Pathway to

Sustainability

A long-term budgetary framework

CONNECTICUT SENATE REPUBLICANS

CONNECTICUT HOUSE REPUBLICANS

The Path We're On…

- Budgeting in one to two year increments has led to perpetual deficits and the need for routine deficit mitigation plans destroying any sense of the stability and predictability that our towns and businesses crave.

- This problem exists because of failed policies that have hampered job growth, suppressed wages and targeted employers as a quick fix for our financial woes.

	2017	**2018**	**2019**	**2020**	**2021**
Expenditures	$18,735	$20,087	$20,770	$21,667	$22,612
Revenue	$17,801	$18,473	$18,473	$19,036	$19,655
Balance	(**$935**)	(**$2,115**)	(**$2,297**)	(**$2,631**)	(**$2,957**)

(in millions)

A New Approach

- This is a long-term framework - a new way to approach state budgeting which is typically done in one to two year increments, and most recently, only months at a time.
- Because our future deficits are so massive, it is imperative we make fundamental changes to the way we budget. Doing so will give businesses, families, and municipal governments a state budget that is predictable and sustainable.

This is the Republican vision for a sustainable and predictable Connecticut.

Tackling Our Immediate Problem

- This plan closes a $935.7 million deficit for Fiscal Year 17 through a combination of policy changes and other spending reductions.
- The plan preserves the state's core services and programs including education and social services.
- At the same time, we find efficiencies in areas such as bonding to save hundreds of millions of dollars.

Protecting Core Services

- Restores Deficit Mitigation Plan cuts to **hospitals** and protects hospitals by moving funding outside of Medicaid.
- Does not reduce funding to **Department of Mental Health and Substance Abuse** grants, Day program funding, Regional Action Councils and Mental Health Boards, services for employment opportunities and community residential under DDS
- Restores and preserves funding for many **social service grants**.
- Restores **Education Cost Sharing** grant funding. Also protects education grants for early literacy, early care and education, school based clinics and Evenstart, to name a few.
- Provides 1% COLA to **private providers** effective April 1, 2017.
- 100% funding for the **motor vehicle tax cap** and increase statutory grants to **municipal aid** $31.6 million over the current fiscal year.

Savings Through Policy Changes

- Implement legislative givebacks including salary reductions and elimination of unsolicited mail
- Centralize state legal staff
- Prioritize and reduce bonding
- Privatize group homes
- Eliminate taxpayer funding for political campaigns
- Increase employee contributions for healthcare to 20% and increase copays for non-union state employees
- Achieve savings of $281.1 million in Personal Services – same as Governor Malloy. Include options for union concessions to avoid layoffs
- Implement overtime for accountability protocols

How We Solve the FY 17 Deficit

Personal Service Savings at Governor's Level	$ 281.1
12% Reductions to Select Appropriations	157.5
Elimination of PILOT and Sales Tax Revenue under MRSA	117.6
Net Impact of Debt Service Modifications	69.2
Require a Hard Wage Freeze for State Employees in FY 2017	63.6
Delay the Increase in the Transfer to the STF	51.9
Reductions of Cash Balances of Various Accounts	37.4
Reductions to UConn and UCHC	25.5
Eliminate Monies for Direct Care Workers at Nursing Homes	17.8
Reduction to CT Technical College System	14.1
Reduction to CT State University System	13.6
Eliminate Taxpayer Support of Political Campaigns	11.7

