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Concerning Governor's S.B. 21 AA Defining the Expenditure Cap

March 8, 2012

Senator Harp, Representative Walker, Senator Kane, Representative Miner and Members of the Committee:

Thank you for the opportunity to express my support for Governor's S.B. 21, AA Defining the Expenditure Cap. The bill allows the state to decouple spending related to the early payoff of accumulated long-term obligations from regular annual operating expenditures for the purpose of calculating the spending cap.

The intent of the spending cap was clearly to limit the growth in annual budgeted spending and not to impair the state's ability to pay off long-term obligations that have accumulated over decades.

Currently, the State Employees Retirement System has unfunded obligations of $11.7 billion, or a funded ratio of 44%. The Teachers' Retirement System is carrying unfunded obligations of $9.1 billion and is only 61% funded. Retiree health obligations are approaching $30 billion. There is a GAAP liability of $1.7 billion and bonded debt of $18.6 billion.

These sizeable long-term debts have been cited by bond rating agencies as a concern, and indeed influenced a recent rating downgrade. These lower bond ratings translate into higher taxpayer debt service costs.

This legislation will remove one significant obstacle to accelerating the reduction in outstanding long-term debt. Dedicating available revenue to long-term debt retirement serves two important fiscal objectives: it reduces the burden on taxpayers to service the sizeable debt and signals to rating agencies and investors that Connecticut is serious about reducing its long-term obligations.

I strongly support this legislation. Thank you for your consideration.