



STATE OF CONNECTICUT
EXECUTIVE CHAMBERS

DANNEL P. MALLOY
GOVERNOR

GOVERNOR'S OFFICE

October 31, 2017

BILL NOTIFICATION
RELEASE No. 19

For Immediate Release

Governor Dannel P. Malloy signed the following legislation of the 2017 June Special Session, IN THE ORIGINAL, on October 31:

SB 1501 AN ACT CONCERNING ZERO CARBON PROCUREMENT.
This bill shall take effect from passage.

Governor Dannel P. Malloy signed and used his line-item veto authority on the following legislation of the 2017 June Special Session, IN THE ORIGINAL, on October 31:

SB 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.
This bill has various effective dates. Read the text [here](#).
The Governor has exercised his line item veto authority and has vetoed appropriations of funds contained in Section 1: \$598,440,138 in fiscal year 2018 for Hospital Supplemental Payments and \$496,340,138 in fiscal year 2019 for Hospital Supplemental Payments.
***Scroll down to read the Governor's line-item veto message.*

As of this date, the Governor has signed two hundred sixty two (262) bills and vetoed four (4) bills of the 2017 Legislative Session. Additionally, the Governor has signed one (1) bill, vetoed one (1) bill, and line-item vetoed one (1) bill of the 2017 June Special Session.

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