

**TESTIMONY OF
PETER M. GIOIA
VICE PRESIDENT & ECONOMIST
CONNECTICUT BUSINESS AND INDUSTRY ASSOCIATION
SUBMITTED TO THE
APPROPRIATIONS COMMITTEE
FEBRUARY 16, 2016
LEGISLATIVE OFFICE BUILDING
STATE CAPITOL
HARTFORD, CONNECTICUT**

Good day. My name is Peter M. Gioia. I am the vice president and economist for the Connecticut Business and Industry Association (CBIA). CBIA represents thousands of firms, which employ hundreds of thousands of women and men in Connecticut. Our membership includes firms of all sizes and types, over 90% are small businesses with fewer than 50 people.

**CBIA wishes to comment upon H.B. No. 5044 AN ACT MAKING ADJUSTMENTS
TO STATE EXPENDITURES FOR THE FISCAL YEAR ENDING JUNE 30, 2017 .**

CBIA strongly supports this bill and sees even more areas for improvement, especially in light of still dire warnings regarding SFY2018. We recognize this is a tough budget plan with some painful adjustments, but as the Governor and Secretary of OPM have stated the times demand it. We are encouraged that they have recognized we have serious economic issues which have impacted the revenues of the state as well as heightened risks of losing companies and investments in tax producing job creation. The most critical thing the legislature can do to improve our economy is to restore confidence in business leaders that the state can sustainably manage its fiscal operations for the foreseeable future. We are pleased that the Governor set forth budget principles that will help lead to more investment that creates jobs and generates tax

revenues in our state, and we believe those principles should be reflected in the document you adopt.

The job of Connecticut companies is to generate good jobs that provide good wages that generate revenue for the state so it can deliver core services like education and transportation that families rely on. Uncertainty at the Capitol makes it harder to keep good jobs in Connecticut, harder for our children to find those jobs and afford to stay here, and harder for retirees to make their homes here.

CBIA, therefore, urges a bipartisan effort to work with the Governor to reinforce those principles and identify and achieve additional structural savings targets now that can be used to create better budget sustainability. This will help soften the blow in the SFY2018 budget which the OPM Secretary says could require upwards of a 9% cut in discretionary spending. To that end I have attached our *Turning the Tide* report an AARP report on long term care and links to CT21 reports all of which have suggestions which have not been fully (or some even partially) implemented that may help guide you to realize additional savings without hurting clients or harming citizens.

I have the opportunity to speak to dozens of groups across Connecticut, and I'd like to share with you what I tell them:

Connecticut has enormous economic potential. Indeed, I am confident, even bullish, on Connecticut's economic prospects and our likelihood to build upon recent job gains and manufacturing success in defense and aerospace. The best social program you can give people is good jobs and job opportunity. We can be on our way to achieve that, and this budget plan is a step in the right direction.

That said, every economic outlook I give has "downside risks." One I always cite is the impact that public policy can have to arrest or minimize growth potential. You can't build an

economy on shifting sands. Connecticut must effectively manage its state budget to maximize growth potential by providing confidence for investors to create jobs that will have a positive effect on our economy and for our citizens.

Connecticut is watching.

In a recent CBIA survey 88% of business executive respondents indicated the state tax policy impacts the decisions they make on investment and location decisions. Remember about 80% of job growth comes from *existing firms* seeking to grow in state operations. The more effective and efficient state 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. And those other states are not asleep. We see aggressive new policies to raid our best businesses not only from overseas or from southern states but from Massachusetts, New York and Rhode Island.

Connecticut policies that help and not hinder the still recovering economy are essential to solving our state's *long-term* budget problems. Only a strong economy and confidence by business decision makers 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. While the economy is certainly improving much better than before 2015 we still see some firms struggling and some not yet are confident enough to add significant numbers of jobs. Downside risks remain to the economy with increasingly bad economic conditions in China, volatile markets on Wall Street, oil fluctuations, ISIS/terror, continued financial issues in the European Union, and flashpoints like the Ukraine. All of these may impact our state and revenue generation.

Connecticut's fiscal situation has come out of one severe crisis, but the next few years see serious challenges. What will we do to fix our problems in the long run? What can we do to create a climate that encourages growth, expansion and really significant job creation? Tax increases do not solve revenue problems, economic growth does!

