO THE CONSTITUTION OF THE STATE OF CONNECTICUT CONCERNING THE LIMITATION ON EXPENDITURES AUTHORIZED BY THE GENERAL ASSEMBLY.

The purpose of all five bills is to implement definitions to the state's Constitutional expenditure cap. In 1991, as part of the compromise for enacting the income tax, the General Assembly passed a statutory expenditure cap and directed that an expenditure cap be voted upon by the public at large in the general election of 1992 as an amendment to the state's Constitution. The amendment was overwhelming ratified by the Connecticut electorate by a 4 to 1 margin. Since the legislature has yet to adopt definitions for the Constitutional expenditure cap, the Attorney General has opined that

the definitions for the statutory expenditure cap remain in place and that any amendments thereto would require a three-fifths vote of each house. OPM would be supportive of formally adopting definitions for the Constitutional expenditure cap.

The language in some of the bills before you today do make two changes to the current statutory expenditure cap definitions. The first change would modify the definition of the "increase in inflation" from the preceding twelve month period to the preceding twenty-four month period. The second change would modify the definition of "general budget expenditures" that would be subject to the cap to include: a) statutory grants to distressed municipalities and b) expenditures related to federal mandates or court orders. Both those items are currently excluded from the calculation of the expenditure cap.

In regards to the definitional change to the inflation factor, we do not think it will have any impact on the expenditure cap calculation. This assumes that the final definition will take the average of the increase over the two year period, similar to the way the increase in personal income is calculated over a five year period. Moreover, it is important to note that there have been seventeen state budgets subject to the expenditure cap since its inception and during that time not once has the growth in inflation been the limiting factor. Personal income growth over that period has always exceeded the twelve month rate of inflation and thus been the limiting factor.

In regards to the definitional change that eliminates the exclusion from the cap of expenditures related to a) distressed municipalities and b) federal mandates and court orders, OPM would be supportive of eliminating the distressed municipalities component as it significantly complicates the calculation of the expenditure cap. In addition, any advantage or disadvantage, depending upon your viewpoint, regarding whether this provision allows the state to spend more or less can vary each year and is determined by whether grants to such towns in that particular year happen to be growing by more or less than the overall expenditure cap growth rate.

In regards to federal mandates and court orders, OPM would be opposed to lifting this exemption as at times the state is forced via the federal government or by the courts to undertake expenditures for which it had not planned. We believe that the architects of the cap foresaw this possibility and therefore built this flexibility into the cap for the first fiscal year in which such expenditures are authorized.

SB 157 AN ACT CONCERNING THE BUDGET SURPLUS.

This bill would require that one-half of any future budget surpluses be returned to taxpayers by reducing their personal income tax in the following year.

The intent of this proposal is commendable on two levels. First, it would lower the tax burden of state residents. Second, by intercepting one-half of any surplus from government coffers, it would prevent our government from building such temporary resources into our spending base. The current economic contraction is exposing the folly of this practice. From 2004 through 2008 Connecticut's income tax grew by 10.2% per annum, a very healthy pace. Happily, this afforded the state the opportunity to replenish the state's Rainy Day Fund. However, beyond that, the state also spent over those four years \$2 billion in surplus funds which in retrospect would have been better targeted toward debt avoidance or other savings measures that would have lowered the state's long-term costs. It is now apparent that a large part of the growth in the income tax was due to a financial sector that traded long-term sustainable growth for short-term gain. We are now witnessing a significant drop in income tax collections as job losses mount, capital gains income vanishes, and bonus income is significantly reduced.

As you well know, the Governor's budget proposes to utilize the existing \$1.4 billion Rainy Day Fund over a three year period. In addition, we expect to receive approximately \$1.8 billion over the same three year period in stimulus payments from the federal government. Once these resources are gone, the state will be financially vulnerable. Therefore, we believe that it should be the first priority of the state to rebuild those reserves in the Rainy Day Fund. Therefore we would oppose this bill as it would delay the rapid recovery of the Rainy Day Fund and the overall improvement in the balance sheet of the State of Connecticut, which would better protect the state's taxpayers in the future from a weaker than expected recovery or the next cyclical economic downturn.

In the event that the Rainy Day Fund was filled, use of the surplus as outlined in this bill would be worth consideration.

For these reasons, I respectfully request the Committee oppose this bill as drafted.

SB 246 AN ACT CONCERNING A COMMISSION ON FEDERAL STIMULUS DISTRIBUTION

The passage of the American Recovery and Reinvestment Act of 2009 (ARRA) presents the State of Connecticut with a tremendous opportunity to address short-term economic challenges while positioning the state for long-term economic growth. To take advantage of these opportunities - both short- and long-term - the state needs to act swiftly to capitalize on the many funding opportunities provided through the ARRA.

