

**Appropriations Subcommittee**  
**Public Hearing Regarding SOTS Budget**  
**February 23, 2011**

- Chairman Gomes, Chairman Billie Miller, Good afternoon, my name is Jamie Spallone, I'm Deputy Secretary of the State of Connecticut.
- Secretary of the State Denise Merrill sends her regrets for not being able to make it today, she has been hit with a nasty flu bug and we are all hoping she makes a speedy recovery.
- As the former chair of this committee, she was actually looking forward to addressing you as a Constitutional Officer.
- I hope I can do an adequate enough job as a pinch hitter in front of this subcommittee.
- As we look at the budget for this agency, it's important to keep in mind that the Secretary of the state's office is a major revenue generating agency for the state of Connecticut.
- The revenues we generate come largely from the business registration fees paid by hundreds of thousands of for profit and non-profit entities that register with the state every year.
- Each year, our office -- in the Commercial Recording Division -- generates roughly \$35 Million dollars every year.
- This is a big jump from the \$20 Million dollar annual figure that was the norm for our agency for at least the last decade.

- The reason for that increase in our annual revenue figures is attributable to the doubling of the business registration fees by the General Assembly and Governor Rell enacted in 2009.
- As we look at our agency budget for the next two years, it is clear that as Governor Malloy has said, there is a need for shared sacrifice from all so we can balance our budget.
- Accordingly, we have proposed and agreed with the Governor's office and OPM on a significant cut in our general fund budget for the next two fiscal years.
- In raw dollar amounts, we are looking at a cut in funds of more than \$1.7 Million dollars in FY 2012 and another \$170,000 cut for FY 2013.
- Our current budget for the entire agency for this fiscal year is \$10.7 Million dollars.
- So this proposed cut to our budget represents a 16% cut to our general fund budget.
- In addition to this, we are hoping to pass and enact a bill to require business entities in the state of Connecticut to file their annual reports with our office online.
- This is one of several steps that would maximize efficiencies within the office that will also save significant dollars for taxpayers.
- We estimate that this bill will save taxpayers upwards of \$250,000 annually in a reduction in mail and printing costs, plus it would represent a major improvement in convenience for our customers in the business community.

- So those, in general are the major cuts to our budget – and they are significant.
- It begs the question: how can we afford to make those cuts without harmful reductions to the important services we provide?
- At the same time as we have proposed these cuts, we have also put forward and the Governor has accepted a \$5.1 Million dollar bonding proposal dedicated to making capital investments in the infrastructure in our office.
- These investments will not only upgrade our business registry, but also bring our Centralized voter registry into the 21<sup>st</sup> century which will enable us to improve and modernize our elections system.
- These are improvements that are badly needed and when they are made millions of Connecticut voters and business entrepreneurs will feel their effects.
- We think it is very important that Governor Malloy and OPM Secretary Ben Barnes both recognize that this is the time to make the kind of infrastructural investments, even as we are cutting our budget, that will maximize efficiencies, and save taxpayers money while modernizing our services.
- In addition to this bonding proposal for these much needed infrastructural improvements we are also trying to maximize our allocation of federal funds.
- Just last week, our Legislative and Elections Administration Division applied for a grant of up to \$230,000 dollars from the Federal Election Assistance Commission through the Help America Vote Act.

- This grant is competitive and is available to states with the purpose of funding a project to document and develop processes for pre-election testing of voting equipment and post election audits.
- The Secretary of the State's Office is also taking steps to implement RBA – results based accountability – that should save taxpayers funds as well by eliminating unnecessary expenses and making sure the budgeted funds are being used for their dedicated purpose.
- I am happy to answer questions on specifically how we are implementing those plans in each of our divisions.

**2011 Program Report Card: Commercial Recording Division (Secretary of the State)**

**Quality of Life Result:** All citizens of Connecticut, the business community and the non-profit community will have information necessary to succeed in a stable and modern marketplace.

