



STATE OF CONNECTICUT
GOVERNOR DANIEL P. MALLOY

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Mr. President, Mr. Speaker, Lt. Governor Wyman, Senator Fasano, Representative Klarides, my fellow state officials, ladies and gentlemen of the General Assembly, members of the clergy, and all the citizens of our great state: thank you for the honor of inviting me once again into the people's House.

As always, let us thank and honor the brave men and women of Connecticut serving in our Armed Forces around the globe.

I'd like to recognize my wife Cathy and my son, Daniel, who are here with me, and thank them for their tremendous love and support.

And of course, the State of Connecticut could not have a better Lt. Governor, and I could not have a better friend than Nancy Wyman.

We live in changing times.

You don't have to take my word for it. You hear it from your constituents every day – a visceral feeling that our country and our state are not going back to how things were before the Great Recession.

Families are budgeting differently. Their expectations are changing. They know they can't rely on the same economy their parents and grandparents did, where wages and home values steadily increased.

They know it's tougher to save – for retirement, for a college education, or just for the inevitable repairs to their car or their home.

Businesses feel it too, both large and small. They're making different decisions about how they hire, and the benefits they offer. They're looking at new technologies to fundamentally change how they operate, because if they don't, they won't survive.

In short, Connecticut families and businesses alike are adapting to a new economic reality.

We in Connecticut are not alone. Our neighbor to the north, Massachusetts, is facing a \$635 million shortfall. Pennsylvania is facing a \$2.4 billion deficit, but still unable to overcome partisan gridlock to reach a deal. And Louisiana faces nearly a \$2 billion deficit next year. Twenty-six other states have not fully recovered peak revenue from the Great Recession.

Our national economy, while making progress from the Great Recession, was fundamentally changed. A shifting workforce, the rapid rise of technology, and stagnant wage growth have made this recovery tougher for everyone, everywhere.

But here at home, the problems were compounded by our inability over prior decades to make the necessary changes and investments that would've moved our economy forward more quickly.

And now, while we have made year-after-year progress chipping away at our structural imbalance, it's clear that our work is not done. It's clear we have not gone far enough.

You don't need to look any further than our revenue projections, which continue to come in lower than expected. It's a frustration that goes beyond party affiliation. Projections used by Democrats, Republicans, and nonpartisan staff have all come up short.

In response, we have to adapt even more. Connecticut state government must reset our expectations of what we can afford, how we provide services, and how we save for our priorities. It won't be easy, and it often won't be politically popular. However, it is absolutely necessary if we want to create a more sustainable and enduring economy.

Friends, as we embark on another legislative session, my message to you is this: Connecticut is not going back to that pre-recession reality. It just doesn't exist anymore.

The people of Connecticut know it. They've accepted it.

And so must their government.

That's what I want to talk with you about today – how we adjust to this new economic reality.

There are many ways we can do it, many ways we need to change, but I want to spend my time on just one topic: I want to talk about how we budget.

There's a simple reality that, while our economy was evolving, the state budget did not change.

Together, this year we need to reshape the way Connecticut budgets. We need to make our budget more predictable, more sustainable, and more transparent.

A more sustainable budget will help us build an economy that can be one of the strongest in the region and competitive nationally.

With that said, I'm going to lay out five budget principles.

The first principle is in many ways the simplest: Going forward, we need to limit our spending to available resources. We can do it by changing our "current services" budget approach.

"Current services" is a term readily understood inside this hall, but it's a foreign concept to our constituents. Essentially, it means that we wrongly assume government can do everything it does now, regardless of ever-growing costs.

It just isn't sustainable.

Families and businesses do not set their budget based on the amount of money they *want* to have next year. Neither can the State of Connecticut.

Managing our finances this way assumes we will face cuts if we don't achieve double digit growth in revenue every single year. It puts spending increases on autopilot. This must end, and this must end this year.

The budget adjustments I submit to you today are not based on current services spending. Similar to a zero-based budgeting approach, my budget limits spending in the upcoming fiscal year and beyond to actual revenue projections.

In other words, this budget is based not on how much we *want* to spend, but how much money we *actually have* to spend.

