Governor Malloy's Recommended FY 2014-FY 2015 Biennial Budget

Highlights – Items of Significant Note

- The Governor is recommending an all funds biennial budget of $43.8 billion that **increases General Fund spending by $1.8 billion or 9.7% over two years**.

	Est. Expend	Rec. Approp		FY 2013-FY 2015	
	FY 2013	FY 2014	FY 2015	%	$
General Fund	$ 19,043.9	$ 20,110.0	$ 20,888.0	9.7%	$1,844.1
All Funds		$ 21,478.0	$ 22,322.0		

- **The Governor's budget is not under the Expenditure Cap** as it excludes $3.3 billion of expenditures over the biennium that should be subject to the cap from the calculation (the net impact after rebasing is $742 million over the biennium). The Governor is proposing that the following changes be made to the calculation of the spending cap:
    - That the component of the state's ARC payment for the Teachers Retirement Fund and State Employees Retirement System that does not fund the normal cost, hence the component that funds the unfunded pension liability) be exempted from the cap calculation. On average about 25% of the ARC payment is the normal cost component while 75% is the unfunded component.
    - That those programs that are 100% federally funded moving forward be exempted from the cap.
- The Governor is proposing issue $750 million of bonds to partially finance the GAAP deficit.
    - While issuing these bonds will save the General Fund $50 million in the next two years it will increase the annual cost to fund the amortization of the GAAP deficit by $22 million in each year between FY 2016 and FY 2028. **This is a total cost increase to the state taxpayers of $186 million over the next fifteen years.**
    - By doing this you are converting debt you owe yourselves to debt that you will now owe to other people.
    - This bond debt is simply to provide additional cash to the state in this biennium. These bonds are not tied to a capital project that has a life expectancy beyond the life of the bond. These bonds are a means to infuse cash into our common cash pool. Like all bonds, the state will pay interest on these bonds.
    - The debt service on this $750 million will start in FY 2016
- The Governor is proposing to refinance the state's existing debt from the 2009 Economic Recovery Notes and extend those notes by two years.
    - **This refinancing will cost the state taxpayers $31 million** in additional debt service costs.
    - This deferral will net the General Fund $150 million in FY 2014 and FY 2015 by reducing debt service costs in the short-term.
    - This is the same debt that should have been paid down with the $222.4 million that was utilized to finance the FY 2012 deficit costing Connecticut taxpayers another $9 million.

- The Governor seeks to exempt from local property taxation vehicles with market values that are under $28,571 (the first $20,000 of a vehicle's assessed value).
    - This exemption would be voluntary in FY 2014 and mandatory in FY 2015.
    - This exemption is estimated to cost a total of $560 million statewide annually.
    - **<u>The Governor does not reimburse municipalities for this lost revenue.</u>**

Revenue

- The Governor's $462 million in FY 2014 revenue package includes:
    - The extension of the following taxes that were set to expire at the end of this fiscal year (proposed to be extended through this biennium)
        - 20% Corporation Tax Surcharge
        - The Electric Generation Tax – including the closure of the tax "loophole"
        - The continuation of the Insurance Tax Credit tax liability cap reduction at 30% (from 70%)
    - A $74 million transfer from the Special Transportation Fund to the General Fund in FY 2014 (one-time revenue item)
    - $80 million in revenue from the state "auctioning off" rights of standard offer electric customers (one –time revenue item)
        - There are approximately 800,000 individuals that currently get electricity from the standard offer (CL&P and UI)
        - The state will auction off the rights to sell those individuals power while requiring that the new company provide a 5% reduction in costs for one year
        - The state will receive $100 per customer
    - A $30 million sweep of CRRA reserves that were for landfill closures (one-time revenue item)
    - A 5% reduction in the EITC in FY 2014 (from 30% of federal to 25% of federal) with a 2.5% increase in FY 2015 (from 25% of federal to 27.5% of federal)
    - $15 million in Sales Tax revenue anticipated to be collected from Amazon
    - $25 million in revenue from a proposed tax amnesty
- In FY 2015 the Governor is proposing to phase in the sales tax exemption for clothing and footwear with the implementation of a $25 exemption.

Municipal Grants

- The Governor is recommending many changes to municipal grants. With the elimination of operating grants, he is "making up" for the lost operating revenue with bond funds.
- ECS is recommended to increase by $50.8 million in FY 2014 and then $101.5 million in FY 2015.
    - The increase in FY 2015 of $101.5 million is actually from current services, the actual appropriation difference between FY 2014 and F Y2015 is $66.3 million. When you back out the Pilot transfer discussed below it is a decrease of $7.3 million from FY 2014.

