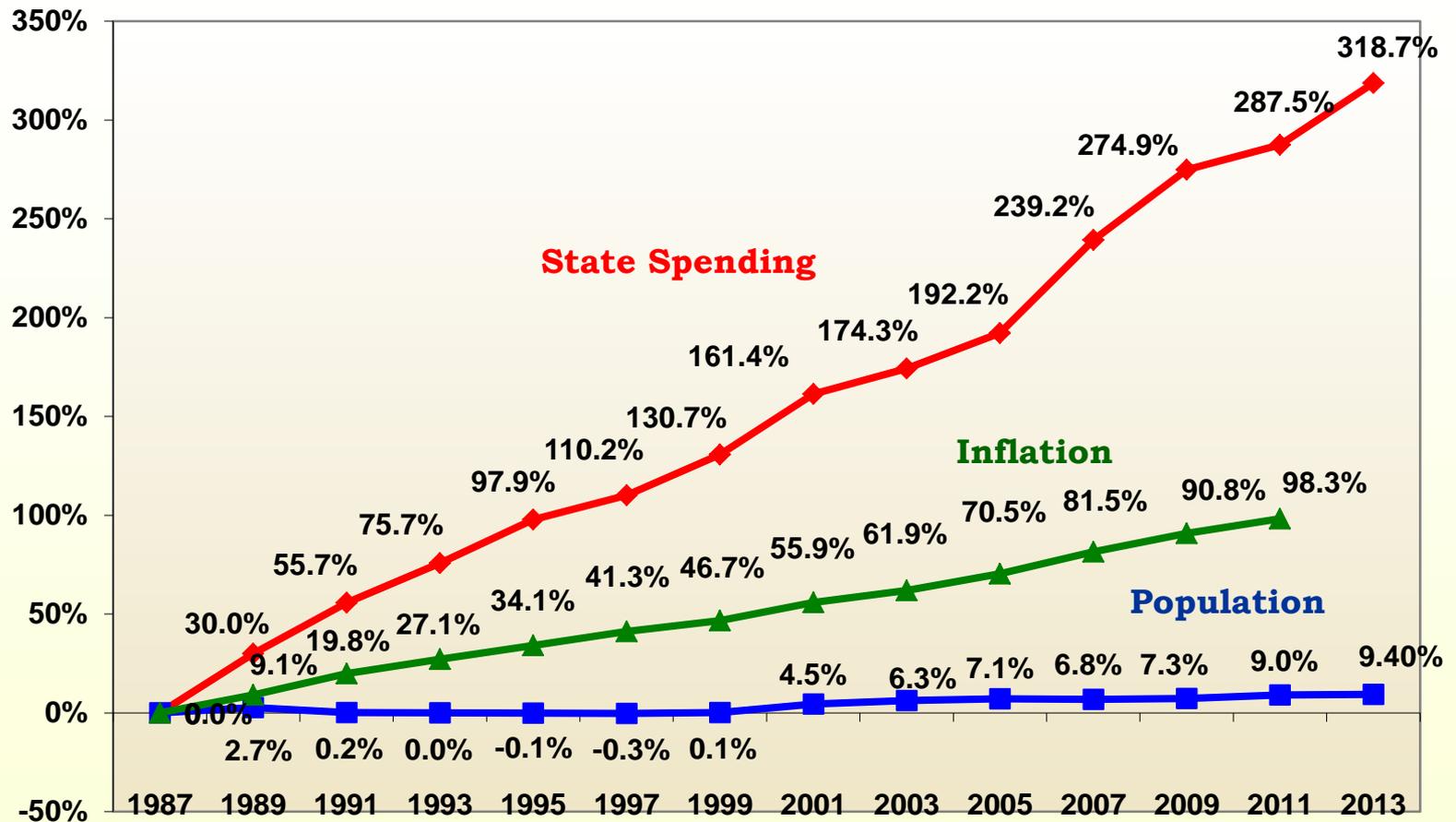


STATE OF CONNECTICUT A Budget Presentation

Stratford
March, 2013



State Government Has Grown Too Large



