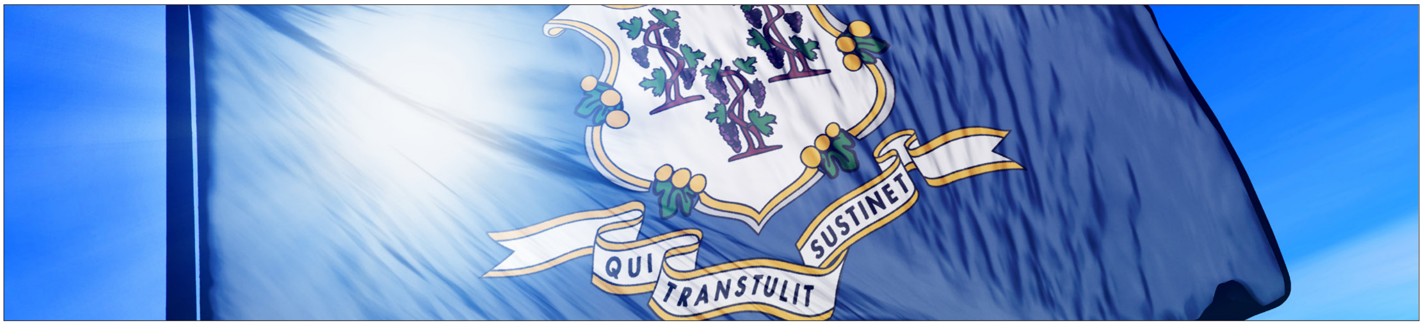
MURTHA CULLINA

NEWS ALERT

GOVERNMENT AFFAIRS INSIGHTS



Budget Update

By David J. McQuade

- July 1 began the new fiscal year for the state budget. At this stage, the four political caucuses and the Governor have not been able to reach a consensus on a biennial budget for Fiscal Years 18 & 19.
- The anticipated deficit for the new biennial budget is now projected to be around $5.1 billion. This gap has to be closed to balance the new two-year budget.
- Governor Malloy offered two options to legislative leaders -- a "mini-budget" to appropriate funding for the first quarter of FY18 (July 1 to September 30). The mini-budget lowers all expenditures by almost $400 million and increases state revenues by $360.9 million. House Democrats refused to consider the mini-budget. The second option proposed by the Governor would be to maintain state government, in the absence of a state budget, by allocating funds under an executive order. Such executive orders have been issued in the past to fund essential state services -- Weicker (1991), Rowland (2003) and Rell (2009).
- The Governor rejected a move by House and Senate Democrats to pass a continuing resolution that, for an unspecified period of time, would fund state government at existing appropriation levels. The Governor cites concerns that funding state government at existing appropriation and revenue levels would overspend state resources by an average of $200 million a month.
- The Governor's executive order reduces overall appropriation levels from $19.7 billion in FY17 to $19.1 billion in FY18. To achieve these budget goals, the Governor, under his executive order, has indicated he would do the following: reduce municipal aid, zero out discretionary grants and reduce Educational Cost Sharing funds; eliminate supplemental payments to hospitals; cut funding to non-profit providers by 5%-10%; and cancel future bond commission meetings.
- On Thursday, June 29, House Democrats released a new version of a biennial budget. It calls for increasing the state sales tax to 6.99% ($419 million (FY18) -- $429 million (FY19)). Additionally, it would allow municipalities to institute a 1% tax on restaurant and bar receipts ($61 million (FY18) - $70 million (FY19)). This new proposed budget document was immediately rejected by the two Republican caucuses, Senate Democrats and Governor Malloy. Despite these objections, House leadership is expected to call themselves into session on July 18 to vote on the House Democrat budget package.

- On Tuesday, July 11, House Republicans countered the House Democrat proposal by detailing a no-tax increase budget that relies heavily on a series of savings through modification of existing and future state employee salary and benefit packages, reduces the state work force over the next five years through attrition, consolidates state agencies, promotes privatization of state-run programs and seeks overtime reductions and enhanced fraud detection and recovery for state programs. Additionally, the new proposal calls for the restoration of the $200 property tax credit for eligible homeowners and funds municipal aide at the FY17 levels. The proposal also calls for the elimination of the Citizens' Election Program which currently supports the financing of executive and legislative electoral campaigns in our state.
- Without a new two-year budget in place, the Governor issued Executive Order No. 58, authorizing him to run state government and dictate expenditures until an appropriation act for FY18 is passed and signed into law.
- State union leadership and the Malloy administration have agreed to a tentative labor agreement projected to save state government $1.57 million over the next two fiscal years. This agreement must now be ratified by rank-and-file union members.
- Finally, as the budget debate drags on, questions will arise concerning the funding of "essential and statutory" services for the "operation of state government" in the context of Governor Malloy's executive order. Will reductions include payments to local governments, decreased allocations to private providers of social service and health programs and delayed bond commission payments for capital projects? Previous Attorney General opinions, relying on a 1892 State Supreme Court case (State v. Staub), authorized the Governor, in the absence of a state budget, to continue funding essential services of the state and provide for costs associated with statutory duties imposed on state officials, and costs incurred by statute. It appears Governor Malloy and his staff at the Office of Policy and Management will be spending many weeks this summer parsing what are "essential state services" requiring continued state funding.

Jane W. Murphy, Chair
860.240.6143
jmurphy@murthalaw.com

Elizabeth M. Gemski
860.240.6185
egemski@murthalaw.com

Michael J. Martone
860.240.6109
mmartone@murthalaw.com

David J. McQuade
860.240.6141
dmcquade@murthalaw.com

This is an update on Connecticut State Government and Politics from The Government Affairs Group of Murtha Cullina LLP.

Connecticut Member, State Law Resources, Inc.