



Connecticut Business & Industry Association

**TESTIMONY OF
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CONNECTICUT BUSINESS AND INDUSTRY ASSOCIATION
SUBMITTED TO THE
APPROPRIATIONS COMMITTEE
FEBRUARY 20, 2009
LEGISLATIVE OFFICE BUILDING
STATE CAPITOL
HARTFORD, CONNECTICUT**

Good day. My name is Peter M. Gioia. I am the economist for the Connecticut Business and Industry Association (CBIA). CBIA represents about 10,000 firms, which employ approximately 700,000 women and men in Connecticut. Our membership includes firms of all sizes and types, the vast majority of which are small businesses with fewer than 50 people.

CBIA wishes to comment upon **H. B. No. 6365 AN ACT CONCERNING THE STATE BUDGET FOR THE BIENNIUM ENDING JUNE 30, 2011, AND MAKING APPROPRIATIONS THEREFOR**. CBIA supports the call in the Governor's recommended budget to create a smaller more effective and efficient state budget concentrating on providing core services in these difficult economic times without further tax increases. CBIA realizes that the General Assembly will wish to make changes on programs and priorities in the budget. CBIA urges a bipartisan effort working with the Governor to create an adjusted budget. Given recent reports from OFA we recognize even that budget may be out of balance. We urge the committee to explore more areas to cut given possible April revenue shortfalls.

Connecticut's ability to manage its state budget will continue to have a direct effect on our economy. The more effective and efficient that government is, the better our business climate will be. In addition, Connecticut will be better able to compete with other states to grow and retain existing businesses as well as bring new companies into our state.

Policies that help and not hinder the recovering economy are essential to solving our state's long-term budget problems. Only a strong economy can provide the jobs people need and the revenues necessary to underwrite essential state services now and in the future.

Therefore, making Connecticut government more efficient isn't just a desired goal--it's essential to building and sustaining a healthy economy and an improved quality of life. That economy is in crisis today. The state has lost 29,300 jobs in 2008 and is expected to lose at least 50,000 more by mid 2010 even with a Federal stimulus package. But, it could be worse. In 1989 policy makers did not adjust the budget to the times and instead raised taxes which contributed to 160,000 job losses during that terrible recession.

Unfortunately, increasing unemployment has already lead to business taxes being increased by over \$500 million for calendar 2009 through the unemployment trust fund solvency tax rate increase. The impact on business is equivalent to an 80% surcharge being imposed on the corporate income tax.

The Governor's budget makes tough, even painful, decisions now. It resizes government for a STRUCTURALLY changed Connecticut economy. The Wall Street financial services meltdown directly impacts our state. Services associated with the markets are severely damaged and permanently changed. It is anticipated that Wall Street related financial services compensation will decline 45% in 2009 compared to 2008. With these changes evaporates a

substantial amount of personal income and other tax revenue the state has relied upon. That is gone. It is not coming back in this budget cycle or likely for years beyond.

The Governor's budget recognizes this sea change. It is a hopeful budget –hoping that by trimming services that are not the most essential, not passing on tax burdens to municipalities, and not raising taxes that the overall economy will mend itself by fiscal 2012. At that time short term funds such as the Rainy Day Fund and Federal stimulus will be exhausted but the \$19 billion plus in state spending in 2012 will still be there. The economy therefore must be growing and we need an adjusted state budget base or we will have fiscal crisis for the next biennium.

In particular, CBIA believes the following areas of the budget have merit:

- Maintaining education funding to cities and towns
- Creating incentives for regional delivery of local services
- Providing relief from unfunded mandates
- Eliminating or consolidating many functions in areas of lesser priority in the budget, including eliminating duplication of services, rather than across the board cuts
- Maintaining preschool commitments
- Streamlining economic development agencies
- Insisting that the state employee unions be part of the solution. It would be better for the committee to urge renegotiating of costly health care and pension commitments of the existing contract as well as pay freezes over the biennium rather than layoffs or retirements that may necessitate further future hiring to maintain needed services.
- Expanding the use of cost-sharing to help keep services in place, but at lower cost
- Bringing in the budget under spending cap growth levels.

CBIA does have concerns that we have large and growing unfunded liabilities in the state budget and that this budget does not recommend solid steps towards dealing with these. Given

that even this budget is in a deficiency situation on a GAAP accounting basis and that future years' federal funding is at risk with Washington's growing budget problems, these liabilities risk significant revenue additions and or severe cuts to existing programs.

CBIA urges the legislature to seek areas to further streamline its budget as states like Washington and Iowa have done. Certainly, areas such as long-term care, incarceration and state employee and retiree health care and benefits are growing well in advance of inflation, personal income, and overall state spending. In addition there are services now provided by state workers in social services areas that may be more cost-effectively provided by non-profit agencies. We urge the committee to fully explore these areas. As the committee deliberates, and potentially faces additional shortfalls (as estimated by OFA), these are prime areas to consider for additional cost savings.

CBIA encourages the committee to continue to work in a bipartisan approach to create the final budget. The committee should take the lead to insist upon better efforts to monitor performance of state programs to ensure that they are efficient and cost-effective. Continuous improvement in the broad base of ongoing state spending is an area where the state must do more work to achieve cost savings which can offset areas projected to grow above the rate of inflation.

While controlling state spending is a substantial and difficult task, we hope the committee and the General Assembly will make the necessary difficult decisions that will provide an improved fiscal climate for our state while fully protecting our fragile economy. CBIA trusts that

the General Assembly will see to it that the budget is used as a tool to help create future economic growth that will lead to higher personal income and ensuring greater budget flexibility in future years.

Thank you for the opportunity to present this testimony.