Now is the time for this committee and the legislature to do serious work on our fiscal condition. Now is still the time to be prudent in spending and to seek out and seize opportunities for cost savings. Now is the time to safeguard operational investments that lower costs over the long run in areas like social services and corrections. It's also the time to safeguard careful and calculated investments that enhance economic expansion.

This budget-- and its underlying principles -- give you a starting point!

Some areas of a budget plan that we think are important include:

- Having the budget come in under the spending cap.
- Asking Commissioners to introduce and publish online meaningful outcome measures for all core programs. Instructing those Commissioners to concentrate their funding on core services.
- Calling that LEAN initiatives to be reinvigorated, expanded and fast tracked to produce cost savings
- Advocating outsourcing of some services to lower costs and improve customer service.
- Supporting long term and comprehensive transportation infrastructure needs.
- Continuing prison reform initiated in the "Second Chance" initiatives.
- Including appropriate shared sacrifice by state union workers be built into this budget
- Beginning a process to reexamine state pension schedules and state employee benefits.

Secretary Barnes pointed out in budget presentations that there will still be need for budget cuts beyond this plan. Indeed, he calls for a 9% discretionary cut for SFY18 on top of the

5.75% for SFY17. To achieve this with less pain adjustments need to begin now in some areas not explicitly specified in the budget document. The General Assembly should insist these occur. Some of these require action, others are being addressed slowly but require broader or faster action. Three of these, long-term care, corrections, and state employee spending, which are above average growth areas threatening other programs and devouring state revenues.

First, an accelerated plan has to add initiatives to increase the use of home care vs. nursing home care where appropriate for the client. A more comprehensive and accelerated effort at easing home care options as outlined in a new AARP study and in both the 2010 CT 21 report on long term care (see: <http://www.ct21.org/>) and in the updated report which will be released later this week are needed. We are proceeding to a 75/25 rebalancing in home care/nursing home care but are doing it much too slowly, currently at about 60/40. We may need to go beyond 75/25 as some states have already done. CT21 says we will see a net increase of 70,000 clients accessing LTC services by 2025. The potential to avoid hundreds of millions of dollars exists with a more concerted effort in this area. The legislature should insist DSS do just that.

Second, we need to enhance the "Second Chance" initiative beyond what is called for in the budget. We need to ensure that inmates who will be released are sober and have the education and training to reintegrate themselves as good citizens, not become recidivists. We need to look at new ways to keep non violent offenders out of prisons where they make bad acquaintances and develop worse habits and instead learn the value of honest work.

The Second Chance effort at prison reform and recidivism reduction in corrections is a good start and we are glad to see continued effort in this budget. But, the effort needs to be expanded while always ensuring public safety. The time is now to put a plan in place to phase out more facilities beyond SFY17.

Third, while we were pleased that the Governor began LEAN initiatives a few years ago in several agencies, building upon success in areas like permitting in DEEP, much more can be done at a faster pace in this area. The recent report on LEAN from OPM show efforts underway at 40 agencies and some progress made. We see agencies that have cut intake forms in half,

decreased prescription costs by 20%, speeded up contractual purchase time from 30 to 10 days, reduced throughput time for patients in half etc. in dozens of LEAN exercises. This is good, but a tenfold increase in effort is vital. We want to see things like "reduced the time to replace a major bridge from 15 years to 3, reduced time to repave highways by 75%, cut recidivism in half, reduced school construction time by 60%" --real major cost savers like that! Expanding a comprehensive LEAN effort to all the major agencies' biggest cost programs ought to improve effectiveness and customer service, increase efficiency and see substantial cost savings.

Lastly, all involved need to contribute to the success of a revised plan. Huge amounts of the base budget and the increases in the budget are directed towards state employees, we need them to be part of the solution. The shared sacrifice in the Governor's first budget asked for and expected a contribution of \$1.6 billion from the state employee unions. At best half of that was realized. This is not targeting state workers, it's just common sense and fairness to many others who are impacted by the budget.

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 still 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 more jobs and job opportunity, more wealth and security for our citizens and ensure greater budget flexibility in future years. Thank you for the opportunity to present this testimony.

attachments: Turning the Tide, CT21 home page, AARP LTC report

j:\users\res\test\APP2016BUD