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SUBMITTED TO THE APPROPRIATIONS COMMITTEE
FEBRUARY 24, 2017

Good afternoon, Senator Formica, Senator Osten, Representative Walker, and all of the members of the Appropriations Committee. Thank you for the opportunity to submit testimony concerning Governor Malloy's proposed budget for Fiscal Years 2018 and 2019, for both the Office of the Treasurer and for debt service.

<u>Treasury's Agency Budget</u>

First, with regard to the Treasury's operating budget, the Governor's budget proposes a General Fund appropriation for my office that is $200,000 below our Fiscal Year 2017 appropriation and seven percent below our actual Fiscal Year 2016 expenditures. While I certainly understand the need to economize in these tight fiscal times, the proposed cuts would diminish our ability to carry out previously legislated unfunded responsibilities and to take on new duties.

Moreover, our ability to manage such a reduction is hampered by the small percentage – about three percent – of our operations that are paid from the General Fund. I am also concerned with our ability to absorb large pay-outs of leave balances with an unusual number of retirements that may occur in response to a potential change in pension benefits. This is of particular concern given that more than half of our staff members are 55 years of age or older.

The Governor's proposed reduction will further hamper our ability to implement an ABLE program in Connecticut. The federal ABLE Act, as you may recall, was passed in 2014 to allow states to offer tax-advantaged savings accounts for individuals with disabilities and their families. Connecticut's enabling legislation was enacted in 2015, and assigned administration of this program to the Treasury without an appropriation. The lack of funds has significantly impaired our ability to make progress.

Additionally, the Governor's proposed budget reduction comes as the responsibilities of the Treasurer's Office are poised to expand under the Governor's Bill, 7050, An Act Concerning Enhancements to Municipal Finance and Accountability. The Municipal Accountability Review Board, which I would co-chair if the bill were enacted, would increase staff demands.

For all of these reasons, I respectfully urge the Committee to limit the reduction to the Treasury's General Fund budget to the $105,000 that we offered to the Secretary of OPM in January. Such a cut, I believe, is as far as we can reasonably go while continuing to fulfill our core responsibilities, and even then we still would be constrained in our ability to implement the ABLE Act.

We always are mindful of the necessity to ensure that the work paid for by non-General Fund sources remains properly aligned with the purposes of those funds.

Simply put: we've reached the limit of doing more with less General Fund support.

Debt Service Budget

The Governor's proposed General Fund and Special Transportation Fund debt service budgets for Fiscal Years 2018 and 2019 are consistent with my office's estimates.

I should note that for the current Fiscal Year 2017, we estimate a General Fund deficiency of about $10 million on the $2 billion debt service budget. Depending on the level of short-term interest rates and actual bond sale results over the next four months, we anticipate that the difference will be made up and the deficiency eliminated.

We, as always, will endeavor to reduce debt service costs in a prudent and responsible manner, and will report any such savings to the Committee.

In closing, I'd like to comment on two matters that may be of interest to the Committee.

The first matter is the performance of our pension fund assets. Overall, the markets in 2016 were plagued with bouts of volatility in global markets, driven largely by concerns over slowing global growth, geopolitical turmoil, including the U.K.'s vote to leave the European Union, and our own Presidential election.

Despite that turmoil, for calendar year 2016, the Teachers' Retirement Fund and the State Employees' Retirement Fund earned an 8.01 percent return and a 7.90 percent return, respectively. They both either met or exceeded the assumed rate of return for the funds. At the end of the year, all told, we added $2.4 billion of market value to our pension assets.

Overall, the portfolio of pension and trust funds outperformed 68 percent of its peers. And we achieved this positive result while incurring less risk than 60 percent of our peers.

Lastly, it deserves mention that the Governor's municipal finance legislation assigns my office responsibility for administering town reimbursements of state contributions to the teachers' retirement system. I believe those duties are more appropriately assigned to the Teachers' Retirement Board, which currently collects teacher contributions from towns and is already set up for such a function. In addition, the reimbursement schedule could create an operating cash flow issue as payments to the pension fund would predate the municipal reimbursements. I will comment more specifically when that legislation is scheduled for a hearing.

Thank you for the opportunity to offer input on this budget process. I would be happy to take any questions that you may have.