



**Dannel P. Malloy**  
GOVERNOR  
STATE OF CONNECTICUT

October 31, 2017

The Honorable Denise W. Merrill  
Secretary of the State  
30 Trinity Street  
Hartford, CT 06106

Dear Madam Secretary:

Attached hereto is Emergency Certified Bill 1502, *An Act Concerning the State Budget for the Biennium Ending June 30, 2019, Making Appropriations Therefor, Authorizing and Adjusting Bonds of the State and Implementing Provisions of the Budget*. I am affixing my signature to Emergency Certified Bill 1502, and I am also exercising my authority in the form of a line item veto for distinct items of appropriation, together with my reasons for such disapproval set forth more fully below.

## INTRODUCTION

Connecticut has been more than 120 days without an approved budget and is the last state in the nation to enact a budget this year. Our residents, businesses, towns and school boards need and deserve a budget in place if we hope to achieve certainty and stability, grow our economy, and continue moving Connecticut forward.

I say 'hope' because while this budget avoids repeating many of the fiscal mistakes of our past, even with this modification of the budget, I have real concerns about the state's ability to remain in balance this biennium, as well as concerns about the out-year deficits that this budget exacerbates. With those concerns in mind, this letter will also serve as a statement of both my reasons for signing the budget into law, and an outline of numerous areas of the budget my administration will monitor and manage as the year unfolds. In order for the budget to remain in balance, the legislature may need to address these concerns in the near future.

## MOVING CONNECTICUT FORWARD

This budget makes significant progress in achieving a number of goals that my administration has championed throughout my time as Governor, including specific initiatives introduced and advocated for in the 2017 Regular Legislative Session as well as the June Special Session. In fact, more than 70 percent of the expenditure items in this budget identically match the expenditure levels recommended in my October budget.

In addition to those line item allocations, I am particularly appreciative that the General Assembly included the following policy changes and appropriations in this budget:

- The creation of the Municipal Accountability Review Board will provide the critical tools to help Hartford avoid bankruptcy and assist other cities and towns to avoid fiscal emergencies.
- For the first time in more than three years, the legislature provided education funding based on a formula that recognizes that resources should be allocated according to the needs of a district and its students. The new formula is a step in the right direction by recognizing the impact of poverty and English language learners in our urban schools.
- Changes to the insurance premium and estate taxes will make Connecticut more competitive with surrounding states and make us a more desirable place to work and live.
- This budget further recognizes the need to help homeowners address the devastating effects of crumbling foundations.
- This bill includes a number of good structural changes, including implementing a constitutional cap on spending, offering mandate relief for municipalities, and requiring the legislature to vote on all collective bargaining agreements (a proposal I introduced during my first year in office).
- This budget fully funds the Criminal Justice Information System, which improves the management and sharing of data on crime and criminal offenders, supporting our continued efforts to reduce crime in Connecticut.
- It recognizes the importance of housing stability by funding rental assistance certificates for the elderly and disabled to live in their communities and maintains funding for homeless youth.

It is also worth noting what was *not* in this budget. During the course of this session, a number of budget proposals were put forth by the various caucuses, and a Republican-led budget was passed to my desk. Many of the more damaging aspects of those proposals were removed from this budget, allowing me to sign it into law, including:

- I have consistently said that I would not sign a budget that underfunds our pension systems and this budget fully funds the actuarially required contributions for the Teachers' Retirement Fund and the State Employees' Retirement Fund.
- Compared to the budget I received and vetoed in September, this budget restores funding to the University of Connecticut (UConn) and other state colleges and universities, although not to the degree I would prefer (more on higher education below).
- This budget did not raid the "Rainy Day Fund" or the Special Transportation Fund.

- Proposed taxes on cell phones and second homes were not adopted in this budget, as consistent with the compromise budget proposal I put forward in October.
- While this budget contains more lapses and one-time revenue than I would prefer, it is balanced predominantly with identified spending reductions and allocable lapses.

I recognize that many of the spending cuts contained in this budget are difficult for legislators, and for me, and I commend the members of the General Assembly on both sides of the aisle for finding common ground on these difficult decisions. I asked that they deliver a budget that is fair, balanced, and free of gimmicks. This budget, taken as a whole, addresses those concerns.

While this budget may be a step in the right direction, it is by no means a perfect document and it is not one that I would have negotiated. As stated above, there are a number of areas where I have very real concerns relating to policy disagreements, my administration's ability to achieve the mandated savings, or both. I believe it is incumbent upon my office to make those concerns clear in this document, and as such, I have described them below. It is my hope that by bringing awareness to these concerns as I sign the bill in to law, a foundation can be laid for future conversations about these significant matters.

