OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

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NAPPIER CRITIQUES ROWLAND BUDGET GIMMICKS; URGES LEGISLATURE TO HEED WARNING SIGNS ON SURPLUS SPENDING, DEBT BURDEN, PENSION FUNDING

State Treasurer Denise L. Nappier today criticized key elements of the proposed budget of Governor John Rowland, describing them as "a collection of gimmicks and sleights of hand strung together to mask the failures of this administration to prudently oversee the fiscal affairs of our state."

In testimony before the General Assembly's Appropriations Committee, Nappier said she would absorb the budget cuts proposed by the Governor for the Treasurer's Office, but was extremely concerned about other elements of the Governor's spending plan.

Nappier said the Governor's proposed budget does not adequately address the state's unfunded pension liabilities, continues to increase already skyrocketing debt obligations, and does not make the best fiscal use of surplus dollars, in what may be the last surplus for some time.

"We must act now to use the financial resources which remain at our disposal to establish the strong financial foundation which we will need to weather what promises to be a leaner period ahead," Nappier said, urging the legislature to "build a strong and honest foundation for the future."

WARNING SIGNS SHOULDN'T BE IGNORED

The Treasurer said that credit rating agencies -- whose views have an important impact on the state's bottom line -- are carefully watching the fiscal decisions now being made. Moody's, for example, recently affirmed an AA3 rating for Connecticut's bonds but expressed concerns about factors which may undermine the state's ability to maintain it.

"That is a high quality rating, Nappier said, "but it came with several very clearly expressed reservations. It is based on an expanding state economy and good job and income growth. If those factors change, so might the rating."

Nappier said that the Moody's report noted that:

- **Connecticut's per-capita borrowing** is second in the nation. At $3,052 per citizen, Connecticut is only $2 behind Hawaii. And Connecticut is nearly six times worse than the 50 state median of $540….and

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- **<u>Connecticut has large accrued unfunded pension liabilities</u>.** In order to meet projected benefit payments, Connecticut's teacher and state employee retirement funds would require an immediate infusion of cash amounting to $6.6 billion. That's more than half of the Governor's proposed budget for the upcoming fiscal year. Stated another way: for every pension fund dollar we need to pay future benefits, Connecticut only has about 75 cents on hand.

PENSION FUNDING COMES UP SHORT

Nappier says the Governor's budget plan, which calls for contributing $204 million to the state pension fund, falls short of the $210 million recommended by fund actuaries. The Treasurer said that Rowland administration estimates that the $204 million would grow to $210 million by the end of the fiscal year are unrealistic.

"Given the realities of today's market risks and the need to use the state's contribution to pay benefits – beginning virtually from the moment that contribution is received – the theoretical growth attributed to the $204 million will not be realized," Nappier said. Earlier this month, the Treasurer and leading education organizations had urged the Governor and legislators to fully fund the state's contribution, which in recent years has been funded at only 85% of the actuarial recommendation. The state's Investment Advisory Council endorsed the Treasurer's initiative yesterday.

"Calling this 100% funding does not make it so. On the basis of a very preliminary estimate, a $204 million is $3 million less than is needed. $204 million is more than 85%. But it's not 100%. Therefore, this proposed contribution does not end an imprudent financial practice. It perpetuates one," Nappier said.

ADDING TO DEBT BURDEN IS SHORTSIGHTED

In every year since 1998 – with the exception of a $986 million proposal for 1999 – Governor's Rowland's capital budget has called for new debt in excess of $1 billion. This year -- on top of that – the Governor has proposed funding additional capital projects "with what may be our last surplus, rather than to use that money to retire existing debt," Nappier said.

"How can anyone already proposing $2.1 billion in new borrowing for the next two years seriously expect us to believe that these projects would otherwise be added to that already swollen list?"

Nappier urged the General Assembly to "consider how much might be saved in future debt service payments if surplus dollars were used, not for one-time project expenses, but to retire debt and thereby generate a continuous stream of budget savings."

Nappier said that financial advisors have indicated that nearly $700 million would be saved over the next 10 years if the projected surplus was used to retire (not simply refinance) high interest debt. Those savings would start immediately, she said, amounting to more than $50 million during the upcoming biennium. Even if the state only retired debt with the portion of the surplus the Governor proposes for what he describes as "debt avoidance" projects, Nappier said that in excess of $425 million would be saved, beginning with $31 million in the first biennium.

"That's real money," Nappier said. "It can be used to make a real difference in the lives of real people."

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Nappier also raised concerns about similar manipulation in the higher education budgets, warning that attempts to fund General Fund obligations from other sources could compromise the financial strength of the institutions of higher education.

"These funds have been established and protected so as to be available to maintain and repair the structures built with bond proceeds. That's what our state's creditors expect. That's what we should deliver. To deplete reserves to pay ongoing operating costs could increase the costs of future borrowing and, in just two short years, would blow a hole in the operating budgets of our institutions of higher education."

The Treasurer added: "I'm sure the phrase 'surplus' was carefully selected to suggest a financially unencumbered, easily accessible funding source. What it masks is an attempt to fund General Fund obligations from other sources and, by doing so, to compromise the financial strength of the institutions of higher education," Nappier said.

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