This new method will require different decisions to keep government living within its means. It won't come without sacrifice – it will require the reduction of the state workforce by more than a thousand employees through attrition and other means.

I don't take that lightly, but I do think it's necessary. I will continue to work with our state employees to make sure those reductions are done fairly and with great care.

And, if we're going to limit ourselves to available resources, there's another way we can do it. Twenty-four years ago the people of Connecticut voted for a constitutional spending cap to ensure that the state could live within its means.

It's time we give them what they asked for. The wisdom of the voters was correct in 1992, and it is correct now. Connecticut needs to enact a spending cap to keep spending in check.

An enforceable spending cap goes hand in hand with eliminating the current services model. We cannot both constrain spending with a cap *and* assume government will continue to grow unchecked every year.

I have previously offered this as a proposal to the General Assembly. But this year, we have to act. Otherwise, we will be forced year after year to either cut spending or look for additional revenue.

Pass an enforceable spending cap, and I again will support it.

Here's the second principle: We cannot structurally balance our budget for the long run until we have addressed the primary driver of our long-term unfunded obligations.

I'm talking about Connecticut's unsustainable pension and post-employment costs.

In point of fact, we have made substantial progress addressing these costs. Reforms made in 2011 have saved us billions upon billions of dollars.

But our work addressing this debt remains unfinished. We have to do more.

Much of our liability is due to decisions made before most of us went into public service. The problem was made worse over the years as the state offered early retirement incentives that added billions to our long term costs.

Now, it has fallen upon us to fix it.

After decades of neglect, we are finally paying our pension obligations every year.

I think we all know that must continue. And yet, we still face a fiscal cliff in 2032 that will be impossible to meet. The instability created by this cliff is shaking the confidence of the business community and looming over the next generation of Connecticut taxpayers.

This past November, my administration released a study from the Center for Retirement Research at Boston College on how we could best stabilize our pension system. It offered ideas for ensuring that we can meet our obligations to our employees, pay down our unfunded liabilities, and do so without falling off that fiscal cliff 15 years from now.

Building on that work, I've proposed ways to refinance our debt, adjust our assumed rate of return, and change our most expensive Tier One pension plan to a pay-as-you-go system.

Others have put forward their proposals to address this cliff, and I appreciate those ideas. Now is the time for a frank discussion and an honest assessment of our options.

To that end, I have directed Secretary Barnes to pull together all stakeholders – including the Treasurer and the Comptroller, SEBAC and the state employees it represents, as well as the Connecticut teachers – to work on this issue together.

Using the work we've already begun, this group should develop a consensus on how to best make our pension system more affordable and more sustainable.

We should find the best combination of our ideas to help us support current pensions, pay off old liabilities, and strengthen our entire system for generations to come.

We should complete this work as soon as possible, so that the changes can be made this year and have an immediate impact on our long-term liabilities.

While this group is meeting, my administration will continue to negotiate with 13 state employee bargaining units, discussing salaries and other important issues.

As this process is ongoing, know this: I will not negotiate with our partners in labor from this podium or through the press. Instead, I will simply say that our expectations for these negotiations should be based on what we can afford, not what we previously spent.

And finally, there's one more area to discuss. Our work in the months and years ahead should include a larger, ongoing effort to align state employment benefits with our present economic reality.

Let me be clear – I strongly believe that working people who serve the public for decades deserve good benefits and a secure retirement that is offered by a defined benefit plan. But friends must be honest with each other.

The obligation of maintaining this system cannot be solely supported by our taxpayers under our current budget practices. If we want to support our pension and benefits system, we have to make changes. We should be willing to have the tough but necessary conversations about what those changes might look like.

Let's acknowledge that we should not wait until 2022 to have necessary discussions between labor and management.

Together, with our partners in labor, we can address how we pay for our long-term obligations and keep the pension and benefit system aligned with our economic reality.

To be sure, Connecticut state employees are not at fault for our current budget shortfall. But it has fallen to all of us – collectively – to address the challenges before us.

Let's give our citizens and businesses the confidence that will come from having addressed that which we know needs to be done.

The third principle is this: We need to prioritize funding for core services.

Simply put, every existing line item cannot be considered a core service to be funded in perpetuity.