**Contribution to the Result:** The Commercial Recording Division makes business filings accessible to the public in an accurate and timely manner and maintains the public record regarding business entities that have filed with the Secretary of the State.

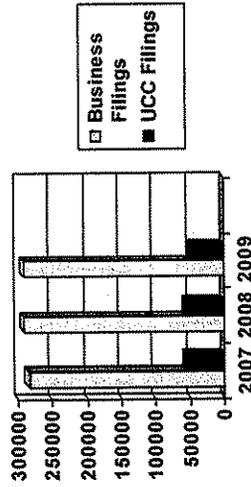
**Actual SFY 10 Total Program Expenditures:**\$10,161,221  
**Estimated SFY 11 Total Program Expenditures:**\$5,993,248

**State Funding:**\$10,161,221  
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**Other Funding:**\$0  
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**Partners:**The General Assembly, The Attorney General, DRS, The Agency's Automation Vendors, CT Bar Association, Business & Industry Groups, NASS (National Association of Secretaries of State), IACA (International Association of Commercial Administrators)

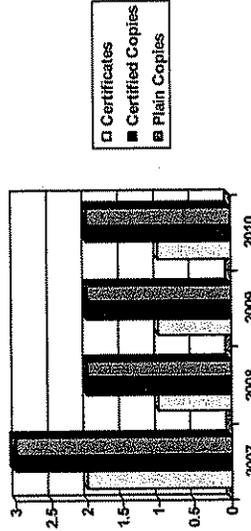
**Performance Measure 1: Number of Business Filings and UCC Filings processed in the Commercial Recording Division ("CRD") by calendar year.**



**Story Behind the Baseline:** The CRD processes a huge volume of paper and electronic filings per year. As a baseline and by calendar year, the CRD processed a total of 340,444 filings in CY 2007, 347,286 filings in CY 2008 and 340,806 filings in CY 2009 (mostly paper-based filings). Due to the adoption of efficiency measures and the addition of automated processing in limited areas, the division manages this volume with only 40 staff.

**Proposed actions to turn the curve:** Volume will continue to rise as new businesses form and register with the division. Plans are in place to increase automated processing so that ever-increasing volumes of filings can be processed by a relatively static workforce, and with increased efficiency.

**Performance Measure 2: Turnaround time on requests for copies and requests for Certificates of Legal Existence.** The result of this "How Well" measure indicates a level of customer service achievement that meets the Contribution to the Result goal of providing efficient and timely customer service.

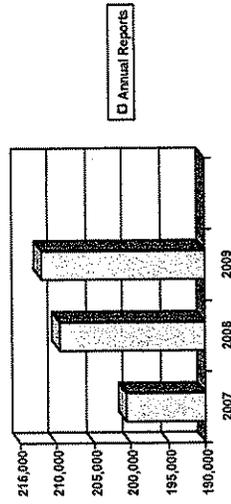


**Story behind the baseline:** The Secretary of the State has two duties with regard to the public record: to keep the record, and to make the record available to the public. This performance measure addresses the "make available" duty. There is no statutory deadline or timeliness requirement for responding to requests for record information. Nevertheless, in the baseline years of 2008 and 2009, as in 2010, the CRD has been processing to completion all customer orders for Certificates of Legal Existence within one business day and all customer orders requesting plain or certified copies within three business days (most often within two business days). Prior to 2008 it would customarily take longer to fulfill customer requests. For a variety of transactional purposes, customers will

require photocopies (plain or certified) or a Certificate of Legal Existence evidencing that their entity is in good standing with the SOTS. For example, a bank or utility might require proof of good standing before allowing an applicant to establish an account or a line of credit. The CRD responds to these requests efficiently to keep pace with customer demands at the rapid pace of modern business.

**Proposed actions to turn the curve:** With the recent addition of online Certificates of Legal Existence, this unit is operating with optimal efficiency with regard to timeliness of administrative customer response. Monitor to ensure continued efficiency.