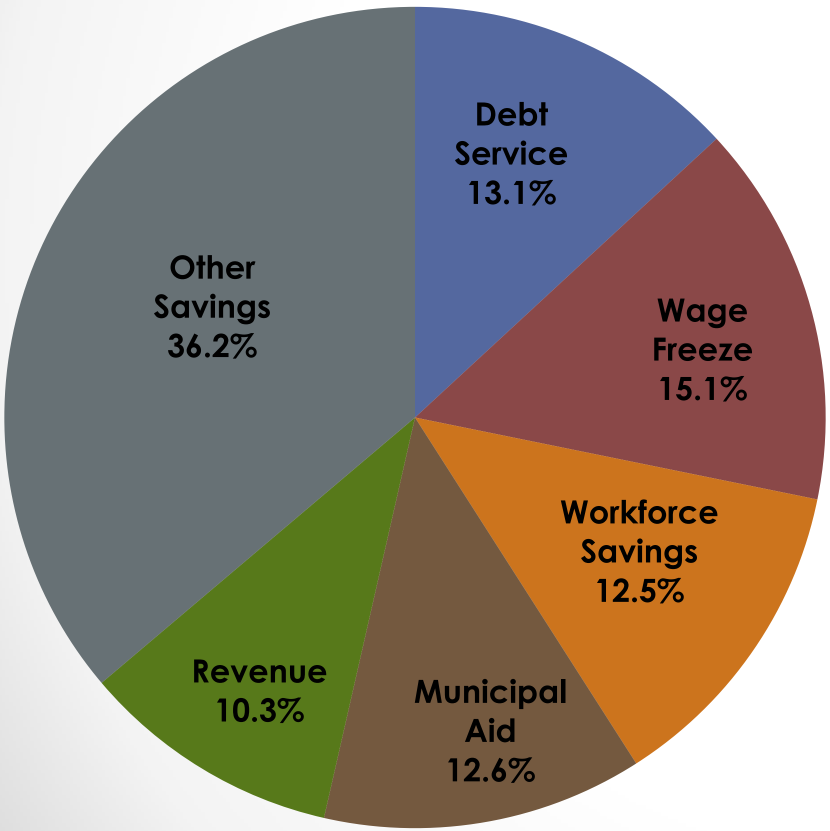
How We Solve the FY 17 Deficit

Closure of the UCHC Fire and Police Department	7.6
Eliminate Four Single Taxpayer Exemptions	5.7
Increase Health Premiums for Non-Union Employees to 20%	5.2
Provide a Private Provider COLA on April 1, 2017	3.9
Limit Expansion at Charter Schools to Grade Growth	3.5
Consolidate Attorneys under the Attorney General	3.4
Policy Changes to Legislative Salary, Franking, Committees	3.3
Reduce Board of Regents Central Office by Half	3.3
Creation of an Arts and Tourism Competitive Account	3.1
Eliminate the Legislative Commissions	2.8
Increase Co-Pays for Doctor Visits for Non-Union Employees by $5	2.8
Eliminate Legislative Earmarks under ECS	2.4
Increase Co-Pays for Prescriptions for Non-Union Employees	1.6
Net All Other	26.1
Total	$ 935.7

Beyond Next Year

The Republican Pathway to Sustainability

Where the savings come from…



Debt Service – Maintain Pre-Malloy bond issuance levels.

Wage Freeze– Three-year wage freeze. Salary increases resume in year four.

Municipal Aid – Five-year hold harmless.

Workforce Savings – Include Personal Services savings at the Governor's level.

Other Savings– Achieve savings by rolling forward deficit mitigation reductions, 12% reductions, and other policy savings.

Revenue – Retain corporate tax surcharge for one year, retain only mill rate cap from MRSA.

State Debt Situation

- Average annual issuance five years before Malloy was just under $1.2 billion.
- Since Malloy took office, average issuance has been more than $1.5 billion, including 2015, when bond issuance exceeded $2.2 billion.
- Current budget projections assume General Obligation bond issuances between $2.2 and $2.3 billion each year.

Reduce & Prioritize State Borrowing

Our Proposal: **Current annual borrowing projections are reduced by approximately $1 Billion each year.** Bond issuance will be reduced to typical levels prior to the Malloy Administration.

- Strengthen the state bond cap
- Reduce borrowing for corporate welfare – e.g. First Five
- Learn to prioritize projects. We can't do it all and must learn to say "no" more often
- Continue significant funding for transportation projects by implementing the Prioritize Progress initiative
- Preserve reliable bonding for core functions of government.

We must control sky-rocketing debt.
Connecticut's credit card is maxed out.

Cities & Towns

- Adopting budgets with no long-term plan for the future wreaks havoc on our local officials and their budget process.
- Recent proposals by the Governor and Democrats included significant reductions in municipal aid, and in some cases, the elimination of education funding. There is no predictability.
- With limited revenue and a long list of unfunded mandates, towns rely heavily on local property taxes to fund government. That means when the state fails to provide promised funding, towns have just one option to balance the downfall- increase property taxes.

