Mister President, Mister Speaker, my fellow state officers, members of the General Assembly, members of the Judiciary, Reverend Clergy, my good friends throughout our state:

Four weeks ago, I stood at this rostrum for the first time as Governor of Connecticut. I talked of the many accomplishments of the past six years and the challenges that face us in the years ahead. My view of the state of the state was summed up in one sentence: "Government at all levels faces increasingly tough decisions, finding itself forced to do more with less."

The proposition I put before you in that message was a most difficult one to make, and a most difficult one to act on. The General Assembly has now made its decision, and we must move on.

Because of the withdrawal of federal revenue sharing funds, the deficit is now estimated at $21.7 million. You have given me the authority to cut state spending even further. Therefore, I am directing that additional agency budget reductions be made immediately:

***All automatic refills of vacant positions are cancelled;

***Refills of any positions, and filling of any new positions, will be approved only when absolutely critical to the public health, welfare or safety, or for the essential management of state responsibilities;

***All routine refills and hiring are frozen; and

***Selective additional cuts up to ten per cent in other agency expenses will be made, including further curtailment of out-of-state travel.

These agency reductions are designed to save an additional $3 million.

In addition, I am submitting legislation for your approval to eliminate the remainder of this year's "hold harmless" payments in the school equalization formula, cutting state spending by $6.8 million.
These reductions total $9.8 million. When combined with the $11.9 million, or 50 per cent, reduction you have just enacted in the Urban Problems Grant program, the new savings in the last half of this year's budget totals $21.7 million, the size of the projected deficit. And I must point out that the administration had already ordered $20 million in cuts in agency budgets for the last half of this year to bring the projected deficit down to the $21.7 million figure.

There is not enough leeway in this year's budget to make any other cuts that will produce the additional millions needed to cover the deficit.

The same kind of challenge faces us for the next fiscal year. The administration has already made significant cuts in agency budget requests, which originally totaled $3.165 billion. The tentative budget submitted to Governor Grasso in November totaled $3 billion, 70 million an initial cut of $95 million.

That budget was returned to the Office of Policy and Management with instructions to make further reductions, and they have been made. Another $63 million has been cut, and the total reduction now stands at $158 million. Cuts from the agency requests include inflation factors, requests for additional positions, increased grants to cities and towns, and higher grants in other areas.

The General Fund budget I propose for the fiscal year beginning July first is $3 billion, seven million. The capital bonding program totals $110 million.

The increase in the General Fund budget is $219.4 million, or 11.9 per cent, over estimated spending in the current fiscal year. However, to put this increase in proper perspective, it is necessary to point out that the great bulk of the increase represents our commitment of minimum increases to meet existing laws, contracts and court decisions.

These are concentrated in seven specific areas:

***$76 million is for equalized educational opportunities. Part of this proposal calls for the permanent elimination of the "hold harmless" provision of the equalization formula to make the formula more equitable;

*** When other state grants to municipalities are combined with educational grants, the increase in all state aid to cities and towns is 16 per cent, or $89 million, up to a total of $650.5 million. This is a substantial increase, even though this budget proposes elimination of the Urban Problems Grant program. The total of all state aid to municipalities is nearly 22 per cent of the entire state budget;

***$80 million is for collective bargaining agreements with state employees. Over 40 per cent of this amount is needed to fulfill existing contracts. The rest is set aside for contracts yet to be negotiated. Because our dollars are limited, a high degree of restraint is needed on the part of state employees and their bargaining agents. Failure to stay within the limits could necessitate employee layoffs.

***$33 million is for medicaid payments to meet higher costs of nursing home and hospital care, and payments to providers, for two distinct groups—the needy and our elderly. Unlike the situation in other states, local governments are not required to contribute any money.
cost-of-living adjustments. Again, cities and towns pay nothing toward the retirement of their teachers which now costs the state a total of $82.6 million;

*** $15 million is for increased debt service; and

***$12 million will meet the General Assembly's mandate for a change in funding of special revenue operations.

Aside from meeting our obligations in these seven areas, the spending needs of all state agencies are met within sharply defined limits and carefully set priorities.

As a result of intensive and effective state efforts during the past six years, a declining economy has been turned into an expanding economy in Connecticut. These efforts must and will continue.

The demand grows daily for assistance to cities and towns for sit for new business and industry, and to train workers in needed skills. A $2.8 million package of increases in the General Fund addresses these demands. Included are a 125 per cent increase in tax relief grants to distressed municipalities; a 20 per cent increase in urban jobs grants; a 23 per cent increase in the labor department's manpower training program; and more than $1.5 million to add 750 students to enrollments at the regional vocational technical schools and the Greater New Haven Technical College. And $10.5 million in new bond authority will expand the industrial parks program, assist minority businesses, and add to the job creating capability of the Connecticut Product Development Corporation.

