Some groups have expressed interest in the language of this legislation and we are collaborating with them on refining it.

HB 5560 AAC the Budget Reserve Fund

This bill would help to strengthen the Budget Reserve Fund (aka the Rainy Day Fund) and help the state to be better equipped in guarding against future economic downturns. In January of this year, the Center on Budget and Policy Priorities released a report that noted those rainy day funds capped at a level of 10 percent of the budget or less to be inadequate and could cause difficulty in accumulating sufficient reserves. The report goes further to identify 15 percent of the budget as a more adequate level.

As we work to alleviate the current budget deficit, the lesson is clear: having higher reserves gives the state more flexibility to respond to evolving budget needs. I urge your favorable consideration of this legislation.

HB 6352 AAC the Expenditure Cap

Thank you for the opportunity to express my support for Governor's bill, H.B. 6352 AAC the Expenditure Cap. This bill allows the state to decouple spending related to paying down accrued unfunded pension liabilities from regular annual operating expenditures for the purpose of calculating the spending cap. The bill also exempts expenditures on federal programs that are 100% funded by the federal government from the spending cap calculation in the first year of implementation.

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 or accept federal funding to expand services at no cost to the state.

Unfunded Accrued Liabilities

Currently, the State Employees Retirement System has unfunded obligations of $13.3 billion, or a funded ratio of 42%. The Teachers' Retirement System is carrying unfunded obligations of $11.1 billion and is only 55% funded.

These sizeable liabilities have been cited by bond rating agencies as a concern, and indeed influenced the last rating downgrade. Lower bond ratings translate into higher taxpayer debt service costs. Moreover, every payment made to reduce unfunded accrued liability now, reduces the future annual required contributions of the state.

This legislation will remove one significant obstacle to accelerating the reduction in unfunded accrued liability, which serves two important fiscal objectives: it reduces the burden on taxpayers to pay down unfunded liabilities and signals to rating agencies and investors that Connecticut is serious about reducing its long-term obligations.

<u>100% Funded Federal Programs</u>

Beginning on January 1, 2014 the federal government will fund at 100% the expansion of Medicaid to childless adults with incomes up to 133% of the federal poverty level. The expansion will provide tens of thousands of Connecticut residents with health care coverage for the first time. Under current law this expansion will contribute to the allowable state expenditures under the spending cap, requiring spending cuts elsewhere to remain under the cap. The spending cap was designed to control the spending of state funds, not to prohibit the ability of the state to participate in programs 100% funded by the federal government.

H.B. 6352 will eliminate existing barriers to the state's ability to pay down unfunded accrued liabilities and participate in 100% federally funded programs. Reducing unfunded liabilities and participating in 100% federally funded programs is good government, but it should not come at the cost of unnecessarily reducing funding on other state priorities. I strongly support this legislation. Thank you for your consideration.