### **DAMAGING ENERGY SWEEPS**

The budget proposes sweeps from the Green Bank (\$28 million), the Energy Efficiency Fund (\$127 million) and the Regional Greenhouse Gas Initiative (\$20 million). These sweeps all require the state to take and deplete ratepayer funds intended to lower energy costs overall through investments in efficiency and conservation, and instead, use them to fill the General Fund coffers.

It is my firm belief that these sweeps will increase Connecticut residents' and businesses' energy costs, will curtail hundreds of millions of dollars of private investment in Connecticut, will hamstring a growing alternative energy and energy efficiency industry that employs thousands of Connecticut residents, and will eliminate a crucial set of tools for helping businesses in the state with cost-saving energy investments.

I strongly oppose these energy sweeps and renew my call on the legislature to find recurring cuts in state expenditures to replace these short-sighted, one-time revenues. In the coming weeks, I will outline more specific ideas to address these cuts, avoid their immediate negative impact on consumers, and ensure Connecticut can maintain its commitments to clean energy investments in the energy marketplace.

### **CUTS TO ECONOMIC DEVELOPMENT**

Connecticut has seen significant success in job growth and retention in recent years, in part through the successful implementation of a number of state economic development programs. This budget reduces or eliminates funding for many of those programs, substantially weakening economic development efforts statewide. Specifically, the budget negatively affects the following programs:

- The Small Business Express (EXP) program, the state's first program exclusively for small businesses, is cut by \$5 million in year one and funding is entirely eliminated in year two. This program has been used by over 1,800 companies in 160 of Connecticut's towns to retain and grow employment in the state. These companies are expected to retain more than 20,000 jobs and create more than 7,500 new jobs.
- The Manufacturing Assistance Act (MAA) was cut by \$50 million in the second year of the biennium. The Department of Economic and Community Development (DECD) is currently actively working on significant opportunities which would bring thousands of new employees to the state. This work will be undercut by this budget.
- Funding for the Manufacturing Innovation Fund (MIF) is reduced by \$10 million and is further encumbered by a requirement to fund Connecticut Center for Advanced Technology (CCAT) for \$3.5 million per year, leaving the fund with \$5 million in year one and \$3 million in year two.
- This budget also contains damaging changes to the state's ability to effectively compete for businesses seeking to relocate to or expand within our state. This budget requires that prevailing wage apply to the entirety of all private projects that receive \$1 million or more in total financial assistance from DECD in either tax credits, loans, or forgivable loans. This will undoubtedly make competing for businesses significantly more challenging and will place us at a competitive disadvantage with other states.

Connecticut's good work on economic development must continue. In the months ahead, my administration will work with the General Assembly to explore alternatives to these cuts, and to ensure that our economic development efforts are not stalled, but expanded to the benefit of towns and cities across the state.

## **CUTS TO HIGHER EDUCATION**

While it is positive that the cuts to higher education are less devastating than previously proposed, make no mistake that these cuts will be damaging.

These cuts will reduce the number of required classes offered each semester. When required classes are unavailable, students face delayed graduation dates and greater debt. Services students rely on will be eliminated or curtailed. Of particular concern to me are the sizable lapses included in the budget that cannot be achieved without being applied on top of the cuts already endured by both the University of Connecticut (UConn) and the Connecticut State Colleges and University (CSCU) systems.

Our higher education institutions are important economic drivers for Connecticut – local businesses are dependent upon their graduates for their workforce. Even somewhat restored, these cuts will damage the quality and the reputation of the education our students were promised. Reductions such as these signal to the business community that talent development is not a priority.

## CONCERNS RELATING TO STRUCTURAL BALANCE

While the budget appears balanced during the current fiscal year and next, there are areas of concern on both the revenue and expenditure sides during the biennium, and troubling structural deficits exacerbated in the out years.

All who are involved in the Connecticut state budget process know that the state will face some challenging years in the coming decade as we pay down the massive unfunded liabilities in both the state employee and teacher pension funds, and potentially pay for what may be a multi-billion settlement with hospitals. This budget makes these known problems worse, because part of the gap was closed using one-time savings or revenues, and also because the legislature has enacted significant tax cuts to take effect after 2019.

During the biennium, the budget includes the following items, which could potentially result in operating deficits, and will need to be closely monitored as the year progresses:

- The budget includes approximately \$80 million in revenue over the biennium that the administration believes could be over-estimated, or which comes from an unspecified source. Examples include assuming new revenue from \$8 million in legal settlements that has already been included in consensus revenue, as well as \$50 million in transfers, tax credit reductions, and fees that are not specifically authorized in the implementing legislation.
- The budget underfunds the Department of Children and Families' efforts to comply with the federal court order under the Juan F. case by \$20.7 million over the biennium. The state is likely to be required by the court to spend beyond the appropriated levels, *resulting in deficiency in that agency.*
- The budget does not include funds requested – \$19 million over the biennium – to fund an agreement between the state and District 1199 SEIU covering home health workers funded by DDS and DSS. That agreement is expected to be submitted to the legislature for approval in January and, if approved, it will result in a deficiency in those agencies.
- The budget cuts \$3.0 million over the biennium to operate CTfastrak between Hartford and UConn. Because the state has already received payment from UConn students as part of an agreement to provide the service with partial funding coming from student fees, the service must continue, producing a deficiency within the Special Transportation Fund.
- Sweeps and commitments from the Tobacco Trust Fund exceed available resources by \$2.25 million over the biennium.

