

***TESTIMONY PRESENTED TO THE GENERAL BONDING
SUBCOMMITTEE
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*Melissa McCaw
Secretary
Office of Policy and Management*

Testimony Supporting OPM Capital Programs

Senator Moore, Representative Miller, Senator Witkos, Representative Floren and distinguished members of the General Bonding Subcommittee, thank you for the opportunity to discuss the Office of Policy and Management's capital programs.

Connecticut has one of the highest tax-backed debt ratios across the nation. S&P Global Ratings red flags Connecticut's high debt and other liabilities, all of which create significant and growing fixed-cost pressures that restrain Connecticut's budgetary flexibility. In FY 2012 debt service expenditures comprised 9.7% of General Fund expenditures, which is estimated to grow to over 12.1% of General Fund expenditures in FY 2021. Debt service costs will have grown from \$1.81B to \$2.41B or by 33% over 9 year period. Together as we responsibly confront Connecticut's rising fixed costs, a hard look at our debt authorizations, allocations and issuances is warranted.

In order to live within the "Debt Diet," the Governor and the Office of Policy and Management will adjust and reprioritize the capital budget, which typically includes large scale projects such as school construction, municipal aid and other major infrastructure upgrades. Maintaining and investing in our infrastructure must remain a priority area of focus. However between 2012 and 2019, the state averaged approximately \$1.59 billion worth of bond authorizations per year. Governor Lamont's proposed budget will scale back new authorizations to an annual average of approximately \$960 million, a reduction of nearly 40%. The Governor's Budget proposes to reduce our debt service by maintaining debt issuances at levels more consistent with our revenue reality. If we make these changes now, we can realize immediate debt service savings of tens of millions, but over the next decade expand to as much as \$2 billion.

To help bring the long-term growth in debt service in line with the long-term growth in revenues, the Governor's budget seeks to reduce GO bond issuances annually. To achieve this goal, new bond authorizations and bond commission allocations must be reduced to live within a lower issuance level.

We know a reduction in borrowing will be difficult, but it is essential we reduce our long-term debt service costs. Our growing debt liabilities harms the state's ability to improve our credit ratings which will lead to increases in the interest rates of our future debt issuances. Additional debt costs will levy growing debt burdens to future generations and poses a serious roadblock to structural budget sustainability. If we are able to reduce our borrowing now to lower our fixed costs, we will have more budget flexibility and this will contribute to future structural balance. Our borrowing decisions now do not simply affect the biennium, but the next few decades of our state's financial future.

Our requested GO bond authorizations for the upcoming biennium are limited to programs requiring additional funds for possible allocation, as described in the table below.

	Unallocated	Recommend	Recommend
<u>Program</u>	<u>Balance</u>	<u>FY 2020</u>	<u>FY 2021</u>
Local Capital Improvement Program	\$35,000,000	\$30,000,000	\$30,000,000
Nonprofit Grant Program	-	-	25,000,000
Urban Act Program	-	50,000,000	50,000,000
Grants for Municipal Projects and Purposes	55,000,000	60,000,000	60,000,000
Capital Equipment Purchase Fund	24,131,625	-	27,000,000
IT Capital Investment Program	38,729,061	95,000,000	95,000,000

Attachment A provides descriptions and additional information on the programs for which we are seeking additional authorizations. Attachment B provides information on our remaining bond fund accounts with unallocated balances.

I would like to again thank the committee for the opportunity to present this testimony. I will be happy to answer any questions you may have.

Attachment A

Local Capital Improvement Program (LoCIP) – is an entitlement program for municipalities that provides General Obligation bond funds for eligible projects, as defined in statute. Annual distributions of new funds are credited to municipal accounts administered by the Office of Policy and Management (OPM) on March 1st of each year. Towns may choose to expend the funds on a series of smaller projects or allow them to accumulate funds over a period of time for one large project. The proposed new authorizations represent a continuation of the program at customary annual entitlement levels.

The unallocated balance represents the FY 2019 entitlement amount as determined in the last biennial capital budget which provided funding for prior year entitlements which were deferred several years ago.

Grants-in-aid to Private, Non-profit Health and Human Service Organizations – The funds are used for grants to private, non-profit health and human service providers to expedite service delivery and to address health, safety and accessibility issues with respect to health and human services provided by nonprofit providers.

Eligible projects include:

- Facility alterations, renovations, improvement, additions, new construction and land purchase associated with new construction or additions;
- Health, safety and compliance with Americans with Disabilities Act;
- Energy conservation, improvements or projects;
- Information technology projects, including encryption or client confidentiality systems;
- Technology that promotes client independence;
- Purchase of vehicles;
- Acquisition and upgrades to electronic health or medical records and other health information technology systems; and
- Converting use of property to address mutually agreed to state agency service needs

\$50 million of grants were awarded under this program in recent months and therefore, a new round of funding is recommended in FY2021.

Capital Equipment Purchase Fund – The Capital Equipment Purchase Fund is authorized by CGS Sec. 4a-9 and is used for the purchase of state agency equipment with a useful life of at least 5 years. The existing unallocated balance of \$24.1 million combined with the requested \$27 million in FY 2021 will be sufficient to address the most critical equipment needs of state agencies.

Urban Act – Urban Action Grants are discretionary grants to municipalities that (1) are economically distressed as defined by statute, (2) public investment communities or (3) urban centers under the State's Plan of Conservation and Development. Eligible projects include economic development, transit, recreation, solid waste disposal, housing, day care, elderly centers, emergency shelters, historic preservation and various urban development projects. This program currently has no unallocated authorization. \$50 million in each of the biennium is recommended to replenish program.