Together, we must concentrate on the core functions of state government, namely: protecting the public, ensuring a social safety net, building a strong economy, safeguarding our environment, providing a public education, and administering justice.

To that end, functions that fall outside of those core services must be considered on merit alone. We must transition toward making recipients of state funding compete for available dollars based on proven results.

In other words, we have to reform our earmark process.

That includes state funding to outside agencies, community organizations, and special events. Funding for these items should be time-limited, and we should re-examine these expenditures regularly.

Let's reform this process and do it this year.

My budget cuts existing earmarks by more than 20 percent in order to live within our means. And, it creates new pools so that entities receiving line item earmarks and, importantly, those entities that have not had the political clout to receive them will compete on equal footing for funds.

Any state funding that falls outside our core government services must be based on merit and merit alone.

Let's make this change together.

The fourth principle is this: State agencies must be held accountable to the public and the legislature for their results.

The bill I submit to you today will require agencies to post online detailed, meaningful, timely information about how they are spending the people's money, and precisely what that money is accomplishing.

And, at the same time we're making agency budgets more transparent, we also need to push commissioners to find more cost-effective ways of accomplishing their respective missions.

I recognize that many in this chamber will have concerns with this change. Let me be clear: I have no desire to diminish the General Assembly's right to set policy or to mandate certain programs or services.

But as we shrink our budget – as we ask state employees to do more with less – giving commissioners more latitude will allow them to preserve those very programs and services.

In other words, by simplifying line items in the budget, we can give our top executives the ability to manage their agencies while providing quality services to taxpayers in the most efficient way possible.

Just as in business, our managers need the ability to lead their agency, adjust to shifting circumstances, and set priorities in the face of limited resources.

Together this year we can let managers manage, and we can hold them accountable for results.

Accountable to you, accountable to me, and accountable to the public.

Here's the fifth and final principle: We've talked about limiting our spending, we've talked about our pension and post-employment cost, we've talked about setting priorities, and we've talked about focusing on results.

This final principle is one that can't be reflected in a budget book. It's about our process. It's about how we work together to deliver the best product possible to the people of Connecticut.

No budget will be perfect, but I firmly believe that by changing how we come to a budget bill, we can improve the final result.

So this is my challenge to you and to me: Let's not pass a budget on the final day of this session this year. Let's get it done early. Let's do it so that we can spend those final days working on other proposals – both yours and mine.

And that goes for budget implementers as well. No longer should implementers be a place to pass things that we didn't have time for during the session. If an idea didn't get a fair hearing during the legislative process, then it shouldn't be brought to the table at the eleventh hour. This is true of both Democrat and Republican ideas.

While I want to get a budget done early, I also understand and respect the committee process. I have no intention of circumventing it. While committees do their work, legislative leaders and committee leadership can meet regularly with me and my staff to understand each other's goals.

I welcome anyone to that table – Democrat or Republican.

No one party, no one leader, and no one individual holds a monopoly on good ideas. Now is the time for everyone to put those ideas on the table – for us to have a bipartisan discussion throughout this session.

Of course, it needs to be a real effort, one that is seen through to a responsible conclusion. To that end, I have only two conditions for our talks.

First, everyone must be willing to compromise. I know some consider compromise a dirty word, but just last November and December, Democrats and Republicans in Washington compromised on a transportation bill and passed a federal budget together. Compromise is necessary if we are going to address our challenges here in Connecticut.

Second, there comes a point where it isn't enough to bring your ideas, you also need to bring your votes. While every good idea should and will be heard, anyone who expects their ideas to be made reality must be ready to support a final budget bill. That's the price of leadership and the price of being part of the solution.

I know this is an election year. Too often, it's easier for all of us to point fingers at one another. But I assure you, there will be time for campaign politics this fall.

During this session, we can either be part of the solution or stand on the sidelines throwing stones. We cannot do both.

We can't be opposed to tax increases, but unwilling to cut the spending those taxes support.

We can't be for reigning in spending, but oppose cuts in any one line item.

We must be honest about the challenges we face, and work on them together.

That's it – those are my five principles for making our budget more predictable and our economy more sustainable. For giving confidence to our residents and our businesses that government is adjusting to a new economic reality.