This budget exacerbates Connecticut's out-year structural deficits. The OFA fiscal note on the budget identifies out-year deficits in the General Fund of \$1.9 billion, \$2.7 billion, and \$3.2 billion respectively over the three years immediately following the biennium. Some of the major new contributors to this out-year problems include:

- More than \$210 million in one-time revenues in FY 19, all of which will have to be replaced in FY 20 with recurring new taxes or spending cuts.
- \$1.02 billion in other structural holes for FY 20. The largest of these is a scheduled drop in hospital taxes if no global settlement can be achieved. In addition, this budget contains

significant new tax cuts for pensioners, property taxpayers, and graduates from STEM programs, as well as new out-year sweeps and transfers scheduled to take effect, including a \$343 million transfer of sales tax revenue to the Municipal Revenue Sharing Account, even though the transfer is as unlikely to be affordable in the next biennium.

- Undetermined revenue losses from the “seven-seven” program which provides broad tax exemption for firms that undertake any environmental remediation. This program lacks meaningful policy considerations to make it beneficial to the state. Qualified properties under this program include any site that has been vacant or underutilized in ten years, whether contamination is present or not. These types of broad definitions will undoubtedly lead to a virtually endless list of qualified properties and will erode our General Fund. This program could force taxpayers to subsidize a business’s relocation without spurring any additional economic benefit in the form of a return on investment. This program fails to require job creation and it fails to encourage affordable housing development. A program that creates an unlimited amount of uncapped benefit paid for by the taxpayers without guaranteeing a return on investments is irresponsible.

Additionally, the budget leaves questions unanswered on key areas of municipal aid:

- It creates an unfunded mandate in the Renters’ Rebate Program, which affects 50,000 renters statewide, by shifting responsibility to localities to administer this program without including the funds necessary to run the program - and stranding \$13 million a year at OPM without providing the ability to distribute those funds.

This bill fails to properly connect the appropriation for Municipal Transition Grants (\$36 million in FY 18 and \$15 million in FY 19) with the changes to the car tax articulated the bill.

## ILLEGAL HOSPITAL TAX

In signing this budget, I am also exercising my authority to disapprove certain distinct items of appropriation.

Pursuant to Section 16 of Article Fourth of the Constitution of the State of Connecticut, I have signed Emergency Certified Bill 1502, but I have exercised my authority, pursuant to said Section 16, to disapprove of the following items in Section 1, each of which makes a distinct appropriation of funds: \$598,440,138 in fiscal year 2018 for Hospital Supplemental Payments and \$496,340,138 in fiscal year 2019 for Hospital Supplemental Payments.

The provider tax on the hospitals and ambulatory surgery centers included in this budget is fundamentally flawed and is in violation of federal law. The bill impermissibly conditions the payment of the tax to the hospitals to the receipt of supplemental payments. The tax impermissibly establishes an unacceptable tax rate. Additionally, this bill requires the state to pay to certain hospitals the sum of \$1.09 billion in supplemental payments when it is unlikely that the revenue from the provider tax will ever be collected. The probability that the state will face a large and looming deficit is too great a risk and the uncertainty created shatters any illusion of fiscal stability achieved by this budget.

As I have made abundantly clear to legislative leaders and to the public, it is my hope and belief that a responsible, legal solution for this problem can be enacted by the General Assembly. In fact, my administration has provided such language to the legislative caucuses.

In summary, Section 16 of Article Fourth of the Constitution gives me authority to disapprove of individual appropriations in this bill, which makes appropriations of money embracing distinct items. In order to address the establishment of a hospital tax that violates federal law and creates an obligation for the State to provide supplemental payments to hospitals of \$1.09 billion over the biennium, I hereby exercise that authority by disapproving of the above-noted items of appropriation within Emergency Certified Bill 1502, *An Act Concerning the State Budget for the Biennium Ending June 30, 2019, Making Appropriations Therefor, Authorizing and Adjusting Bonds of the State and Implementing Provisions of the Budget.*

Pursuant to Section 16 of Article Fourth of the Constitution of the State of Connecticut, this letter serves as the statement accompanying my signature and reasons for signing, and as my statement of the items disapproved, together with my reasons for such disapproval.

Very truly yours,



Dannel P. Malloy  
Governor