Connecticut's Population vs. Real State Government Expenditures

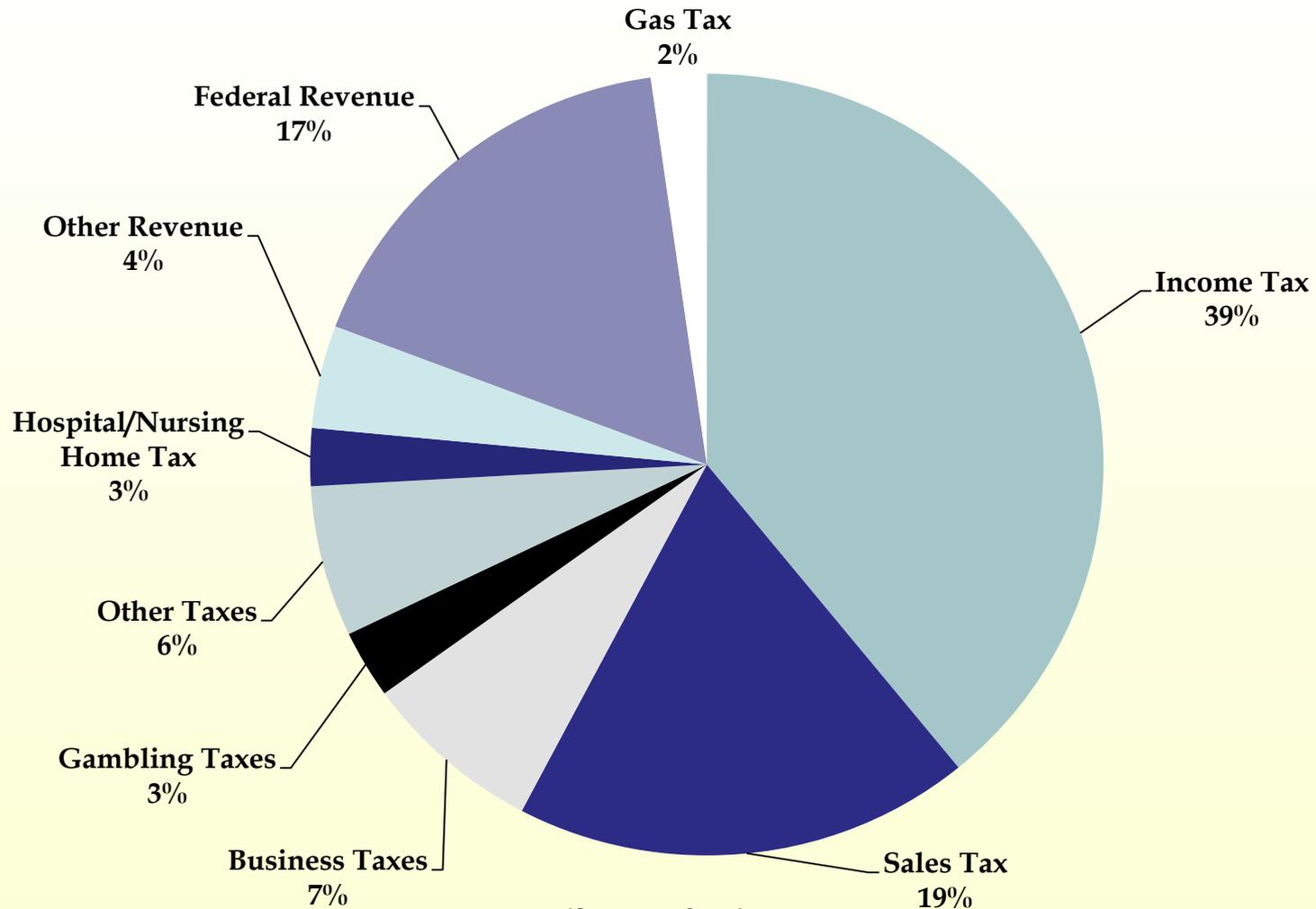
(Source OFA & Census)



Where Does The Money Come From?

