

Fiscal Accountability Report
to the Appropriations and Finance Committees
as required by C.G.S. 2-36b

November 15, 2010

OFFICE OF FISCAL ANALYSIS

Room 5200, Legislative Office Building

Hartford, CT 06106 • (860) 240-0200

E-Mail: ofa@cga.ct.gov

www.cga.ct.gov/ofa

OFA STAFF

Alan Calandro, Director

| Christine Ashburn, Section Chief | |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| Sarah Bourne, Associate Analyst | Elementary Education, Dept. of Higher Education, Town Education Grants, School Construction |
| Don Chaffee, Principal Analyst | Budget Data Coordinator |
| Jennifer Proto, Analyst II | State Employees Fringe Benefits and Retirement, State Comptroller, DAS, Statewide Personnel Issues/Collective Bargaining |
| Alan Shepard, Principal Analyst | Constituent Units of Higher Education, Banking, Consumer Protection, Attorney General, DOIT |
| Holly Williams, Analyst I | Workers' Compensation, Statewide Personnel Issues/Collective Bargaining, Results Based Accountability (RBA) |

| Michael Murphy, Section Chief | |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| Evelyn Arnold, Analyst I | Public Safety, Firearm Permit Examiners, Fire Prevention, Emergency Management & Homeland Security, Veterans' Affairs, Military, SSMF, Federal Funds |
| Stephen Hunt, Analyst II | Judicial, Criminal Justice, Victim Advocate, Public Defender, Probate, Results Based Accountability (RBA) |
| Emily Shepard, Associate Analyst | DSS, DMHAS, Psychiatric Security Review Brd. |
| Joan Soulsby, Principal Analyst | DCF, Corrections, Federal Funds |
| Phoenix Young, Analyst II | Elections, Ethics, Freedom of Information, CHRO, DPUC, Governor, Lt. Governor, Sec. of State, Citizens' Election Fund |

| Chris Perillo, Section Chief | |
|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Neil Ayers, Principal Analyst | DSS, Aging, UConn Health Center |
| Christina Gellman, Principal Analyst | DDS, Teachers' Retirement, Serv. For the Blind, Deaf & Hearing Impaired |
| Kerry Kelley, Principal Analyst | OPM, Culture & Tourism, DECD, Workforce Competitiveness, Housing |
| Marcy Picano, Associate Analyst | DEP, Agriculture, Legislative Agencies, Ag. Experiment Station, Environmental Quality |
| Rachel Welch, Analyst II | DPH, Medical Examiner, Insurance Dept., Health Care Adv., Tobacco Settlement Agreement, Results Based Accountability (RBA) |

| Rob Wysock, Section Chief | |
|-------------------------------------|-----------------------------------------------------------------------------|
| William Lederman, Associate Analyst | Revenue Services, Special Revenue (Gambling), Tax Policy & Revenue Analysis |
| Linda Miller, Principal Analyst | Treasurer, Debt Service, Bonding, Public Works |
| Felix Planas, Principal Analyst | DMV, Transportation, Property Tax |
| Chris Wetzel, Analyst II | Labor, Spending Cap, Tax Policy & Revenue Analysis |

Administrative Staff

Laurie L. Wysock, Secretary to the Director
Theresa Kelly, Senior Legislative Secretary
Lisa Kiro, Staff Assistant/Fiscal Note Coordinator

TABLE OF CONTENTS

| | |
|---------------------------------------------------------------------------------------------------------------------------|----|
| Introduction..... | 1 |
| 1) FY 11 - FY 14 Budget Estimates and Assumptions for Appropriated Funds | 2 |
| Summary | 2 |
| Expenditure Detail..... | 4 |
| Revenue Detail | 8 |
| Other Appropriated Funds | 13 |
| 2) FY 11 - FY 14 Tax Credit Estimates and Assumptions | 15 |
| 3) FY 11 Deficiencies | 16 |
| 4) FY 11 - FY 14 Budget Reserve Fund Estimates | 17 |
| 5) FY 11 - FY 14 Projected Bonding and Debt Service..... | 18 |
| 6) Analysis of Revenue and Expenditure Trends and Major Cost Drivers; Areas of Concern; Federal Fund Maximization..... | 20 |
| Summary | 20 |
| Long Term Obligations..... | 20 |
| Major Expenditure Growth Areas | 23 |
| Debt Burden..... | 24 |
| Efforts to Maximize Federal Funds | 26 |
| Tax Volatility: General Fund Surpluses and Deficits Follow Estimated and Final Income Tax Payments..... | 32 |
| 7) Possible Uses of Surplus Funds..... | 33 |
| Use of Surplus | 33 |
| Historical Review of Recent Uses of Surplus..... | 33 |
| Appendix A: Statutory Requirements..... | 35 |
| Appendix B: State Tax Expenditure Summary | 36 |
| Appendix C: Detail on Agency Deficiencies | 42 |

Introduction

Connecticut law (CGS Sec. 2-36b) requires the Office of Fiscal Analysis every November 15 to report on seven topic areas related to state spending and revenue.