Grants-in-aid to Towns for Municipal Projects and Purposes – These funds are required to be expended for the same purposes for which Town Aid Road grants may be used. However, legislation also allows towns to apply to OPM for a waiver from this requirement, and use these funds and Town Aid Road grants for other capital purposes. The unallocated balance of \$55 million represents the balance of this grant for FY 2019 and it will be allocated soon to provide payments to towns before the end of the fiscal year.

Information Technology Capital Investment Program – This program is used to update and improve the state’s information technology infrastructure to increase efficiency and improve the citizen experience. The unallocated balance of \$38.7 million along with funds requested over the biennium is required to fund this program. The table below summarizes actual and projected needs over the biennium.

<u>Ongoing projects</u>	<u>Project Name</u>	<u>FY 2020</u>	<u>FY 2021</u>
Administrative Services	Enterprise Content Management Service Development	\$ 731,664	\$ -
Administrative Services	Timekeeping, Scheduling, Leave Management	2,199,948	-
Administrative Services	DAS/Procurement - E-Sourcing Solution	321,900	-
Children and Families	Comprehensive Child Welfare Information System	15,656,027	9,989,689
Developmental Services	DDS Home and Community Based Management System	358,000	367,100
Emergency Services and Public Protection	Criminal Identification and History Repository Modernization	6,784,392	3,933,995
Energy and Environmental Protection	Sites Case Management System	3,000,000	-
Energy and Environmental Protection	ezFile Electronic Permitting - Phase 2	4,000,000	4,000,000
Labor	Unemployment Insurance Modernization	9,130,838	4,145,475
Rehabilitation Services	Integrated Consumer Service and Reporting System	1,820,818	-
Revenue Services	IT/CTax Modernization	11,350,000	11,850,000
Social Services	Medicaid Management Information System Replacement Planning, Procurement and Transition Project	132,500	-
Social Services	Shared Services Initiative	880,016	-
Social Services	Connecticut Child Support Enforcement System Transition	7,109,407	8,646,833
Social Services	Connecticut Medicaid Enterprise Technology System	2,979,589	5,061,279
Division of Criminal Justice	Case Management System	462,567	-
Sub-Total Ongoing Projects		\$ 66,917,666	\$ 47,994,371
<u>New Projects Under Review</u>			
Various Agencies	Digital Government	\$ 9,500,000	\$ 14,000,000
State Comptroller	Upgrades to CORE Financial System	4,568,000	6,860,000
Administrative Services	Refresh of IT Infrastructure for the Connecticut Education Network	3,725,000	3,725,000
Administrative Services	Cyber Security Risk Reduction Initiative	6,833,875	4,459,133
Various Agencies	Technology for Paid Family Medical Leave	20,000,000	20,000,000
Various Agencies	Reserve for New Projects	10,000,000	10,000,000
Sub-Total New Projects		\$ 54,626,875	\$ 59,044,133
Grand Total		<u>\$121,544,541</u>	<u>\$107,038,504</u>

Attachment B

CORE Results-Based Accountability – The funds are used to finance the implementation of new web-based business intelligence (BI) software that provides advanced analytic and reporting capabilities. The STARS BI software has been developed within CORE-CT and provides capabilities for data modeling, trend analysis and forecasting, which enhance transparency and accountability in State budgeting and spending. The goal of this initiative is for STARS to become the central repository of human resource, payroll, and financial information in CORE-CT. STARS replaces the current CORE-CT EPM query tool. The unallocated balance should be retained pending final completion of implementation.

CORE Higher Education System Consolidation – The unallocated balance may be needed for additional work by the Office of State Comptroller to complete final elements of the project to integrate more information with the CORE-CT system.

Benchmarking Systems – This project is for the development of state and local benchmarking systems for municipalities and school districts. The development of a Uniform Chart of Accounts (UCOA) to standardize the classification and reporting of financial data among all municipalities and school districts will facilitate these benchmarking systems. Municipal and education financial data transmitted to the State by municipalities and school districts in accordance with the UCOA will be retained in their respective municipal and education data warehouses allowing for more accurate comparisons and benchmarking of the costs of programs and services provided by these educational entities and municipalities.

Small Town Economic Assistance Program (STEAP) – STEAP funds economic development, community conservation and quality of life projects for localities that are ineligible to receive Urban Action bonds. Localities may receive up to \$500,000 per year if: (1) they are not designated as a distressed municipality or a public investment community and (2) the State Plan of Conservation and Development does not show them as having a regional center. Unallocated funds will provide for potential future grants.

Responsible Growth Incentive Fund – Provides grants-in-aid for regionally-supported local projects that leverage past and future planned state investments in infrastructure and facilities, particularly for projects that promote compact, mixed-use development around public transportation stations and municipal centers. Unallocated funds will provide for potential future grants.

Transit-oriented Development and Predevelopment Activities – The funds are used to provide assistance to municipalities, housing authorities and other entities interested in advancing transit-oriented development around the state's transit corridors (Hartford Line, Shoreline East, New Haven Line and Branch Lines, and CT Fastrak), as well as to make housing and infrastructure improvements near transit stations. The uses may include:

- Predevelopment activities, such as environmental inspections, geotechnical studies, market studies, architectural and engineering design, real estate appraisals, and associated legal services.
- Providing assistance for site control and/or acquisition, or to carry out housing or infrastructure improvement projects and other needs identified in communities along the state's transit systems.

Unallocated funds will provide for potential future grants.