FY 2013 Revenue

\$20.670 Billion

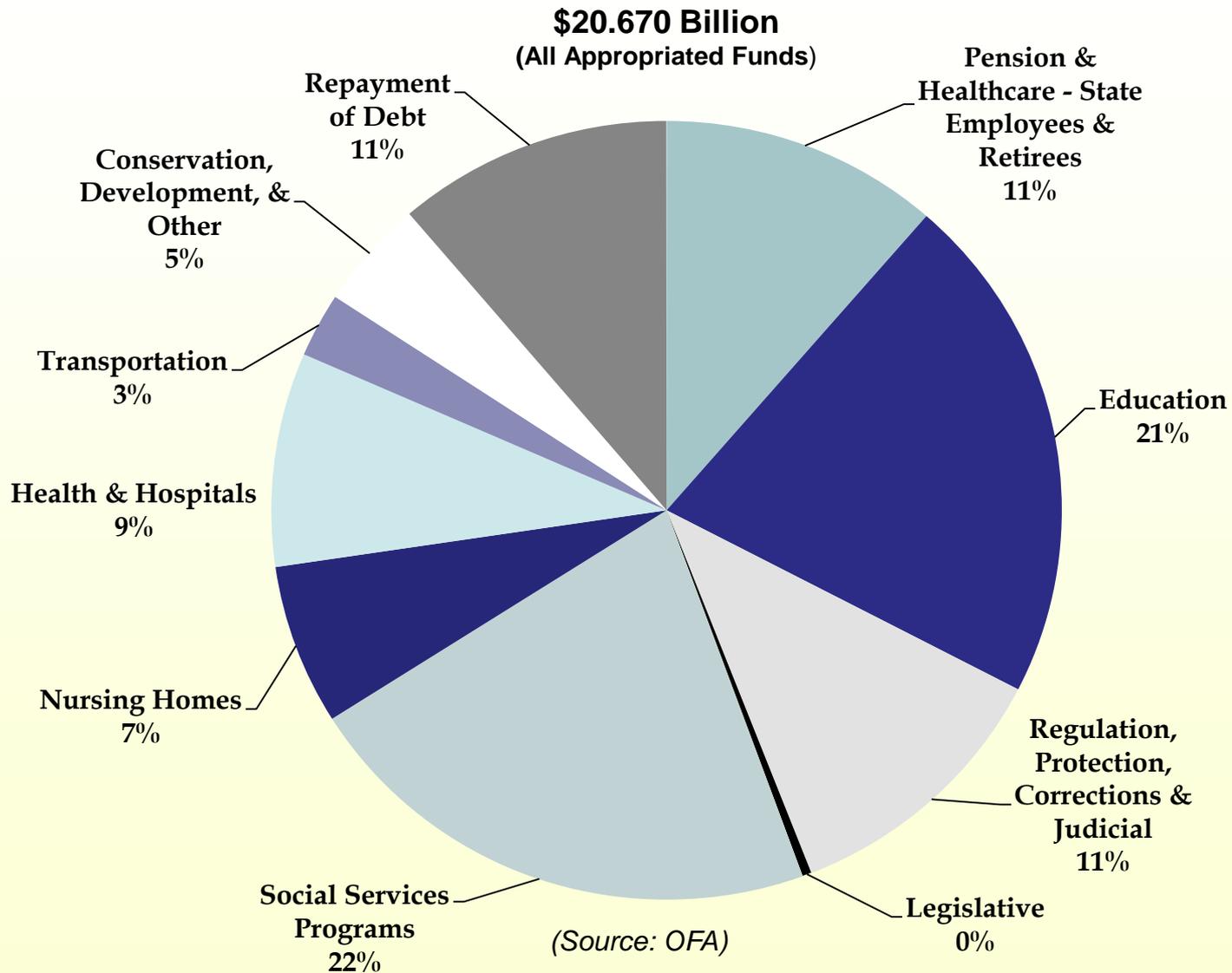


(Source: OFA)



Where Does Your Money Go?

Major Spending Components for FY 2013



State Finances During Tough Times

| | FY 11 | FY 13 |
|----------|------------------|------------------|
| Spending | \$19.169 Billion | \$20.279 billion |
| Revenue | \$19.200 Billion | \$20.278 Billion |
| Bonding | \$2.000 Billion | \$2.262 Billion |

Despite facing a \$3.5 billion a year deficit after FY 11, spending continued to increase and taxes continued to go up to the highest levels in the history of our state.



Budget Problem Facing Connecticut

Despite \$1.8 billion in tax increases over the past two years, the state still faces a \$2.5 billion deficit over the next two years.

| | FY 13 | FY 14 | FY 15 |
|--|------------------|--------------------|--------------------|
| Estimated Expenditures | \$19,107.5 | \$20,850.7 | \$22,077.8 |
| Estimated Revenue | \$18,979.5 | \$19,655.3 | \$20,773.6 |
| Surplus/(Deficit) | (\$128.0) | (\$1,195.4) | (\$1,304.2) |
| Percent of Estimated Expenditures | -0.67% | -5.70% | -5.90% |

***As a result of the federal sequester, the state may expect to lose a total of \$52.6 million in federal fiscal year 2013. In addition, Connecticut's defense industry could lose as much as \$906.5 million.**

Source: OFA



Governor Malloy's Response to the Budget Deficit: Increase Spending

Governor Malloy proposed a biennial budget that increases General Fund spending by \$1.8 billion or 9.6% during this time when the state faces continued deficits, repeated revenue deterioration, high unemployment and a nagging recession.

| | Estimated FY 13 | Governor FY 14 | Governor FY 15 | Two-year \$ increase | Two-year % increase |
|---------------------|----------------------------|---------------------------|---------------------------|---------------------------------|--------------------------------|
| General Fund | \$19,043.90 | \$20,110.60 | \$20,888.50 | \$1,844.60 | 9.64% |
| All Funds | \$20,429.10 | \$21,478.60 | \$22,322.40 | \$1,893.30 | 9.27% |

Source: OPM



Governor Malloy Breaks the Spending Cap

Governor Malloy's proposed budget breaks the spending cap by proposing new definitions that move about \$900 million in net new spending outside of the spending cap.

| | FY 2014 | FY 2015 |
|---|-------------|-------------|
| Expenditures Allowed Under the Current Definition | \$ 21,012.9 | \$ 21,631.6 |
| Expenditures Proposed by the Governor | 21,478.6 | 22,322.4 |
| Amount Over/(Under) the Cap | \$ 465.7 | \$ 690.8 |

Source: OFA



... And Borrows to Cover Operating Expenses

Despite campaign pledges to the contrary, the Governor's budget proposes to borrow to cover operating expenses in many different ways

- Bonds \$750 million to bail the state out of its cost flow issues which will cost our children \$186 million in interest expenses.
- Extends by two years debt that was issued to finance the FY 2009 deficit. This extension will cost our children \$31 million in interest expenses.
- Transitions a number of operating grants for municipalities to the capital side of the budget.