**Performance Measure 3: Annual Report filing volume.**



**Story behind the baseline:** By statute, most entities registered with the SOTS are required to file Annual Reports ("Reports") to report the status of certain statutory information as it may change over the lifetime of the entity. The CRD is required to mail out over 260,000 Reports per year on paper, along with the Report Instructions and

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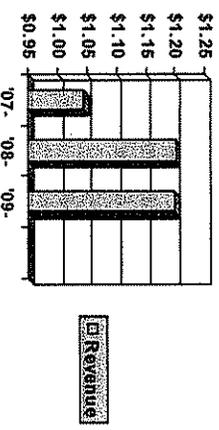
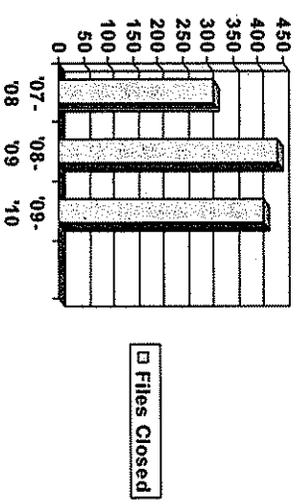
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envelopes. Over 200,000 Reports are returned per year, mostly on paper (about 22% electronically). A staff of approximately 23 Paralegals and License & Application Analysts must review the paper Reports, in addition to performing their other duties and functions (reviewing and processing all other business documents, answering a high volume of calls, reviewing/processing Special Filings and Writs, and handling walk-in customers, for example). Due to the high volume of paper Reports, the division sometimes is unable to meet the statutory filing guidelines that require filing within 5 business days of receipt.

**Proposed actions to turn the curve:** The division has improved its performance in this area markedly through administrative and automated responses. In order to turn the curve moving forward (moving to 100% timely customer service and statutory compliance in processing Reports), the division could either add temporary or permanent staffing resources, or the division could act to propose policy that would permit the SOTS to mandate online Annual Report filing. Given the prevailing budgetary conditions, it is unlikely to expect staffing increases in the next fiscal year or two. Moreover, it would not be necessary to add staff to address this issue if the policy were to be adjusted. To turn the curve, the CRD will act with its partners (particularly the Bar Association and the General Assembly) to promote legislation that, if enacted, would permit the SOTS to mandate online Annual Report filing (with a waiver provision for those who lack the technology or an appropriate payment method to file online). If enacted, such legislation

would save the state about \$250,000 per year by dispensing with the present requirement that the SOTS mail paper Reports to customers.

**Performance Measure 4:** The number of files closed annually by the Foreign Investigation Unit and the amount of penalty forfeiture collected annually illustrates the agency's success in bringing foreign entities into compliance with state registration requirements. As a baseline, in FY 2007/8 the Unit closed 311 files, collecting \$1,045,873 and in FY 2008/9 closed 439 files, collecting \$1,201,133. This past fiscal year, the program closed 411 files, totaling \$1,201,943.



**Story behind the baseline:** The Foreign Investigation Unit has partnered with the AG's office over the years to enforce registration of foreign entities transacting business in CT and to collect penalties from violators. The Unit stepped up enforcement in FY 2007/8, substantially increasing baseline revenue through enhanced enforcement over the past three years. In prior years, typical yields would range from \$160,000 to \$750,000 in collected forfeiture. Increased enforcement has resulted in a greater number of closed files and collections averaging over \$1.1 Million/year.

**Proposed actions to turn the curve:** The CRD partnered with DRS beginning in 2009 to increase efforts to identify foreign violators of the registration requirement. Also, the SOTS partnered with the legislature to enact an increase in the penalty from \$165 to \$300 for each month a foreign entity transacts in CT in violation of the registration requirement (effective 10/1/09). The agency expects continued high collection yields, improving compliance incentive for foreign entities. The law-abiding business community and consumers are better off for this protection against wanton business practices committed by foreign entities.