Toward that end, Governor Rell has already initiated actions as the state's Chief Elected Official to implement the provisions of the ARRA. These actions includes creating the Connecticut Recovery Working Group, designating representatives within her office to coordinate agency activities centered on both the funding aspects and the transparency and accountability aspects, and identified and committed federal stimulus money to a number of projects throughout the state.

Since the ARRA was signed on February 17th by President Obama, just over thirty days ago, more than \$400 million in federal stimulus money has been committed to projects and initiatives in the state of Connecticut. This does not include the funding expected for Medicaid and education.

In addition, a number of certifications, assurances and funding deadlines have already occurred and the state has taken advantage of each and every opportunity to date include pursuing grants for the arts organizations throughout the state and funding for efforts that support victims of violence. The complexion of this effort changes on a daily basis but the one thing that is consistent is that new federal guidance arrives everyday and with it new and fast approaching deadlines for either formula-based programs or new rounds of competitive grants.

These funding dynamics are complemented by the transparency and accountability requirements woven throughout the ARRA. The degree of transparency and accountability necessary to fulfill the letter and spirit of the Act requires constant and focused attention in order to ensure the State of Connecticut complies with all of the federal reporting provisions and measures the impact of the stimulus money on Connecticut's economy and in Connecticut's communities.

In many ways, the bill before you today is counter to the intent and goals of the ARRA. Implementation of the ARRA requires full-time engagement in order to track daily developments between state agencies and their federal counterparts, prepare plans and applications within tight timeframes to secure federal funding or pursue competitive and discretionary grants, implement throughout state government transparency and accountability measures required to account for every stimulus dollar expended by the state and maintain a Recovery website that keeps our residents apprised of all of the state's ARRA activities. A commission that might come into existence in June would hinder the state's implementation of the ARRA because much of the critical activity required to implement the ARRA and put our residents back to work must occur immediately.

Whether it is for letters of assurance or funding opportunities, deadlines come and go almost every day. In fact, a number of deadlines have already passed and others are quickly approaching. To take full advantage of the variety of funding opportunities, put Connecticut citizens back to work and grow our economy, the state cannot afford to

wait until June to develop a mechanism for distributing stimulus funds. Waiting even a single day has negative consequences on the state's ability to aggressively pursue these funds. Additionally, the President has made it very clear that he wants his federal agencies to work closely with their state counterparts to get this money out of the door and to get people back to work tomorrow - not next week and certainly not in June.

The biggest impediment, however, to the success of this legislation may be the ARRA itself. The Act clearly states that the Governor of each state is empowered to implement the ARRA and administer funding provided under the Act. It only grants a state's legislative body the ability to act if the Governor fails to accept the stimulus funding. That clearly is not the case. Governor Rell sent a certification letter on February 27, 2009 to the President's Office of Management and Budget stating that the funding will be used to create jobs here in Connecticut and used in accordance with the Act.

Therefore, we oppose the proposal before you today concerning the distribution of stimulus funds and respectfully request that the Committee take no action on this bill. Efforts to implement the ARRA are already well underway and this proposal and the establishment of a commission, while well intentioned, are unnecessary and will, in fact, hinder our ability to realize maximum benefit from stimulus funds. We look forward to working with members of the Committee and the entire General Assembly on efforts going forward to implement the ARRA.

SB 1123 AAC FLEXIBLE SPENDING ACCOUNTS

This bill will allow the Comptroller to transfer funds from the Social Security account for anticipated savings due to employee participation in flexible spending account programs established in 5-264b through 5-264e inclusive. These are accounts for dependent care spending and for flexible health care spending. It is troubling that there would be no restriction on how much the Comptroller can withdraw from the social security account, there would be no requirement to consider the health of the social security account, in short there would be no checks and balances on the Comptroller's power in this area. There may be inadequate funds in a given year to meet the requirements of the state for social security and even in that year the Comptroller would be allowed to transfer from the fund. It is generally inadvisable to transfer money from one account to pay for administrative fees for another program without limitation and without any regard to the actual state of that account. This bill would exempt some amount of excess funds even in a year they may exist from any review by the Governor and/or the legislature. If money for administrative costs is needed, the determination of the amount needed to cover administrative costs should be subject to gubernatorial and legislative review.

For these reasons, we oppose this bill and respectfully request that the Committee take no action on it.

SB 1124 AA ACT INCREASING THE AMOUNT OF UNAPPROPRIATED SURPLUS DEPOSITED IN THE
BUDGET RESERVE FUND.