- The state-owned Pilot program is proposed to be eliminated with the $73.6 million of funds transferred to the ECS line item.
  - State-owned Pilot compensates municipalities for all or a portion of lost taxes that towns cannot collect from state-owned properties; i.e. the City of Hartford currently collects a $12.6 million Pilot appropriation for state owned property including the Capitol and LOB.
  - By shifting the value of a municipality's State-Owned Pilot Appropriation to ECS, the Governor is restricting how municipalities can spend the money. The money will no longer be classified as general state aid; it will ONLY be able to be used for education purposes. This is likely to create conflict and budget shortfalls in some Connecticut towns.
  - Towns will be able to reduce their appropriation to education to offset this increase.
  - ECS will be distributed by a modified formula that was recommended by the ECS taskforce. The formula will be phased in and has been modified to fund Alliance Districts more aggressively.
  - All towns will receive at least the same amount that they received in FY 2013.
- The Mashantucket Pequot grant is proposed to be converted from an operating grant that is appropriated to a capital grant (except for those towns that host the casinos). This $60 million that is newly bonded will be added to the existing LoCIP bond fund program.
  - From a municipal perspective their hands will be tied as they will no longer be receiving a straight operating grant from the state but instead will be receiving additional capital expenditure support.
- The Governor is proposing to continue to fund the Town Aid Road grant through bonds funds (as has been done over the past two years). In addition, the funding for this program is proposed to be doubled.
- The newly established Municipal Revenue Sharing Account is also proposed to be eliminated. This account was recommended by the Governor in his last biennial budget as a revenue-sharing mechanism that first reimburses municipalities for lost Manufacturing Machinery and Equipment with the remaining funds being distributed as general property tax relief. This account received 1.57% of the revenue collected from the 6.35% sales tax, 1.43% of the revenue received from the 7% luxury tax, as well as 20-33% of the revenue received from the real estate conveyance tax.
  - The General Fund will net $92.4 million in FY 2014 and $97.9 million in FY 2015 from the elimination of this account.
- In order to achieve his statement that all towns will receive the same amount of state aid in FY 2014 as they did in FY 2013 he recommends a hold harmless appropriation which will make up the difference for municipalities between what they received in FY 2013 and what he recommends in FY 2014 between operating and new bonding programs. Despite his statements that all towns remain whole, the Governor does not make up the $560 million in lost car tax revenue.

Other Items

- All of the rescissions and expenditure reductions enacted in Deficit Mitigation have been rolled forward including all of the cuts to the hospitals.
    - State funding to hospitals is proposed to reduce by $208.1 million in FY 2014 and $342.3 million in FY 2015.
- The Governor is seeking to combine (and reduce) all of the scholarship grants into a new program known as the Governor Scholarship Program. This program will have components that will be distributed based on need and merit. The need based allocation will be the same no matter what type of school you go to, rather it be public or private.
    - The Governor proposes to reduce the total amount available for student financial aid by approximately $4 million annually.
- After reducing the state's contribution for teachers' retiree health costs last year, the Governor is now proposing that the state not contribute to the Teachers' Retirement Health Fund, directly contradicting his statements that he is fully funding the state's long-term obligations for health and pension expenses.
- The Governor's budget does not make a supplemental payment to the State Employees Retirement System as he announced he would do in January 2012.By not doing so the Governor cannot continue to claim that he saved the pension funds $6 billion.
- The budget includes $125 million to fund the 3% wage increases (plus step increases) that are due to union employees as result of the SEBAC 2011 agreement as well as to give managers a 3% wage increase as well.
- The budget includes $500,000 in savings annually for mandating the electronic filing of business tax returns. This initiative may negatively impact Connecticut's small businesses who file their returns in paper.
- The budget transfers approximately $20 million annually in "Pay as you go" transportation projects to bonding, once again shifting operating expenses to bonding.
- In order to be able to sweep the $30 million in CRRA reserves, the state needs to assume maintenance and liability of CRRA closed landfills. As such the budget appropriates $1.1 million annually to cover this new state-assumed expense.
- The budget appropriates another $3,525,000 annually for statewide marketing initiatives. This is after the state expended $25 million on this initiative in the last biennium. It is unknown if these funds will go to an out-of-state company as well.
- The Governor's budget assumes $120 million in savings over the biennium from the detection of Medicaid fraud.
- The budget recommends the transfer of funding for the statewide human resources function that is currently managed by the Department of Administrative Services to the Office of Policy and Management. This modification will have large policy implications as it will eliminate a "check" on administrative actions that are pursued by the Governor.
- The Governor is proposing to eliminate 7 agencies bringing the total to 53 with an associated savings of $5.5 million in each fiscal year.