Cities & Towns

Our Proposal: Provide municipalities predictability and hold core municipal aid harmless. The proposal restores cuts in recent Democrat proposals, including devastating education cuts. In addition, we are calling for long-overdue mandate relief for cities and towns:

- Eliminate local spending cap
- Change Minimum Budget Requirement – allow reductions when ECS is reduced
- Require State to adopt municipal aid by April 1st each year
- Require supermajority vote to adopt unfunded mandates
- Prohibit future contracts from limiting volunteerism that is beneficial to the town

See handout for more mandate relief

Workforce Savings

- **Pay Freeze –** Our proposal includes a 3-year pay freeze achieves annual savings of more than $450 million in the third year. Unless SEBAC concessions can be achieved, freezing pay is the only way the legislature could achieve meaningful budget savings from state employees.
- **Attrition –** Approximately 2,000 people leave state service each year. We should focus on achieving workforce reductions by not refilling vacated positions, as opposed to layoffs.
- **Layoffs –** Governor Malloy has begun the process of laying state employees. Unless union concessions are reached, layoffs will continue to accumulate and add to budget savings.
- **Personal Service Savings –** Our FY 17 budget includes $281 million in Personal Services savings related primarily to layoffs and attrition totaling 2,500 employees. This recommendation mirrors the Governor's budget.
- **Other Changes** – We recommend implementing findings of the Program Review & Investigations' report which identifies savings through greater use of private providers, such as expansion of group homes. We are also proposing to eliminate the permanent commissions and to reduce the number of state attorneys through consolidation.

Layoff Alternatives - Concessions

To avoid layoffs, Republicans recommend several changes to fringe benefits that will help bring benefits in line with what private sector companies offer to their employees.

State employee healthcare costs are projected to grow by more than 35% over the next 5 years. Retirement costs are expected to increase dramatically over the next 15 years as we grapple with colossal unfunded liabilities. We are proposing the following fringe benefit concessions as alternatives to layoffs:

- **Healthcare Premiums –** Increase premiums from 5% to 20%.
- **Dental Premiums –** Increase dental premiums by 10%.
- **Prescription Drugs** – Modifications to the co-pay for prescription drugs.
- **Employee Contributions –** Increase employee pension contributions to 4% for all non-hazardous duty employees.
- **Defined Contribution** – Require new hires to participate in a Defined Contribution Plan.
- **Overtime** – Eliminate overtime pay from the calculation of pensions. Savings unknown; needs actuarial analysis.

See handout for additional fringe benefit recommendations.

Revenue Proposals

- **Corporate Surcharge** – In FY 2019 eliminate the existing corporate tax surcharge on companies with $100 million or more in revenue
- **Municipal Revenue Sharing Account** – Eliminate MRSA; however, include 100% funding for the mill rate cap on cars.
- **Taxpayer-Funded Campaigns** – Eliminate funding for grants to candidates for political office, under the Citizen's Election Program.
- **Increase Property Tax Credit** – Beginning in 2018, the maximum Property Tax Credit would increase to $300 and 225,000 more people would receive the credit.

NO TAX INCREASES

Transportation Funding

- The Republican Prioritize Progress transportation financing plan makes transportation a top priority, while adjusting other capital investments, rather than borrowing more than we can afford to pay back.
- This no-tax, no-tolls plan would replace the governor's unfunded $100 billion plan.
- Prioritizing General Obligation bonds, the Republican plan would fully fund over $1 billion in state funds annually to transportation development.
- Over 30 years, this will allow Connecticut to fund over $70 billion in transportation needs without raising taxes or implementing tolls.