This bill will raise the maximum allowable balance of the Budget Reserve Fund from ten percent to fifteen percent of net General Fund appropriations for the following fiscal year. The unappropriated surplus of the General Fund, at the end of each fiscal year, after any amounts required by law to be transferred for other purposes have been deducted, shall be transferred to the Budget Reserve Fund until the maximum allowable balance is reached. As under current law, once the maximum allowable balance for the Budget Reserve Fund is reached, the remaining unappropriated surplus is to be applied to the State Employees Retirement fund or to the reduction of state indebtedness.

Initially, the maximum balance was five percent of General Fund appropriations. That limit was raised to 7.5 percent in 2002 and again it was raised to ten percent in 2003. We believe that, if you consider our experience earlier this decade, a mere seven years ago, as well as our current situation, prudent and responsible fiscal management dictates this change.

Further, it is our understanding that the Comptroller's Office is proposing to this committee language for consideration to expand upon this proposal. That language would provide for automatic transfers from the General Fund to the Budget Reserve Fund in the amount by which a monthly projected surplus for the current year exceeds one percent of appropriations. We would be supportive of such an idea as it would ensure that any on-going surplus would be transferred to the Budget Reserve Fund prior to the end of the fiscal year in order to prevent the appropriation of such funds for other purposes. Between fiscal year 2004 and fiscal year 2008 the state registered gross surpluses of \$3.7 billion. Of that amount, \$1.4 billion was deposited into the Budget Reserve Fund and \$0.3 billion was utilized for debt avoidance. Unfortunately, the remaining \$2 billion was simply spent which in retrospect would have been better targeted toward debt avoidance or other savings measures that would have lowered the state's long-term costs. The Comptroller's proposed amendment would go a long way toward addressing this problem.

I respectfully request the Committee support this bill.

HB 5909 AN ACT CONCERNING THE LINE ITEM IN THE BUDGET ENTITLED "DEBT SERVICE"

This bill requires that the current one-line debt service budget be appropriated according to the agency and purpose for which the debt service payments are being made.

The concept behind the bill is clearly well-intended but implementation would be impractical for the following reasons:

1. There are over 50 agencies that have received bond funds, so one would be adding, at a minimum, 50 line items to the budget if each agency had just 1 project/purpose.
2. This bill eliminates the flexibility in paying the debt service on variable rate bonds. If rates increase for one particular bond issue- numerous FAC's would have to be done in order to cover the increased costs in a variety of small line items.
3. Projected bond issues for the upcoming year would not be able to be appropriated in this manner as final projects/purposes will not have been determined at the time the budget is adopted.
4. Tracking debt service costs per year, per bond issue, and per project/agency would be a nightmare administratively. If a question about a specific project arises, I am sure the State Treasurer's Office would be able to provide such detailed information.

For these reasons, I respectfully request the Committee reconsider the merits of this bill.

HB 6679 AAC THE ESTABLISHMENT OF AN ACCOUNT TO FUND THE TWENTY-SEVENTH STATE
PAYROLL PERIOD

It is a worthwhile idea to try to put aside money to pay for the year in which 27th payroll is to be paid; however, the determination of what amount is necessary will probably necessitate an actuarial study to accurately project what will be necessary.

Besides determining the salary growth assumptions to be used, an earnings estimate on the money put into the fund will be necessary. The bill as proposed does not address the issue of how the amount is to be determined nor who will be in charge of investing the money (it would be the Treasurer, but to come up with a good actuarial earnings assumption some indication of investment methods will need to be known to the actuary). It would be advisable to address those issues more substantively. The bill does not provide that this fund is to be established as an irrevocable trust, so the fund may be accessed in difficult times.

As long as the money will be available in the event of a downturn and as long as the way the amount is to be determined is spelled out and subject ultimately to legislative determination (the Comptroller would report a projected amount as determined by a method to be spelled out, but the actual amount to be put aside in any year would be determined by the legislature), this bill is worth consideration. The bill should be modified to address the issues of actuarial determination, investment methods, and ultimate legislative control of the amount if it is to be implemented. Suggested language changes could include "For the fiscal year beginning July 1, 2012, and each succeeding fiscal year, the Comptroller shall report to the General Assembly concerning the projected amount on a sound actuarial basis which would be required to fund one-tenth of the next succeeding additional payroll period. The General Assembly may appropriate this amount or whatever other amount it believes is appropriate based on the amount in the GAAP salary reserve account at that time to such account." This would leave the actual determination of the amount up to the legislature and would also allow for depositing more than one tenth based on revenue that year or lack of adequate past contributions or poor investment performance, future fund sweeps an the like.

Finally, as the next 27th payroll will have to be addressed in the fiscal year ending June 30, 2012, implementation of this bill should not commence until the fiscal year ending June 30, 2013.

Thank you for the opportunity to provide comments on these bills.