The following report is structured in accordance with those statutorily mandated areas and is therefore organized into seven parts as follows:

1. FY 11 - FY 14 budget estimates and assumptions;
2. FY 11 - FY 14 tax credit estimates and assumptions;
3. FY 11 deficiencies;
4. FY 11 - FY 14 Budget Reserve Fund estimates;
5. FY 11 - FY 14 bonding and debt service estimates;
6. budget trends and areas of concern; and
7. possible uses of surplus funds.

A complete listing of CGS Sec. 2-36b can be found in Appendix A.

Section 1: FY 11 – FY 14 Budget Estimates and Assumptions for Appropriated Funds

Summary

General Fund

We are currently projecting an \$83.0 million deficit for the current year, FY 11. Although estimated net revenues have improved by \$267.4 million since the year began, these are more than outweighed by an additional \$350.6 million in additional estimated expenditures or unrealized budget reductions.

We continue to project significant deficits in the out-years (FY 12 – FY 14) ranging from \$3.31 billion to \$3.67 billion or 15.4% to 18.3% of estimated spending requirements. The deficits increase significantly in the out-years as the one-time infusions (about \$2.4 billion in FY 11) of federal stimulus, rainy day funds, economic recovery revenue bonds, surplus funds, and elimination of a corporation tax surcharge are no longer available.

| (\$ - millions) | FY 11 | FY 12 | FY 13 | FY 14 |
|-------------------------------|-----------------|--------------------|--------------------|--------------------|
| Est. Expenditures | \$ 18,017.8 | \$ 20,065.9 | \$ 20,741.4 | \$ 21,539.6 |
| Est. Revenue | 17,934.8 | 16,392.6 | 17,254.8 | 18,221.8 |
| Est. (Deficit)/Surplus | (\$83.0) | (\$3,673.3) | (\$3,486.6) | (\$3,317.8) |
| % of Est. Expenditures | 0.5% | 18.3% | 16.8% | 15.4% |

Transportation Fund

Our projections for the STF indicate that estimated expenditures will increase faster than estimated revenues, which will result in annual operating deficits between FY 12 and FY 14 resulting in a cumulative deficit of \$43.9 million by FY 14.

| (\$ - millions) | FY 11 | FY 12 | FY 13 | FY 14 |
|---------------------------------------|---------|----------|----------|----------|
| Operating Balance - Surplus/(Deficit) | \$ 4.1 | (\$71.4) | (\$39.6) | (\$38.2) |
| % of Expenditures | 0.3% | (5.5%) | (3.0%) | (2.8%) |
| Expenditures | 1,178.2 | 1,289.9 | 1,321.0 | 1,343.4 |
| Revenues | 1,182.3 | 1,218.5 | 1,281.4 | 1,305.2 |
| Cumulative Fund Balance/(Deficit) | 105.3 | 33.9 | (5.7) | (43.9) |

Other Appropriated Funds

In total, the eight other appropriated funds are projected to run an operating deficit in FY 11 with operating surpluses in FY 12 through FY 14. Transfers (i.e., sweeps) from

these funds to the General Fund were made to help balance the FY 11 General Fund budget. As a consequence of the transfers, the total fund balance for the eight other appropriated funds decreased from \$58.4 million in FY 10 to an estimated \$34.1 million at the end of FY 11. Fund balances are expected to return to the FY 10 level absent future transfers to the General Fund.

| (\$ - millions) | FY 11 | FY 12 | FY 13 | FY 14 |
|-----------------------------|--------------|--------------|--------------|--------------|
| Est. Expenditures | \$162.8 | \$242.5 | \$241.8 | \$244.9 |
| Est. Revenue | 161.5 | 252.7 | 242.8 | 250.7 |
| Operating (Deficit)/Surplus | (1.3) | 10.2 | 1.0 | 5.8 |
| Transfers | (23.1) | 2.9 | 2.9 | 2.9 |
| Fund Balance | 34.1 | 47.1 | 50.9 | 59.8 |

