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CONNECTICUT STATE TREASURER

Senator Osten, Representative Walker, Senator Berthel, Representative Nuccio, and distinguished members of the Appropriations Committee, thank you for the opportunity to submit testimony regarding the Governor's proposed budget for Fiscal Years 2024 and 2025.

Just a few short years ago, it seemed Connecticut was in a state of perpetual fiscal crisis. Our revenues were facing shortfalls as our fixed costs continued to grow, all while our pension systems were plagued by substantial unfunded liabilities. But the General Assembly came together in 2017 to pass a bipartisan budget that made significant structural changes to the way in which we budget and save for the future.

To say those changes have had a tremendous impact on Connecticut's fiscal standing would be an understatement. Over the last five years, we have made historic payments to our pension systems, received a record five credit rating upgrades, and maintained a robust Budget Reserve Fund equal to 15% of General Fund expenditures, a benchmark that has put Connecticut in a position to weather an economic downturn. These accomplishments are a direct result of your commitment to the long-term fiscal health of our State. I commend the General Assembly and the Governor for their foresight in renewing these guardrails and ensuring that Connecticut continues the progress it's made over the last five years.

Because the State has dramatically improved its overall fiscal health, we have been able to prioritize long term investments without sacrificing support for the immediate needs of Connecticut residents. In 2021, the General Assembly passed CT Baby Bonds, the first program of its kind in the nation. Connecticut, which has one of the starkest wealth and income gaps in the country, immediately became a leader in finding innovative solutions that address the root causes of generational poverty. It is because of your commitment that CT Baby Bonds became law, funded through a 12-year general obligation bond authorization totaling $600 million.

As you may know, the Governor's administration has now made clear that it will not include the legislatively authorized bonding for the program on any future State Bond Commission meeting agendas. This is the reality we face five months from when the first eligible babies who are eligible for the program will be born. The time has come to look at alternative sources of funding for the program – sources that can be included in the legislature's budget and do not rely on long-term bonding commitments from this, or future, administrations.

The Governor's proposed budget has a stated goal of seeking to tackle deep-seated inequity in the state, and his budget address spoke to the importance of building generational wealth. We know that CT Baby Bonds is among the most effective ways to give our poorest residents opportunities to build wealth and end the cycle of poverty. CT Baby Bonds goes beyond one-off assistance programs and short-term relief – it is a direct and long-term investment in the people of Connecticut.

Since the passage of this innovative program, other states and localities have followed suit. Maryland, Washington, Washington D.C., Massachusetts, and Kansas have either passed baby bonds programs or are primed to do so this year. The New Jersey Governor's Office has reached out to my office to find out more about our legislation and administration of the program. The leaders of these states understand that this is not a choice between long- and short-term solutions – we must do both if we want to effect systemic change. If Connecticut can't afford to fund CT Baby Bonds now, then when?

We must eliminate any uncertainty about the future of this program. I urge the Committee to include a new source of funding for CT Baby Bonds in its budget for Fiscal Years 2024 and 2025. My office stands ready to collaborate with the General Assembly and the Governor's office to identify that source of funds, and to ensure the successful implementation of the program on time and as the legislature intended.

<u>Agency Budget</u>

The Governor's proposed budget does not make any unanticipated or significant changes to the agency's General Fund budget. I appreciate the Governor's inclusion of funds for a much-needed upgrade to the State's debt management system, which will improve data quality and integrity and is anticipated to provide efficiencies in the bond issuance process and our interfaces with other State agencies and bond counsel.

<u>Bond Premium</u>

The Governor's budget proposal would continue the State's current practice of using bond premiums to pay debt service until Fiscal Year 2026. As you know, bond premiums are up-front payments by investors to the State in exchange for a higher coupon interest rate on a given bond. When these premiums are allocated to pay current debt service costs instead of to fund capital projects already authorized for bonding, it results in increased levels of borrowing and higher future debt service costs. Utilizing bond premiums to instead pay project costs is the more fiscally prudent approach as it reduces future debt service and debt levels for taxpayers.

After several years of delays, the State planned to end this practice beginning in Fiscal Year 2024. However, the Governor's budget proposal would again delay this change and continue the existing policy until Fiscal Year 2026. I appreciate the desire for debt service budget savings, especially given the Governor's focus on tax cuts, but using bond premiums to fund debt service is not cost-effective or advisable in the long-term. I urge the Committee to allow the change to go forward as originally intended.

Debt Service

The Governor's proposed budget reduced the office's requested debt service budget by $20 million in Fiscal Year 2024 and $60 million in Fiscal Year 2025. This reduction reflects, in part, his proposal of continued use of bond premiums to pay debt service. Although we disagree with the policy, we agree with the fiscal impact of that change.

In addition to the debt service reduction due to the use of bond premium, the Governor's budget proposes a $1.5 million reduction in debt service for CHEFA Day Care Security bonds. Historically, the office has budgeted about $5.5 million in debt service for these bonds, which are then reduced by a revenue intercept that can vary year to year. We recommend utilizing a more conservative approach, assuming a $1 million savings instead of $1.5 million, to ensure payment of debt service no matter how much revenue is generated from the intercept.

Also included in the debt service budget is a savings in Fiscal Year 2025 attributed to the proposal to payoff outstanding GAAP deficit bonds with current year surplus when they become callable this fall. I will note that by paying off these bonds, the covenant that requires appropriated funds to pay off the unfunded GAAP deficit will no longer be in effect. However, this covenant was put in place before our fiscal guardrails were enacted, which address the State's liquidity that the GAAP bond covenant was originally intended to address.

Safe Harbor Fund

I would like to thank the Governor for his inclusion of $2 million in funding to support abortion access for individuals traveling to Connecticut for services that are restricted in other states. I feel proud to live in a state that prioritizes access to reproductive healthcare and a woman's right to make decisions about her own body, and I believe it is now our moral imperative to help those who are being denied access to those services by their home states. This policy aligns our budget with our shared values.

I urge the Committee to go a step further than the Governor's proposal, however, and create a trust fund so that the funds can be invested and generate a return. We know that the hostility towards reproductive care is not subsiding any time soon. We must ensure that these funds are available beyond this biennial budget, until the constitutional right to an abortion is returned to everyone across the nation.

I would also draw the Committee's attention to a similar crisis for families with transgender children. As you know, in many states, gender affirming care has now been criminalized. In some of these states, parents are the subject of child abuse investigations for securing gender affirming care for their children. Many of these families have decided to flee and come to states that respect transgender rights. I urge the Committee to consider including support for these families in addition to support for individuals seeking abortions. With the funds that the Governor has committed, in addition to the earnings those funds would generate, Connecticut can be a true safe harbor for all.

Thank you again for the opportunity to submit testimony. I am confident that the General Assembly will strike the appropriate balance between sustainable fiscal constraint and long-term investments in communities across the state. My office is available to answer any questions you may have.