

## Connecticut: State of the State speech acknowledges a new economic reality



David M. Kall | Friday, February 12, 2016

Last week, Governor Dannel Malloy gave his **state of the state speech**, in which he outlined five budget principles that he said would make the state's budget more predictable, more sustainable, and more transparent. The picture the Governor painted was one of tough times that require the Sunshine State to adapt to reality. As the **Hartford Courant** acknowledged, Connecticut faces a \$72 million shortfall in the current budget year, due largely to a reduction in federal grant money and lower income tax revenues. It only gets worse in the next fiscal year, starting July 1, 2016, in which economists expect a \$552 million deficit.

Also looming in the background is General Electric's announcement, not even a month ago, that it is moving its headquarters from Fairfield to Boston. As we **explained** at that time, Connecticut's corporate tax structure has earned it the disappointing rank of #44 on the Tax Foundation's **2016 State Business Tax Climate Index** due to its complicated, seven-bracket structure and relatively high top rate.

Although General Electric's departure was a blow to the state, Governor Malloy ignored it. Instead, he applauded new private sector growth that has generated more than 80,000 jobs in the last five years and brought new firms to the state, like Synchrony Financial, Serta Simmons from Massachusetts, and MC Credit Partners from New York, which will create and retain over 700 jobs in Connecticut. He also emphasized the fact that major employers like United Technologies and Sikorsky, along with their 24,000 employees, are staying put. Another coup is Electric Boat's announcement that it will add 800 new jobs this

## Connecticut State of the State speech acknowledge

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year, and 4,000 more in the years to come. Overall, in 2015, the state's Small Business Express Program worked with more than 230 businesses to create or retain more than 4,400 jobs.

Despite this good news, Governor Malloy recognized the need for his five-principle strategy to build an economy that can be not only one of the strongest in the region, but competitive nationally. Here is a brief summary of these principles:

1. **Limit spending to available resources and actual revenue projections:** Governor Malloy foreshadowed a reduction of the state workforce by more than a thousand employees, through attrition and other means, an idea he has pursued before. If the General Assembly does not go along with it this time, he threatened that they would have to cut spending or find new revenue sources.
2. **Continue to reform the pension system and post-employment costs, including fixing the billion-dollar problem caused by offering early retirement incentives:** The pension system faces a fiscal cliff in 2032, which is creating too much uncertainty and instability for businesses. The Governor is proposing adjusting the assumptions underlying the rate of return computations, refinancing the debt in new ways, changing the most expensive Tier One pension plan to a pay-as-you-go system, and aligning employment benefits with present economic realities.
3. **Prioritize funding for core services:** Core services include protecting the public, ensuring a social safety net, building a strong economy, safeguarding the environment, providing a public education, and administering justice. The Governor proposes reforming the earmarking process by cutting them by more than 20 percent, and making recipients of state funding compete for available dollars based on proven results.
4. **Hold state agencies accountable for their spending:** Like other states that publish all expenditures on the Internet, including Ohio, Governor Malloy would like to see more transparency and accountability by requiring agencies to post online detailed, meaningful, timely information about how they are spending the people's money, and precisely what that money is accomplishing.
5. **Process:** In an indirect reference to previous fights over tax policy and other budgetary matters, Governor Malloy wants lawmakers to work with him to deliver the best product possible to the people of Connecticut, by way of compromising and supporting the final budget bill.

In the end, Governor Malloy preached a unified approach to the challenges ahead.

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