Spending Cap

The state is under the spending cap in FY 11 but is projected to be over the cap in FY 12 – FY 14. The calculations are based on current services estimates of all appropriated funds, and assume that expenditure amounts in excess of the cap are not built into the subsequent year’s base for cap calculation purposes.

| (\$ - millions) | FY 11 | FY 12 | FY 13 | FY 14 |
|-------------------------------------|--------------|--------------|--------------|--------------|
| Approp. Allowed by Cap | \$ 19,348.4 | \$ 20,411.3 | \$ 20,962.4 | \$ 21,493.4 |
| Estimated Expenditures ¹ | 19,308.0 | 21,549.5 | 22,252.0 | 23,073.3 |
| \$ Over/(Under) the Cap | (40.4) | 1,138.2 | 1,289.6 | 1,579.9 |

¹ Figure assumes a deficiency appropriation in FY 11.

Expenditure Detail

FY 11

The calculation of the estimated deficit of \$83.0 million for FY 11 includes the following:

- \$267.4 million in higher revenue since originally estimated and
- \$350.6 million higher expenditures than originally budgeted.

| FY 11 General Fund Summary (\$ - millions) | | | |
|--------------------------------------------|-----------------|---------------|-----------------|
| | Budget | Increases | |
| | Plan | (Decreases) | Projected |
| Appropriations | \$17,963.5 | \$ - | \$17,963.5 |
| Adjustments: | | | |
| FY 11 Deficiency Requirements | - | 234.3 | 234.3 |
| Adjudicated Claims | - | 3.9 | 3.9 |
| Refunds of Escheated Property | - | 56.0 | 56.0 |
| Budgeted Lapses | (296.3) | 56.4 | (239.9) |
| Total [2] | 17,667.2 | 350.6 | 18,017.8 |
| Revenues | | | |
| Taxes | 10,921.7 | 362.2 | 11,283.9 |
| Other Revenue | 1,202.7 | 3.6 | 1,206.3 |
| Other Sources | 5,543.0 | (98.4) | 5,444.6 |
| Total | 17,667.4 | 267.4 | 17,934.8 |
| Est. Surplus/(Deficit) | 0.2 | (83.2) | (83.0) |

Lapses

The FY 11 revised budget included \$296.3 million in lapses (or 1.6% of the budget), of this total \$239.9 million is anticipated to remain unexpended, either through normal spending patterns (most agencies do not expend their full appropriation), or through “mandated” savings.

FY 12 – FY 14: Assumptions Used to Develop Expenditure Estimates

Our projections reflect a current services methodology. Current Services is the amount required in order to provide in the succeeding fiscal year the same services as in the current fiscal year plus any scheduled changes or required changes. Estimated Expenditures are updated, for example, for: (1) inflation, (2) annualization of partial year costs, (3) projected increases or decreases in caseload, (4) completion of projects, (4) collective bargaining increases, (5) costs mandated by statute or court order, and (6) the scheduled opening of new buildings.

Inflation

To project inflation, the Office of Fiscal Analysis used information from:

- the Congressional Budget Office’s (CBO) August economic outlook for the core consumer price index, which excludes food and energy;
- Moody’s Economy.com October outlook for electricity, natural gas, motor vehicle fuel, fuel oil, and food costs;
- the Center for Medicare & Medicaid Service’s (CMS) September 2010 projections for national health expenditures;
- the CT Teachers’ Retirement System June 30, 2010 valuation;
- average statewide historical wage increases; and
- average teacher contract settlements.

| Inflationary Assumptions used by OFA to Estimate Current Services Needs | | | | |
|-------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------------------------------------------|
| Inflation Category | FY 12 | FY 13 | FY 14 | Source or Methodology |
| Base * | 1.1% | 1.6% | 1.9% | Congressional Budget Office |
| Personal Services / Salary | 4.4% | 4.4% | 4.4% | Average historical wage increases |
| Electricity | 5.0% | 4.6% | 3.8% | Moody's Economy.com, October 22, 2010 |
| Natural Gas | 5.0% | 4.6% | 3.8% | Moody's Economy.com, October 22, 2010 |
| Motor Vehicle Fuel | 7.1% | 3.8% | 3.2% | Moody's Economy.com, October 22, 2010 |
| Fuel Oil | 5.0% | 4.6% | 3.8% | Moody's Economy.com, October 22, 2010 |
| Medical | 5.2% | 6.1% | 9.2% | Center for Medicare & Medicaid Services |
| Teacher's Pension Payroll Factor | 4.0% | 4.0% | 4.0% | CT Teachers' Retirement System Valuation 6/30/10 |
| Food | 1.8% | 1.8% | 1.8% | Moody's Economy.com, October 22, 2010 |
| Education | 2.8% | 3.0% | 3.0% | Average teacher contract settlements |
| Non Inflationary ** | 0.0% | 0.0% | 0.0% | N/A |
| * Standard inflation rate not included in the other categories listed; equivalent to OPM's "All Other" category. | | | | |
| ** Inflation has no direct impact on some state costs. For instance, statute determines the prices for services billed to Medicaid. | | | | |

