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Written Testimony
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S.B. 271 AN ACT CONCERNING THE FISCAL ACCOUNTABILITY AND SUSTAINABLE TRANSPORTATION REFORM PLAN.

Good Morning Senator Leone, Representative Lemar, Senator Martin, Representative Devlin, and members of the Transportation Committee. Thank you for the opportunity to testify before you, against SB 271 An Act Concerning the Fiscal Accountability and Sustainable Transportation Reform Plan.

Senate Bill 271 proposes to transfer $1.5 billion from the Budget Reserve Fund to the State Employee Retirement Fund as part of a larger plan to lower future pension contributions and fund transportation infrastructure improvements. While I understand the difficulties the legislature is confronting in the face of significant needs and competing demands, this is the wrong approach. I urge the Transportation Committee to reject this measure.

In recent years, Connecticut policy makers from the executive branch and the legislature have made difficult decisions and set the state on a much firmer path to fiscal stability. This has been no easy task and has required shared sacrifice every step of the way. After decades of neglect, Connecticut now routinely makes the full actuarially required pension contribution to the State Employee Retirement System (SERS). Due to smart budget reforms, such as adopting the revenue volatility cap and raising the cap on the Budget Reserve Fund, the balance of the BRF is now at an all-time high. In two short years, Connecticut went from having the BRF of $213 million or 1.3 percent in FY 2017 to $2.5 billion or 13 percent of General Fund spending after the close of FY 2019.

When I read SB 271, I thought of the quote attributed to philosopher George Santayana who said, "Those who cannot learn from history are doomed to repeat it." Some of you may recall that in the period before the last recession, the Budget Reserve Fund was at its previous peak, with a balance of nearly $1.4 billion, which at the time represented about 8 percent of General Fund spending. Then in 2008, the Great Recession came fast and hit Connecticut hard. Within two years the BRF balance was reduced to zero. Despite that fact and significant American Recovery and Reinvestment Act relief from the Federal government, Connecticut still needed to raise taxes and cut spending to meet its obligations in the aftermath of the recession. I'm not casting blame – those were dark days and required difficult decision making. But both actions came at the worst possible time – when Connecticut taxpayers and businesses were still struggling, and state residents needed services most. With better planning and more discipline, maybe the tax increases and service cuts would not have been necessary.

The current economic recovery is now nearly a decade old and by some measures our state still lags behind the national economy and has not fully recovered. Now is not the time to turn back or reverse our progress on the BRF.

The benefits of staying true to our promise to build the state's reserves is not just essential to protect against the next recession. The rating agencies are taking note. Recently Moody's Analytics published a report titled "Stress-Testing States 2019" – and they highlighted Connecticut as a standout state where "the effects of that increased focus (on the BRF) are beginning to show." The Office of Policy and Management cited this study in its most recent Fiscal Accountability Report. The stress tests were designed to see how well-prepared states would be under two scenarios: 1) a moderate recession; or 2) a severe recession.

Two years ago, in Moody's 2017 report, Connecticut was in the bottom third of states in terms of being prepared to weather a moderate recession. With the BRF at 1.3 percent of spending, Connecticut was ill prepared for recession and well short of the 7.4 percent BRF balance Moody's deemed necessary.

In the 2019 Moody's report, Connecticut fared much better, ranking 18th overall, with enough reserves to weather a moderate recession requiring BRF reserves of 10.1 percent. In the severe recession scenario, Moody's estimated Connecticut would need a BRF balance of 14.8 percent, very close to our current statutory target of 15 percent. Therefore, it is clear we need to maintain our discipline until we reach that goal.

None of us has a crystal ball. Is there a recession on the horizon? We simply don't know. What kind of event could set one off – the coronavirus, a large-scale market correction, or some other economic shock? It's hard to say – past performance does not guarantee future results. All of those larger issues are out of our control, but one thing is not: We can continue to prepare for the inevitable economic downturn, whenever it comes, by staying the course and completing the hard work you've already begun. Let's continue to fully fund the pension fund *and* continue building the BRF balance to 15 percent.

You did the difficult thing by imposing the Volatility Cap on yourselves and your successors. It was the responsible thing to do. Now let's show our constituents that you meant it, and that a predictable, consistent, fiscally responsible government is our priority.

Thank you.