The bond program also includes an $11 million housing package to help build new units and rehabilitate old ones. The new funds will add to the $80.7 million already in the pipeline for these projects in the state Department of Housing. In addition, they will supplement Connecticut Housing Finance Authority plans during the next three years for approximately $550 million worth of projects to build and rehabilitate nearly 11,000 units of housing for our citizens.

I am also proud to announce another significant step toward increasing the availability of good and affordable housing for our citizens. Connecticut is about to become one of the first states to commit millions of dollars in state pension funds to the mortgage market in cooperation with lending institutions. State Treasurer Hank Parker will begin to implement this innovative program in the coming weeks.

The program will help meet the housing needs of our people; it will be a prudent investment of pension funds that will yield an excellent return; and, best of all, it will not cost the taxpayers of Connecticut a single penny.

The state will continue its commitment to energy conservation. The capital bonding program directs $5 million to energy conservation in buildings.

In the area of transportation, the emphasis is on improving the road and highway system, and reducing the public transportation subsidy burden on taxpayers. The budget includes nearly $14 million in appropriations and bonds for rehabilitation and improvement work on state and local roads. Another $10 million in bonds will attract about $15 million in federal funds for a highway resurfacing program. The total of $25 million will enable the state to resurface approximately
Another $6 million in capital funds will be used to improve Route in Middletown and Cromwell in connection with a massive job-creating economic development project.

To reduce the level of tax-supported subsidies for buses and train fares will be sought so that the costs will be borne more by users and less by the taxing public. We cannot continue a system under which taxpayers contribute an average of $200 to $350 per year for every commuter on major bus lines, and an average of $700 to more than $1,000 for every commuter on the New Haven rail line.

Also on the expenditure side of the budget, the state will initiate a number of programs to make more effective use of our dollar Two Examples:

First, $544,000 is added to the Judicial Department budget to increase by $5.7 million per year collections from absent parents of children in the AFDC program.

Second, efforts will be stepped up to reduce leasing costs for office space used by state government. At the present time, nearly $11 million is spent annually for 432 separate leases for this space. Among other things, we intend to open talks with local officials on the feasibility of rehabilitating abandoned local schools for use as state government offices. This partnership will be a mutual benefit to the state and its municipalities.

The net growth in the number of state employees in this budget is zero. To balance the need for 600 new workers, the state plans to reduce the number of current employees by 600 through attrition.

Of these 600 positions, nearly 400 are concentrated in three areas: 207 to open the new Cheshire Youth Correctional Complex, which will help address the problem of overcrowding in our correctional facilities; 100 to staff new facilities in the Department of Mental Retardation; and 85 to staff new educational facilities including the technical schools.

In spite of all efforts to place strict controls on spending the pressures of inflation and the adverse impacts of the recession have left a revenue gap in this budget.

I do not propose to increase taxes on gasoline.
I do not propose to increase taxes on cigarettes.
I do not favor raising the sales tax.
And I continue to be opposed to a state personal income tax.

Last year, the emphasis in tax increases was in areas most directly impacting consumers. This year, the emphasis is on creating a more equalized structure for business taxes.

I therefore propose the enactment of a ten per cent tax on unincorporated business to bring greater equity to the entire business tax structure.
The new tax will contain exclusions to protect the smaller shopkeepers and businessmen and women who form the economic backbone of so many of our communities and neighborhoods.

It is estimated that there are approximately 125,000 unincorporated businesses in Connecticut which gross about $10 billion annually. The proposed tax will apply to approximately 20,000 of these businesses which gross about $7 billion per year. The anticipated revenue is $113 million. The protection for the more than 100,000 smaller businesses is in the form of an exclusion for any business with annual gross receipts of less than $100,000.

This tax on net profits is patterned closely after the existing corporation business tax. It will add to the state's resources the revenue of an area of the economy that, up to now, has not contributed to meeting the needs of our people. But these revenues will not be taken from the smaller establishments that would be damaged by such a tax.

As these proposals are reviewed by the General Assembly, my administration will be prepared to work closely with you.

On fact is clear. None of us in state and local government, in executive and legislative branches, can count on Washington to maintain its current level of payments to states and municipalities. There are already indications that the new administration plans to reduce federal spending. Those plans, if carried out, could impact the budgets of the state and its cities and towns.

These and all other factors will be reviewed constantly. My goal is to assure a fiscally sound and responsive budget that will meet the needs of our people within the limits of their ability to pay the bill.

Once again, hard decisions will have to be made to reach the goal. I pledge my cooperation, and I hope I will have yours. The people of Connecticut deserve no less.