

Alternative Budget Adjustments FY 2015 Midterm



Budget Gimmicks: Governor Malloy Quotes

“Too much borrowing over the years for ongoing expenses is one of the reasons we’re in the bad shape we’re in.”

“...we’re finally going to require the state to do what it requires all 169 cities and towns to do: be honest and transparent about the way it keeps its books.”

“We brought honesty and transparency to the state’s books.”

“...we made our budget honest, transparent, and built to address Connecticut’s long-term obligations”

“THE BUDGET I am proposing today keeps Connecticut moving toward that destination.”

“It follows the simple principles we agreed on two years ago – passing an honest, balanced budget; living within our means; making government smaller and more responsive; and sticking to our plan for growing Connecticut’s economy.”



What is a Budget Gimmick?

In both the adopted budget and proposed budgets, Governor Malloy and Democrats included “techniques” to hide the true cost of government spending. Here are a few of the most common gimmicks:

- Fund raid – Take money from off-budget accounts to help pay for budgeted spending
- Delayed payments – Artificially reduce the amount of spending by pushing current year payments out into future years
- One-time revenue – Use temporary revenue sources to fund program expenses that will continue into future years ... building holes in future budgets



Examples of Current Budget Gimmicks

Used to Create Budget “Surpluses”

<i>Gimmicks (in millions of dollars)</i>	<i>FY 2015</i>
Economic Recovery Notes (Delayed payment)	\$196.0
Special Transportation Fund (Fund raid)	18.4
Tobacco Health Trust (Fund raid)	6.0
Pre-trial Alcohol to RACs (Fund raid)	1.7
FY 13 “Surplus” (One-time revenue use)	30.0
MRSA Revenue to General Fund (Fund raid)	41.5
Municipal Video Competition Fund (Fund raid)	5.0
Keno (Revenue gimmick)	13.5
Public Education and Government TV Programming (Fund raid)	3.5
Clean Energy Finance & Investment Authority (Fund raid)	19.2
Total – Gimmicks	\$334.8



New Gimmicks Proposed in Democrats' Budget

because at least \$334.8 million of gimmicks just wasn't enough

Gimmicks (in millions of dollars)

Magnet Schools (Underfunded by Democrats and the Governor)	\$18.8
Retiree Healthcare (Underfunded by Governor; Democrats use one-time revenue from FY 2014 to fund the expense in FY 2015)	51.0
Higher Education (Revenue intercept – spends money, but does not count the money as an appropriation in the budget)	60.0
Immunization Funding (Transfer spending to another fund - the Insurance Fund)	31.0
DRS Tax Refund Administration (Use of one-time revenue from FY 2015 to fund the expense in FY 2015)	1.7
Governor's \$55 Tax Rebate (Political gimmick)	156.7
Other Irresponsible Spending (Use of one-time revenue from FY 2014 in FY 2015)	11.7
Moving Yet More Operating Expenses to the State's Credit Card	5.9

Total - Gimmicks

\$336.8



Spending Money We Don't Have

What's in the Democrats' Budget...

- Creates more than 400 **NEW** state employee positions
- Adds millions in irresponsible spending
- Creates bigger problems in future budgets by increasing projected deficits
- In total, the Democrats' budget includes \$827.4 million in one-time gimmicks
- Connecticut's budget is structurally unbalanced – the state does not have the revenue streams needed to continue to support this recommended level of expenditure
 - More tax increases are on their way!



Republican Alternative Budget Adjustments

Brings Connecticut Down a Different Path

- Eliminates Gimmicks
- Reduces Spending
- Reduces the Projected Out-Year Deficit
- Under the Cap
- Balanced
- Reduces Long-Term Liabilities
- Provides Modest Tax Relief
- Provides Additional Spending in Critical Areas
- Increases Municipal Aid



Republican Alternative Budget Adjustments

How we get there in the General Fund...

Original Budget Appropriation - The amount of spending in the FY 15 budget passed last year. \$17,497.6

Current Service Adds - Required spending additions since the FY 15 budget passed last year (due to caseload increases or other factors). 186.9

Current Services Reductions - Less spending required compared to what was expected when the original FY 15 budget was adopted last year. (204.9)

Policy Additions - Additional appropriations to fund areas of the budget we believe are in critical need. 45.1

Policy Reductions - Less appropriations due to decisions made that will have little (or no) impact on core state services. (53.8)