Budgeting more prudently can help us protect the services we value most. I believe strongly that government can and should play a positive role in the lives our citizens.

The measures I've laid out today aren't about cutting spending just to cut spending. This isn't a call for overzealous austerity, or a departure from Connecticut's core values.

Rather, they're about changing how we budget in order to preserve that which we hold dear. In order to preserve what makes Connecticut so special.

These are my ideas. I am sure there will be other ideas from those in this chamber, from leaders across the state, and citizens' concerned about our future. All of those ideas should be heard as we take on this challenge together.

I want to hear those ideas, so I plan on holding a series of town hall meetings across Connecticut. Anyone and everyone can be part of the discussion.

For myself, in addition to what I laid out today, I look forward to continuing our work together to fix our broken transportation system – work that must begin with a constitutional transportation lockbox. I want to thank each of your leaders, Democrat and Republican, for their votes in support of a lockbox this past fall.

Together, let's get this resolution on the 2016 ballot. Let's get this done and let's get this done early this session.

I also look forward to continuing a discussion from last year about making our criminal justice system more fair and equitable. Together, we can be the first in the nation to acknowledge that young adults in our juvenile or adult systems need a different approach.

We can give more young people a better chance to reform and become contributing members of our economy. And we can do it while saving taxpayers money.

These will be just some of my priorities this year. I know that you will have yours as well. I look forward to hearing them, and to continuing our progress together.

I say “continuing” because, despite my calls for change, we should also recognize that progress is happening. We’re moving forward already.

Consider what we’ve accomplished.

Thanks to our concerted efforts to grow our economy, Connecticut’s private sector has grown more than 80,000 jobs in the last five years.

In just the last six months, we’ve secured employers like Synchrony Financial, and we welcomed new employers like Serta Simmons from Massachusetts and MC Credit Partners from New York.

These employers alone will create and retain more than 700 jobs in Connecticut.

Last week, Electric Boat announced they will add 800 new jobs to their workforce this year and 4,000 in the years to come.

We’ve held onto major employers like United Technologies and Sikorsky along with their 24,000 employees.

And we’ve done it at the same time we’re supporting more small businesses than ever before. In 2015, our Small Business Express Program worked with more than 230 businesses to create or retain more than 4,400 jobs.

Together in a special session last fall, we made changes to our tax code that both parties agreed were necessary to help our business community. Because of our work, employers can continue their strong pace of hiring and invest in the new innovative economy that will drive us into the future.

Our community colleges and regents system have answered the challenge for precision manufacturing training. The University of Connecticut has increased engineering capacity by 50 percent, helping meet the demand for technology and manufacturing job openings across Connecticut.

The Manufacturing Innovation Fund has launched two new programs geared specifically at training. One of those programs has already assisted 88 companies in training their workforce.

Our teachers and public schools are working hard as well. Test scores are up. Graduation rates have increased, and we’re closing the achievement gap every year.

We’re making housing more affordable. Last year alone we created or funded more than 11,000 units of housing.

Together, we ended chronic veterans’ homelessness – the first state in the nation to do it. This year, we will end chronic homelessness for *everyone*.

And finally crime is at a 48-year low. Violent crime is down again from the previous year, our prison population has reached new lows, and this year we closed our fourth prison. These efforts have saved taxpayers tens of millions of dollars and made us safer.

This is progress we all can be proud of.

But if we want to sustain it, if we want to build on it, we have to fix how we budget. I know it will be a challenge.

So, as we begin this new session of the General Assembly, let us resolve together that we will use fresh eyes to look for answers to old problems.

Let us take new approaches to our challenges and find innovative ways to meet them.

Let us accept that we can't wish away our problems.

Let us seize this moment together to address the unfinished work before us.

Let us collectively believe that we can change the way our state budgets while we hold true to our Connecticut values.

We can adjust to a new economic reality while we protect our quality of life.

We can support our business community and train a 21st century workforce.

We can ensure that our progress leaves no one behind.

We can look to the years ahead with optimism for the future, pride in the state we all love, and hope that we can achieve what is right... and do it together.

Thank you and God bless you. May God bless the United States of America. And may God bless the great State of Connecticut.

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