| Inflationary Adjustments (All Appropriated Funds) | | | | | | |
|----------------------------------------------------------|-------|-------------------------|-------|-------------------------|-------|-------------------------|
| Type | FY 12 | FY 12 Inflation Amounts | FY 13 | FY 13 Inflation Amounts | FY 14 | FY 14 Inflation Amounts |
| Base | 1.1% | \$41,339,190 | 1.6% | \$55,291,534 | 1.9% | \$67,620,292 |
| Education | 2.8% | 56,598,228 | 3.0% | 63,652,937 | 3.0% | 65,568,890 |
| Electricity | 5.0% | 1,526,680 | 4.6% | 1,599,945 | 3.8% | 1,651,589 |
| Food | 1.8% | 1,314,248 | 1.8% | 1,383,512 | 1.8% | 1,431,706 |
| Fuel Oil | 5.0% | 778,349 | 4.6% | 764,932 | 3.8% | 697,697 |
| Medical | 5.2% | 41,902,099 | 6.1% | 52,835,879 | 9.2% | 83,601,018 |
| MV Fuel | 7.1% | 408,705 | 3.8% | 405,612 | 3.2% | 422,739 |
| Nat Gas | 5.0% | 559,956 | 4.6% | 588,601 | 3.8% | 610,355 |
| Personal Services/Salary | 4.4% | 165,343,712 | 4.4% | 172,557,435 | 4.4% | 180,809,145 |
| Teacher's Pension Payroll Factor | 4.0% | 23,263,729 | 4.0% | 30,289,840 | 4.0% | 31,501,434 |
| Total | | 333,034,896 | | 379,370,227 | | 433,914,865 |

Other Adjustments

In addition to inflation, other adjustments are made to FY 11 estimated expenditures to calculate current services requirements in FY 12 and beyond. The major categories of adjustments are listed below.

1. **Pension Obligations:** estimate of the state's required contribution to fund ongoing and past pension liabilities.
2. **Caseload Adjustments:** budgeted funding necessary to accommodate changes in caseload for entitlement and certain nonentitlement programs.
3. **Formula Adjustments:** resources needed to fund certain grants in accordance with current statutory formulas.
4. **Mandatory Rate and Standards Adjustments:** adjustments to the reimbursement rate paid to managed health care, cash assistance, and long-term care programs that provide additional funding to cover increased operating costs.
5. **Debt Service:** contractual commitment to pay the principal and interest on existing and future debt obligations.
6. **Annualization of Partial Year Costs/Funding:** resources needed to operate a program for 12 months in the second year if the program was funded for less than 12 months in its first year of operation.
7. **Scheduled Policy Changes:** budget adjustments needed to accommodate new commitments scheduled to take effect in the outyears.
8. **New Facilities:** resources needed to operate new state-owned facilities.
9. **Other Adjustments:** miscellaneous adjustments needed to maintain current services funding levels in various line items.

| Other Current Services Adjustments (All Appropriated Funds) | | | |
|--------------------------------------------------------------------|------------------------|----------------------|-----------------------|
| | FY 12 | FY 13 | FY 14 |
| Pension Obligations | \$366,934,999 | \$ 30,248,000 | \$ 44,528,000 |
| Caseload Adjustments | 331,585,504 | 210,960,164 | 214,777,993 |
| Formula Adjustments | 410,953,791 | 90,334,182 | 82,464,085 |
| Mandatory Rates and Standards Adjustments | 313,038,613 | 126,705,701 | 95,264,018 |
| Debt Service | 272,233,406 | 39,836,185 | 44,777,158 |
| Annualization of Partial Year Costs/Funding | 25,622,891 | 2,573,035 | - |
| Scheduled Policy Changes | 5,984,127 | 1,436,519 | (76,367) |
| New Facilities | - | 5,064,437 | 5,859,883 |
| Other Adjustments | (154,308,014) | (95,964,806) | (101,534,370) |
| Total | \$1,572,045,317 | \$411,193,417 | \$ 386,060,400 |

Revenue Detail

General Fund Overview

FY 11

The consensus revenue estimates developed jointly with the Office of Policy and Management (OPM) in October reflect a net revenue increase of \$267.4 million above FY 11 budget estimates.