Total Alternative General Fund Spending \$17,470.9



Republican Alternative Budget Adjustments

Un-Doing Enacted FY 2015 Gimmicks

*GF Revenue
Loss*

Reinstitute the Municipal Revenue Sharing Account	(\$26.0)
Deposit FY 2013 Surplus Carryforward in Budget Reserve Fund	(30.0)
Return Monies to Clean Energy Finance and Investment	(19.2)
Return Monies to the STF	(18.4)
Eliminate Keno	(13.5)
Return Monies to the Tobacco and Health Trust Fund	(6.0)
Return Monies to the Municipal Video Competitiveness Acct	(5.0)
Return Monies to the Public, Education and Gov't Account	(3.5)

Total Reduction in Revenue to Remove Gimmicks	(\$121.6)
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Republican Alternative Budget Adjustments

Municipal Aid

“I simply refuse to balance the state’s budget on the backs of our local taxpayers.”

- Governor Malloy, 2012 – 2013 Biennial Budget Address

- Governor Malloy and Democrats pass tax increases – sales tax, conveyance tax, hotel tax, and luxury tax – under the guise of property tax reform. The money \$98 million would go back to cities and towns through the Municipal Revenue Sharing Account (MRSA).
- To save money, the Governor completely eliminated the account but kept the revenue in the General Fund to help cover the deficit.
- Last year, the Democrats bonded \$57 million of the \$98 million for towns. Municipalities lost the remaining \$41 million.

We are proposing to help the Governor keep his promise by restoring the Municipal Revenue Sharing Account



Republican Alternative Budget Adjustments

Additions to Funding to Address Critical Program Needs

Maintain Primary Care Increased Provider Rates	\$ 15.1
Provide Monies for the American Legion/SSMF Administration	0.6
Provide Funding for the Reduction of the ABI Waiver Waitlist	0.7
Expand the Katie Beckett Program	0.8
Provide an Increase to Vocational Education	1.5
Provide 1% COLA for Home Care Services	3.3
Provide Funding for DDS Waiting List- 100 Individuals Half-Year Funding	4.4
Restore Fully Funding to Retired Teachers Health Care	9.1
Provide Funding to Maximize Federal Revenue	0.2
Provide Funding for Governor's Mental Health Initiative	3.1
Re-Open Eligibility to Renters' Rebate Program	<u>6.5</u>
Total Recommended Policy Additions	\$ 45.1



Please note: numbers may not add due to rounding



Republican Alternative Budget Adjustments

Revenue Policy Changes

Phase-In the Elimination of Taxation on Pension Income

Beginning at a 5% exemption for all income under \$100k for joint filers and \$50k for single filers (\$19.6 million in FY 2015)

Expand the Manufacturing Apprenticeship Program (\$700,000 annually)

Eliminate the Earned Income Tax Credit Program

This program piggybacks off of the federal program by the same name which has been found by the Treasury Inspector General to consistently have the highest level of fraudulent payments made (\$120.7 million in FY 2015)



Republican Alternative Budget Adjustments

Use of Excess Revenue

Reducing Long-Term Liabilities

Economic Recovery Notes

Last year, Democrats delayed two years of debt payments to save \$196 million each year of the two-year budget. We are proposing to use FY 2014 excess revenue to make a payment of \$196 million this year and an additional \$150 million payment in FY 2015. These debt payments will result in millions of dollars in unnecessary interest costs being alleviated from the responsibility of state taxpayers.

State Employee Pensions

This proposal includes an additional \$100 million payment into the underfunded State Employee Pension Fund.



Republican Alternative Budget Adjustments

Use of Excess Revenue

Modest Tax Relief

Sales Tax Exemption on Clothing and Footwear

Accelerate restoring the exemption from June 2015 to July 2014 (\$133.1 million)

Unemployment Fund Special Assessment

Use excess revenue to pay the interest portion of the state's debt to federal government (\$59 million)

Sales Tax Exemption on Non-Prescription Drugs

Restore the sales tax exemption eliminated by Democrats in 2011 (\$16.5 million)



Republican Alternative Budget Adjustments

How Does this Budget Compare?
(in millions)

	Revenue	Spending	Balance
Alternative Adjustments General Fund	\$17,522.6	\$17,470.9	\$51.7
<i>Spending Comparisons</i>		General Fund	All Funds
Appropriations Committee (Democrats)		\$17,514	\$19,045
Governor Malloy		17,496	19,033
Original Enacted		17,498	18,995
Republican Alternative		17,471	18,979

In the General Fund, the Alternative Budget Adjustments are:

- \$25.3 million below Governor Malloy's Recommended Adjustments
- \$26.7 million below the current enacted budget for FY 2015
- \$42.7 million below the Appropriations Committee Recommended Adjustments

