

Frilling, Tara

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Sent: Friday, May 08, 2015 10:06 AM
To: Sen. Fasano, Len
Cc: Frilling, Tara; Krautler Patricia; jagargiulo@gmail.com
Subject: Tax Hike - Public Hearing Testimony

Dear Senator Fasano and Representative Klarides:

Connecticut State Budget

Public Testimony
May 11, 2015
By: Hon. David M. Walker
Former U.S. Comptroller General

My name is Dave Walker. I am a resident of Bridgeport, CT and currently serve as a Senior Strategic Advisor in the Public Sector Practice of PriceWaterhouseCoopers (PwC). I am the immediate past Comptroller General of the United States and head of the U.S. Government Accountability Office (GAO), and a former candidate for Lt. Governor of Connecticut.

I commend Senate Minority Leader Fasano, House Minority Leader Klarides, and the Republican Members of the Connecticut General Assembly for offering their own budget and for deciding to hold this hearing. I appreciate the opportunity to provide public comments on the financial condition of Connecticut and the "Roadmap to Prosperity" budget framework. I am submitting this written testimony rather than appearing in person since I have PwC related business commitments in the Washington, DC area today.

Connecticut is at a critical crossroads and the debate over the Fiscal 2016-17 biennial budget is an important part of deciding which future path our state should take. In the short-term, I believe that the budget framework contained in the Roadmap to Prosperity report is preferable to Governor Malloy's and the Democratic majority's proposed budgets. For example, contrary to the other two plans, the proposed Republican budget is designed to comply with the state's Constitutional spending cap and to minimize any additional overall tax burdens. In addition, it restores some proposed cuts that would impose undue burdens on some of our more vulnerable residents and selected municipalities. It considers the need to make more timely, targeted and intelligent investments to improve the state's critical infrastructure, especially in connection with transportation. It also recognizes that existing state employee compensation arrangements must be restructured in a manner that is fair to state employees and retirees as well as the state's taxpayers who have to pay the state's bills. Finally, while, unlike the other two plans, it was intended to be "balanced" without incurring additional borrowing, recent non-partisan analysts say it comes \$227 million short due to more recent and lower revenue projections.

Unfortunately, none of the three proposed budgets come close to adequately addressing the serious competitiveness and structural deficit challenges faced by our state. In addition, it is now clearly evident that many elected officials in Hartford are out of touch and out of control. Sadly, it is also evident that some state elected officials are prepared to breach their oath to uphold the Connecticut Constitution in connection with the state spending cap. This is shocking and threatens to make a mockery of the state's nickname - "The Constitution State".

The truth is, according to the state's own Comprehensive Annual Financial Report (CAFR) for Fiscal 2014, Connecticut has the highest liabilities and unfunded pension and retiree health care obligations per taxpayer of any state in the Union. It has among the highest combined tax burdens of any state and is deemed to be one of the least attractive states to do business in. It has a high cost of living and among the highest energy costs in the country, which is a great disincentive for manufacturing within the state. Shockingly, according to a 2014 American Enterprise Institute (AEI)

study, most of Connecticut's state workers make far more in total current and deferred compensation than comparable private sector employees. This is driven in large part by Connecticut's unreasonable, unaffordable, unsustainable and unfunded pension and retiree health care obligations. These obligations alone exceeded \$47 billion at the end of Fiscal 2014.

Connecticut is already a net out-bound state and its tax base is eroding. A closer examination of migration data shows that a disproportionate number of higher income people are leaving the state while inbound residents are likely to be more dependent on public assistance programs. This trend is likely to increase absent a major change in Connecticut's spending, tax and regulatory policies.

Restoring fiscal sanity and sustainability in Connecticut will require major tax reform, regulatory relief, restructuring of state retirement programs, welfare eligibility and delivery reform, more competitive energy costs, and intelligent infrastructure investments. Achieving these reforms will require extraordinary leadership from the Governor coupled with a major fact-based and solutions-focused public engagement effort. It will also require outside assistance to conduct appropriate benchmarking and options analyses. Success can only be achieved by focusing on a set goals and values that will bring people together and can be used to help identify a set of non-partisan proposals that can achieve bipartisan support. In the interim, Governor Malloy committed in his re-election campaign that he would balance the budget without raising taxes. He also took an oath to uphold the Connecticut Constitution. Therefore, he should make it clear that he will "veto" any budget that the legislature sends to him that violates any of these commitments. His credibility is on the line.

Fortunately, leaders in several states are recognizing that it is only a matter of time before the federal government engages in comprehensive fiscal reforms. The resulting down draft will serve to exacerbate state fiscal challenges. As a result, these leaders are taking steps to restructure their state finances in a manner that is both equitable and sustainable. Given Connecticut's poor financial condition and competitive posture, it needs to join this group as soon as possible.

While current attention is focused on the pending biennial budget, the time has come to broaden and raise the fight for Connecticut's future above short-term and tactical budgets to also focus on the types of higher level, more strategic, and structural reforms that are needed in order to facilitate a dramatic change in course in the Constitution State. This includes granting Connecticut voters the right to recall state elected officials who violate the public trust and/or fail to honor their oath to uphold the Connecticut Constitution. It also includes giving Connecticut voters the right to petition for ballot initiatives on key state policy issues coupled with appropriate safeguards to prevent abuse of this important new right. With regard to the current legislative session, it also means passing HB05886 which will promotes "good government" and "home rule" principles in cities and towns throughout the state.

The people of Connecticut also have a role to play. They should take their voting right more seriously and dedicate themselves to electing more state officials who are committed to the three key principles of transformation, integrity and results. Specifically, we need more elected officials who will acknowledge the need for and commit to support that kind of transformational policy and process reforms needed to change course and create a better future in Connecticut. Leaders who have the integrity to tell the truth, the whole truth, and to honor their oath to the state constitution. Leaders who will judge the effectiveness of state government by the results (outcomes) of related state programs and policies rather than the level of inputs (e.g., spending levels) and outputs (e.g., regulations issued) involved.

Connecticut is a beautiful state with a proud history, a great geographic location, and an excellent quality of life. However, our state is at a critical crossroads and its future is clearly "at risk". It's time to recognize this reality and fight to create a better future for our state and its residents. It's time to quit putting band aids on open wounds. It's time to treat the disease rather than the symptoms. The time for action is now!

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