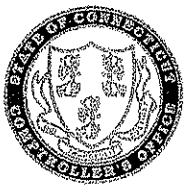
State of Connecticut

NANCY WYMAN
COMPTROLLER



MARK E. OJAKIAN
DEPUTY COMPTROLLER

Hartford

Testimony Before the Appropriations Committee
State Comptroller Nancy Wyman
March 5, 2010

Good afternoon Senator Harp, Representative Geragosian, Senator Debicella, Representative Miner and distinguished members of the Appropriations Committee. I am State Comptroller Nancy Wyman and I would like to thank you for raising two of my legislative proposals and for the opportunity to testify.

Raised House Bill 5393, "An Act Increasing The Amount Of Unappropriated Surplus Deposited In The Budget Reserve Fund." & Raised House Bill 5105 "An Act Concerning Transfers Of General Fund Surplus To The Budget Reserve".

I would like to thank the Committee for these two proposals that would increase the Budget Reserve percentage from ten percent to fifteen percent. With the economic downturn of FY's 2001, 2002, and 2003, which depleted the $595 million budget reserve fund (BRF), it became clear that Connecticut's 5% statutory reserve limit was insufficient. At that time, I advocated for increasing the budget reserve fund threshold and the fund was increased to 7.5% and ultimately to 10%.

In FY 09 the Budget Reserve Fund maintained a balance of $1.4 billion (8.3% reserve). The Administration and Legislature earmarked $1.039 billion in FY 10, and $342 million in FY 11 to mitigate projected revenue shortfalls.

The Governor in her March mitigation plan has recommended that $219.2 million from the FY11 earmark amount be transferred to offset the current fiscal year deficit, currently estimated at over $500 million.

National economic experts consistently suggest that the optimum level of funding for budget reserve funds to meet a 3-year economic downturn is 18-20% of the general fund budget. I believe that 15% brings the state closer to the optimum level for the future and provides us with an appropriate target to help weather future fiscal crises

Raised House Bill 5105 would not only increase the BRF to 15% but would also transfer projected surplus funds that exceed one percent (1%) of the general fund appropriations on a monthly basis to the budget reserve fund. This currently equates to $176 million. I would like the Committee to note that I introduced this concept last year and again this

year and I would like to thank Representative Reynolds for his proposal as well. If the projected surplus becomes a projected deficit, those funds transferred to the BRF during the course of the fiscal year would be available to mitigate a deficit. Deficit mitigation is required to occur when the projected deficit in the General Fund exceeds 1% of the total appropriation.

While the tremendous decline in revenues could not have been predicted, we have all seen that the economy is cyclical. A greater commitment to savings and long-term planning is essential to help mitigate future economic downturns.

Raised House Bill 5394, "An Act Concerning Establishment of an Account To Fund the Twenty-Seventh State Payroll Period"

I urge the Committee to support Raised House Bill 5394 which would create a "long-term funding" approach to address the twenty-seventh or extra payroll which occurs every eleventh year.

My office has proposed annual incremental funding for this known liability. The objective was to pre-fund "a portion or all" of this obligation. It is estimated that the State will need approximately $120 million to address this additional pay period.

Given the proximity to the upcoming disbursement and our current fiscal situation, I cannot make any request for immediate allocation of monies. However, I am recommending that, effective FY 2013, a statutory annual funding mechanism equivalent to 1/10 of the anticipated obligation be established. It is fiscally prudent that we address this known liability. By beginning the incremental funding in 2013 it will allow the opportunity to plan accordingly for this obligation.

If funds are set aside annually to meet this obligation the overall impact on spending will not be as severe. The creation of this fund would also assist the State in the bond market with the rating agencies because it would demonstrate fiscal management of known liabilities.

I thank the Committee for raising these proposals. I have enclosed general comments on a few other bills on today's agenda.

Raised Senate Bill 360 "An Act Concerning Flexible Spending Accounts"

I have requested the language before you during the past few years in an effort to implement "Public Act 04-98 "An Act Establishing Flexible Spending Accounts for State Employees". I would like to thank the proponents for offering it and would like to recommend a change to the language in Line 8 to allow dollars deposited into this account to be used for program costs as well as administrative costs. You should note that there is a reserve requirement that all vendors require to accept this contract. We view this proposal as "cost-neutral" and hope to work with the Administration to get this implemented this year. The intent is to use the Social Security account for the start-up

expenses that are required and to replenish the withdrawals over the course of two years with participant's forfeitures and social security savings.

Raised Senate Bill 359 "An Act Concerning Reporting By State Agencies" & Raised Senate Bill 356 "An Act Concerning Monthly Reports On Personnel Status For State Agencies

I would like to comment briefly on two budget bills SB 359 and 356. Directing the method for budget formulation and reporting is not within the Comptroller's statutory authority. However, I want to make clear that Core-CT already has the functionality to track the budget to its lowest level of detail. Core-CT can and does support the reporting objectives of these two bills.

Core-CT maintains over a dozen fiscal coding identifiers including program and project coding. Many agencies, my own included, track budget programs using separate department coding.

My office also provides ongoing training to help state agencies realize the full potential and power of Core-CT financial reporting.

I would also note that Core-CT contains a budget formulation module that has not been implemented to date. The Office of Policy & Management continues to rely on its own software to develop the state budget. Once the budget is developed and passed into law, it is loaded onto Core-CT to be transacted against. I am supportive of working with OPM and the Office of Fiscal Analysis to implement the budget module.

Furthermore, my staff and I have started discussions with the Office of Fiscal Analysis to ensure that their reporting needs are achieved.

House Bill 5104 "An Act Directing the Program Review and Investigations Committee to Study the State Spending Cap

I am supportive of House Bill 5104 that would direct the Program Review and Investigations (PRI) committee to conduct a study of the state spending cap. While I recognize that two other proposals before you, ***Raised Senate Bill 3 "An Act Redefining Terms Concerning The Spending Cap" and Raised House Bill 5073 "An Act Concerning The Constitutional Spending Cap"*** are very well intentioned, I believe a comprehensive evaluation of the spending cap is more beneficial than tinkering with individual elements. Often changing a single element of the cap can have unintended effects.

Proposed House Bill 5107 "An Act Mandating the Use of Generally Accepted Accounting Principles", and Proposed House Bill 5044"An Act Concerning Generally Accepted Accounting Principles" are also well intentioned which would require my office to immediately implement GAAP. As you are aware, I have been a passionate

advocate of GAAP accounting but would suggest that including this topic in the PRI study would be more appropriate and very beneficial. One suggestion I would make is that the study explore exempting GAAP conversion appropriations from the spending cap in the year of implementation. This would remove one significant obstacle to GAAP implementation. As an example of the impact at conversion, in FY 09 the Legislature would have had to allocate $700 million in order to comply with GAAP.