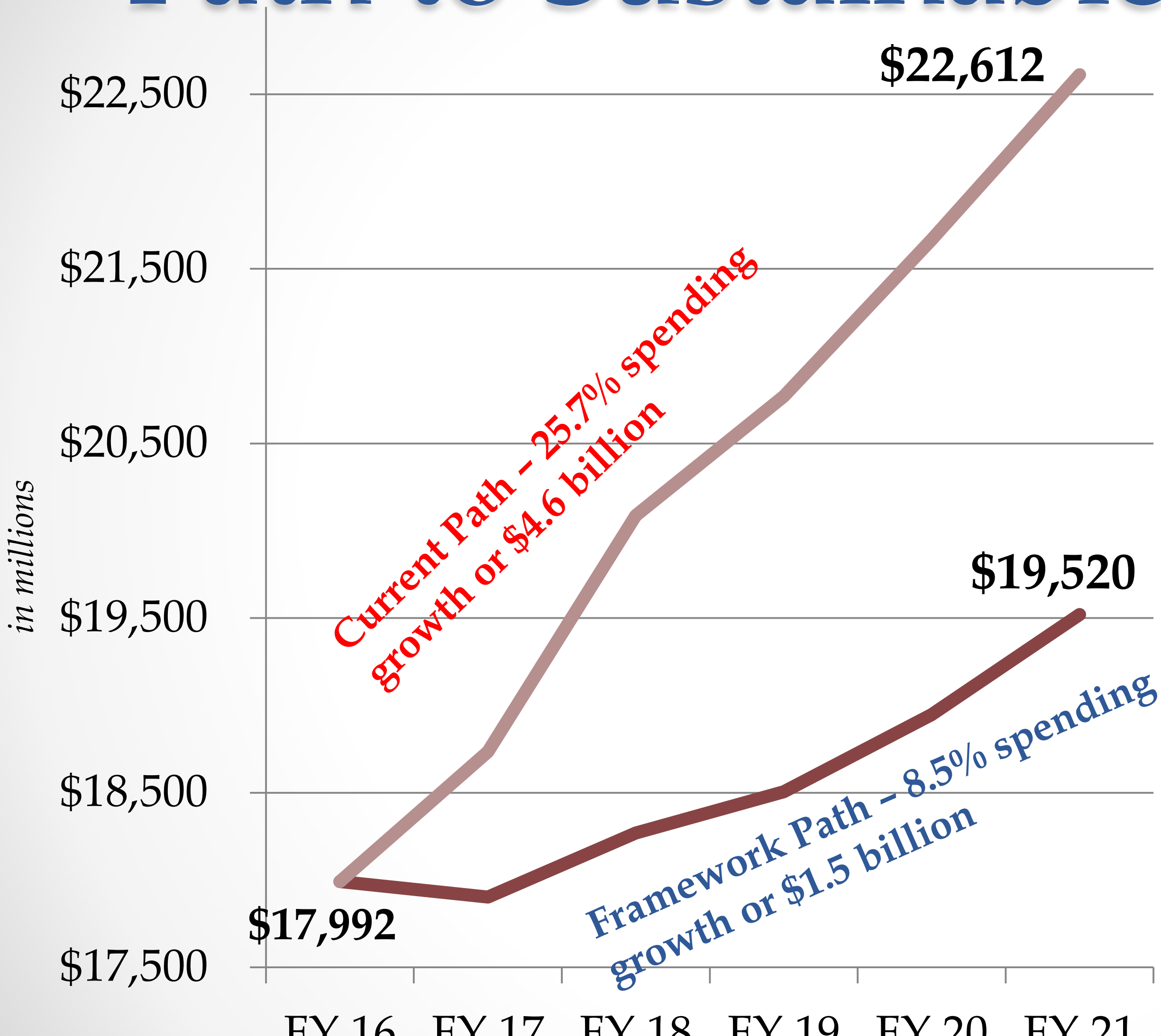
Other Long-Term Policies

- Long-Term Planning – A key to making long-term fiscal planning a bi-partisan effort is SB 268, which establishes a group charged with making recommendations for a long-term fiscal plan.
- State Auditors' Followup – Each agency is reviewed by State Auditors every two years. The Auditors highlight areas where agencies are out of compliance with statute or regulations. In HB 5247, we propose scheduling public hearings to allow agencies a chance to explain non-compliance and steps being taken to fix problems.
- State Electricity Costs – Currently, the State purchases electricity through "Standard Offer". We propose that state agencies find other ways to purchase and take advantage of lower costs offered by a healthy variety of suppliers. (SB 334)
- Reduce Fastrak Subsidy – Currently, the federal government covers 80% of the operating cost of busway. Once federal support runs out – in two years – the operating cost will fall on state taxpayers. We need to find a way to protect taxpayers from this additional burden.

Impact of Framework Changes…

OFA Projected Deficit (in millions)				
	FY 2018	FY 2019	FY 2020	FY 2021
Spending	$ 20,087	$ 20,770	$ 21,667	$ 22,612
Revenue	$ 17,972	$ 18,473	$ 19,036	$ 19,655
Surplus/(Deficit)	($ 2,115)	($ 2,297)	($ 2,631)	($ 2,957)
Proposed Framework				
Spending Modifications	$ 1,817	$ 2,264	$ 2,720	$ 3,092
Revenue Changes	$ 322.5	$ 259.1	$ 263.3	$ 280.5
Total	$ 2,140	$ 2,523	$ 2,983	$ 3,373
Annual Surplus	**$ 25**	**$ 226**	**$ 352**	**$ 416**
Cumulative Surpluses	**$ 25**	**$ 251**	**$ 603**	**$ 1,019**

Path to Sustainable Growth



Predictability

EQUALS

Confidence

EQUALS

Jobs

A Brighter Day – Surplus Options

The Republican long-term framework turns multi-billion-dollar deficits to surpluses. After five years, the cumulative surplus would be more than $1 billion.

<u>Options for using surplus:</u>

- Roll back Democrat tax increases
- Bolster the Rainy Day Fund
- Pay down debt/long-term liabilities
- Eliminate nuisance taxes
- Increase funding for Mental Health
- Increase municipal aid