Other Budget Details

Balanced Using One-Time Revenues

- \$80 million for auctioning off the right to serve CL&P and UI customers
- \$74.8 million raid from the Special Transportation Fund
- \$30 million from the Connecticut Resources Recovery Authority
- \$25 million from a Tax Amnesty

Includes \$125 million in FY 2014 to fund salary increases for state employees – union and non-union.

Includes a total of \$550.4 million in proposed reductions to CT hospitals without regard to their ability to withstand such a large cut.

The budget begins to fund the operating expenses for the New Britain-Hartford busway which is based upon very aggressive ridership figures – the state will end up paying much more than the \$3.75 million that is currently budgeted.



Connecticut's Unfunded Liabilities

Connecticut has the highest level of long-term liabilities in the country.

| Unfunded Liabilities <i>in billions of dollars</i> | |
|--|---------------|
| Debt Outstanding | \$19.3 |
| State Employee Pensions – Unfunded | \$13.3 |
| Teachers' Pensions – Unfunded | \$11.1 |
| State Post Employment Health and Life – Unfunded | \$17.9 |
| Teachers' Post Employment Health - Unfunded | \$3.0 |
| Generally Accepted Accounting Principles Deficit | \$1.5 |
| TOTAL | \$66.1 |



Exemption of Vehicles From Local Property Taxes

Governor Malloy has proposed exempting the first \$20,000 (approximately \$28,000 market value) in assessed value of motor vehicles from the local car tax. This is a loss of revenue to municipalities that the Governor does not replace with any other source of revenue. Cities and towns will be left to determine how to make up this loss.

- This exemption would be voluntary in FY 2014 and mandatory in FY 2015.
- This exemption is estimated to cost **\$632.8 million** statewide annually.
- The Governor does not intend to reimburse municipalities for this loss of revenue.



Exemption of Vehicles From Local Property Taxes

Municipalities will be forced to raise taxes on residential and commercial property to make up the lost revenue that will result from this proposal.

Towns in this area will lose the following amounts as a result of this proposal

| | |
|-------------------|-----------------------|
| Stratford | (\$10,867,184) |
| Bridgeport | (\$17,424,114) |
| Milford | (\$9,510,890) |
| Monroe | (\$4,545,834) |
| Seymour | (\$3,428,567) |
| Shelton | (\$6,817,314) |
| Trumbull | (\$8,033,912) |



Other Changes to Municipal Revenue

By shifting municipal aid between account and between funding sources, the Governor has essentially tied our municipalities hands with their ability to budget.

The following chart shows the estimated change in general fund unrestricted revenues that our municipalities will be facing if this budget is adopted

| | |
|-------------------|-----------------------|
| Stratford | (\$654,543) |
| Bridgeport | (\$11,109,234) |
| Milford | (\$873,522) |
| Monroe | (\$209,605) |
| Seymour | (\$259,513) |
| Shelton | (\$435,647) |
| Trumbull | (\$350,866) |



Connecticut's Poor Rankings

- Connecticut has negative job growth over the past 25 years. (Based on Department of Labor data)
- CT was ranked 45th among the Best and Worst States to Do Business (*Survey of 651 CEOs done by Chief Executive Magazine*)
- CT ranked worst state for retirement (*money-rates.com*)
- CT ranked 45th in economic competitiveness. (*American Legislative Exchange Council, "Rich States, Poor States"*)
- CT Legislature has been voted "Least Business Friendly" in the nation. (*Expansion Management Magazine*)
- State Business Tax Climate – 40th. (*The Tax Foundation*)
- Gas Tax – 4th Highest. (*American Petroleum Institute*)
- Cost of Doing Business – 5th Highest in the country. (*Milken Institute, 2007*)
- Percent Funding of State Retirement System Liabilities – 3rd worst in the country at 58.3%. (*Public Fund Survey*)
- Per Capita State and Local Tax Burden as a Percent of Income – 3rd highest in the country. (*The Tax Foundation*)
- Worst state for business property tax burden (*The Tax Foundation*)
- Ranked 7th by Forbes Magazine for the state with the highest number of residents fleeing our state.



Questions?

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