



State of Connecticut
GENERAL ASSEMBLY
STATE CAPITOL
HARTFORD, CONNECTICUT 06106-1591

December 3, 2014

Senator Martin Looney
President Pro Tempore - Elect
Legislative Office Building, Room 3300
Hartford, CT 06106-1591

Representative Brendan Sharkey
Speaker of the House of Representatives
Legislative Office Building, Room 4100
Hartford, CT 06106-1591

Senator Bob Duff
Senate Majority Leader - Elect
Legislative Office Building
Room 3900
Hartford, CT 06106-1591

Representative Joe Aresimowicz
House Majority Leader
Legislative Office Building, Room 4100
Hartford, CT 06106-1591

Dear fellow Legislative Leaders:

We once again write to you today to seek your action on the state's projected general fund deficit.

This past month has not been an easy one for the State of Connecticut. As you know shortly after the election it was relayed to the public, ourselves included, that the state's revenues were short of enacted and that expenditures were not trending in a favorable direction. A week after this acknowledgement we then learned that the treasurer had insufficient cash on hand to pay the day-to-day operating expenses of the state of Connecticut and as a result has had to borrow against bond proceeds. We know that the cash situation could have been much worse had the state not bonded half of its GAAP deficit and received a cash infusion of \$560 million. While these bonds have certainly helped the treasurer in her responsibilities, they came at a taxpayer cost of \$231 million in interest payments. This was an unnecessary expense and an added burden on our state taxpayers.

Now, the comptroller has even weighed in on the magnitude of the problems facing the state. In his December 1, 2014 letter he concurs with the Office of Policy and Management and their projection of a general fund deficit of \$44.8 million after taking into consideration the governor's rescissions totaling \$54.7 million. Although the comptroller shows "concerns" over higher spending and the failure to take advantage of the federal resources he, like others, fails to really grasp the true deficit facing this state.

The deficit projection reported by the governor and OPM, and reaffirmed by the comptroller, does not take into account all of the financial facts that are available to us regarding the status of the general fund in this fiscal year, despite the fact that we have a fiscal responsibility to examine all financial factors. As you know, our own Office of Fiscal Analysis, an office which we all universally recognize as the final authority on fiscal issues, is projecting deficiencies in a number of accounts that OPM and the comptroller have chosen to overlook. This includes the following potential costs: \$31.8 million for retiree healthcare costs, \$10.5 million for the Department of Corrections, and \$1.5 million for active state employee healthcare costs. In addition to not identifying the additional projected expenditures listed above, the deficit assumes an additional \$40 million collection of random, unidentified tax initiatives. Although OPM acknowledged during the Fiscal Accountability presentation that these accounts are “potential watch areas” and indicated that they will “keep an eye on them” through the fiscal year, it is time to be more proactive given the severity of the deficit in future years.

The oversight by OPM does not satisfy our desire for the legislature to actively manage this serious situation. Nor does it lend itself to the state balancing its budgets in a fiscally sound manner, especially when the state is trying to balance the budget with bonds that have a higher interest rate than needed and relying upon anticipated bond premiums. The treasurer’s actions not only add more debt to our credit card, they also add burdens to future taxpayers in the form of higher debt payments. If you are unaware, the Office of Fiscal Analysis is currently projecting that the debt service line item will lapse \$105 million due to the state receiving bond premiums above what was already assumed in the budget. This means that the treasurer, in her negotiations of our bond sales, has received \$105 million in upfront payments to the state in return for a higher interest rate over the life of the bonds. But rather than come up with a plan that would proactively reduce our debt this year, the treasurer’s plan is to burden future taxpayers with these higher interest rates. These actions will also increase debt service resulting in a negative impact on future legislatures and government itself by causing more of the budget to be used to pay debt service. Our state has relied on this method entirely too much over the past four fiscal years. In light of the almost \$3 billion deficit we face, this “plan” is nothing short of appalling.

We once again ask you to call a meeting, like we did in December of 2012, to see if we can, in a bi-partisan manner, make adjustments that both reduce the debt this year and in future years. We need to establish a fair budget that does not increase the debt service and therefore will not negatively impact future budgets.

Once we reach a joint agreement then a Special Session will be required to formalize the plan; but let’s first meet to determine if we can achieve our goal. Time is running out and every day we lose an opportunity to save money. The later we act the less we can do and if we continue waiting eventually our options will be limited to drastic and unfair cuts and the obligation and

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burden will rest solely with the majority. Hesitation will lead to devastation. Now is the time to act together.

It's been said that this administration won't "kick the can down the road" but instead will "pick it up." But we don't foresee this happening unless we work cooperatively across the aisle to change course. Together, not only can we "pick up the can" but we can make real changes that will help place Connecticut back on the right track.

Thank you for your time and consideration.

Sincerely,



Len Fasano
Senate Minority Leader-Elect
State Senator, 34th District



Themis Klarides
House Republican Leader - Elect
State Representative, 114th District

cc: The Honorable Dannel P. Malloy