

**TESTIMONY OF  
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CONNECTICUT BUSINESS AND INDUSTRY ASSOCIATION  
SUBMITTED TO THE  
APPROPRIATIONS COMMITTEE  
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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. 5018 AN ACT MAKING ADJUSTMENTS TO STATE EXPENDITURES AND REVENUES FOR THE FISCAL YEAR ENDING BIENNIUM ENDING JUNE 30, 2011**. 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 and establishing reviews of state spending and performance. 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 OPM, the Comptroller and OFA we recognize that the budget is out of balance and the problem gets worse through at least fiscal year 2014. We urge the committee to explore more areas to restructure service provision to get sustainable savings for this and future budget years.

Connecticut's ability to manage its state budget and therefore provide confidence for investors to create jobs 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 and the sooner we will see new good jobs created. 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 and confidence in our government 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 94,500 jobs so far in this terrible recession and is expected to lose at least 10,000 more by mid 2010 even with the 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 led to business taxes being increased by over \$500 million annually through the unemployment trust fund solvency tax rate increase.

Connecticut's fiscal situation is in crisis. Our economy has undergone a sea change. Unprecedented personal income declines of 4.2% in 2009, massive job loss and business closings have created a medium term reduction in the capacity of the state taxpayers to support and sustain business as usual in state government. Now is the time for serious structural change.

Many efforts are under –the Commission on Enhancing Agency Outcomes, RBA, and MORE may all provide some fiscal adjustment. But, according to OFA \$50 million of these anticipated savings are already rolled into the SFY2011 budget. Increasing securitization is not a viable option. The OFA study of February 2, 2010 forecasts budget holes in excess of \$3 billion in each fiscal year 2012-14. More short term fixes will only exacerbate those holes and send a “no confidence” message to both bond rating agencies and business people considering investments to add jobs. By 2012 short term funds such as the Rainy Day Fund and Federal stimulus will be exhausted but the \$19 billion plus in state spending will still be there. The economy will grow but even economists with the rosier glasses do not see the economy expanding at a rate to produce a 20% increase in revenues required to avoid OFA’s forecasts.

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

- Establishing the PERFORM commission to thoroughly review government programs, structure and delivery systems
- No tax or fee increases
- Enhanced rescission authority and revised use of surpluses
- Bonding reform
- Measures to improve efficiency and restructure services
- Maintaining education funding to cities and towns
- Providing relief from unfunded mandates
- 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 a \$59 billion unfunded liability in the state budget and that this budget does not recommend solid steps towards dealing with this. 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, and demography forecasts fewer

working age people and more people over 65 years of age in the state, 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 and programs as states like Washington, Oregon 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 to 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.

