



Erick Russell CONNECTICUT STATE TREASURER

Good morning, Senator Fonfara, Representative Horn, Senator Martin, Representative Cheeseman and members of the Finance, Revenue and Bonding Committee.

Thank you for the opportunity to testify before you today on **Senate Bill 16: An Act Concerning Revenue Items to Implement the Governor's Budget**.

Specifically, I submit this testimony in support of Section 18 of the bill, which requires that the cumulative balance of the Special Transportation Fund (STF) in excess of 18% of expenditures be utilized to pay down long-term debt. My office was proud to participate in bringing this proposal forward in collaboration with Governor Lamont and the Department of Transportation (DOT).

The concept is familiar. Similar reforms put in place as part of the "fiscal guardrails" have paired robust reserves in the Budget Reserve Fund with additional contributions to the state's pension funds, reducing long-term liabilities and producing annual savings. The provision in this bill would likewise maintain sufficient balances in the Special Transportation Fund but use any balance at the end of the fiscal year above 18% of expenditures to retire outstanding bonds.

Typically, the Special Tax Obligation (STO) bonds that are used to fund transportation projects are 20-year bonds callable after 10 years. Under this proposal, instead of refunding or refinancing these bonds at that time, we would pay them off entirely, resulting in 10 years of debt service savings. It is projected that \$500 million will be available at the end of this fiscal year that my office would use to pay off outstanding debt that would otherwise stay on the state's balance sheet for another decade. Taking this action would avoid remaining interest costs — most of the bonds being targeted have interest rates of 5 percent — and result in immediate savings of over \$22 million in Fiscal Year 2025. Annually, this would reduce the annual debt service for the following nine years by an estimated \$60 million a year.

Connecticut is earning a reputation for its responsible and creative financial problem-solving and this is a continuation of that work. This proposal explicitly requires that the excess be utilized for long-term savings, not short-term budget relief. The benefits of this approach are multifaceted. It will be a significant signal to ratings agencies and investors that the state remains committed to reducing debt and building an economically stable future. That will aid the work of securing additional improvements to our credit rating, which make funding future transportation projects more cost-effective, and the budget savings help stabilize future years and put the Fund in a better position to borrow for new projects going forward.

Perhaps most importantly, however, this proposal does not impact project readiness at DOT. Connecticut has a pent-up demand for large scale transportation projects. Residents, businesses, commuters, and communities will all benefit from continued investment, and available federal dollars

make it financially critical to begin much of that work now. These transportation investments improve our infrastructure, help drive economic growth and provide good paying jobs for our citizens. The proposal maintains significant reserves to ensure DOT has funding on-hand to meet these urgent needs while utilizing funding that would otherwise sit idle in the Fund to pay down debt. As DOT officials continue their work to launch more projects in coming years, they will benefit from the alleviation of long-term liabilities and the budget savings this will create.

While the Fund currently shows a significant surplus, we know that won't always be the case. Absent this proposal, projections show deficits could arise as soon as FY 2026. It's critical we do not wait to implement this provision so that we can capitalize on this moment of opportunity to put these excess funds to productive long-term use.

I have been heartened, but not surprised, by the strong bipartisan support for this initiative to date. Our state has built an enviable culture of budgetary responsibility that I am proud to be a part of.

I urge you to build on that by including this provision in the eventual budget proposal. As always, my staff and I are available to answer questions or provide assistance. Thank you for your time.