The upward revision is largely attributable to three increases:

- \$127.5 million in the income tax due to the continuation of positive end-of-year FY 10 revenue trends into FY 11, particularly with respect to estimated and final payments;
- \$149.5 million in the sales and use tax, also due to positive FY 10 trends carrying over into the current fiscal year; and
- \$40.0 million in the inheritance and estate tax, due to a large deposit in the first quarter of the fiscal year.

These increases are partially offset by two decreases:

- \$99.0 million in federal grants, which is a net of: (1) a \$175.5 million² decrease in one-time federal stimulus funding through the American Recovery and Reinvestment Act of 2009, and (2) \$76.5 million in additional federal revenues, which is primarily due to the anticipated Medicaid deficiency of \$177.4 million.
- \$12.2 million in the real estate conveyance tax, which reflects the continuing decline in home prices.

Connecticut's overall economy is anticipated to grow at a 2.7% rate in FY 11, which will have a positive impact on revenue collections (see growth rates below). The major tax categories are expected to reflect modest economic growth, with: (1) moderate growth in wages and personal income, which will be tempered by high unemployment levels, and (2) depressed real estate prices that continue through the end of the fiscal year.

FY 12 - FY 14

The nascent economic recovery currently underway is anticipated to continue into the outyears. Economic growth is expected to return to healthy levels in FY 13, although unemployment may remain elevated until FY 14. This trend is reflected in the outyear revenue-growth figures, with most major tax categories increasing through FY 13 and then moderating in FY 14.

² This reduction consists of \$76.5 million in lower federal matching percentages for state Medicaid expenditures in the second half of the fiscal year and \$99.1 million due to the failure of the federal government to extend Education Stabilization funding.

A steady increase in personal income through the outyears is anticipated to have a positive impact on personal income tax collections, especially with regard to estimated and final payments. Capital gains realizations are expected to grow by 43.6.% and 40.3% in calendar years 2012 and 2013, respectively, which will produce projected double-digit growth rates in estimated and final payments in FY 12 and FY 13. Decreases in unemployment through FY 14 will result in steady growth in withholding receipts.

General Fund Consensus Revenues - October 15, 2010

| General Fund (\$ - millions) | | | | | | |
|-----------------------------------|------------------|------------------------|--------------------|--------------------|--------------------|--------------------|
| | FY 11 Budget | Consensus Revisions | FY 11 Consensus | FY 12 Consensus | FY 13 Consensus | FY 14 Consensus |
| Taxes | | | | | | |
| Personal Income | \$6,682.5 | \$127.5 | \$6,810.0 | \$7,357.5 | \$8,005.0 | \$8,576.2 |
| Sales and Use | 3,164.9 | 149.5 | 3,314.4 | 3,428.4 | 3,564.1 | 3,679.3 |
| Corporations | 662.9 | (2.4) | 660.5 | 649.4 | 674.7 | 711.5 |
| Public Service Corporations | 271.4 | 1.9 | 273.3 | 278.9 | 285.6 | 293.7 |
| Inheritance and Estate | 99 | 40 | 139 | 103.3 | 107 | 110.2 |
| Insurance Companies | 223.9 | 4 | 227.9 | 231.4 | 235.1 | 235.2 |
| Cigarettes | 386.5 | 16 | 402.5 | 391.5 | 380.7 | 370.3 |
| Real Estate Conveyance | 113.2 | -12.2 | 101 | 107 | 116.7 | 125.4 |
| Oil Companies | 107.7 | 2 | 109.7 | 121.5 | 127 | 117.4 |
| Alcoholic Beverages | 48.1 | 0.6 | 48.7 | 49.2 | 50 | 50.5 |
| Admissions, Dues and Cabaret | 36.5 | -1.4 | 35.1 | 35.6 | 36.2 | 36.5 |
| Miscellaneous | 144.9 | -3.5 | 141.4 | 141.5 | 141.4 | 141.4 |
| Total Taxes | 11,941.50 | 322 | 12,263.50 | 12,895.20 | 13,723.50 | 14,447.60 |
| Refunds of Taxes | -1,009.30 | 39.3 | -970 | -1,030.50 | -1,074.40 | -1,119.50 |
| R & D Credit Exchange | -10.5 | 0.9 | -9.6 | -10.5 | -11 | -11.5 |
| Taxes Less Refunds | 10,921.70 | 362.2 | 11,283.90 | 11,854.20 | 12,638.10 | 13,316.60 |
| | | | | | | |
| Other Revenue | | | | | | |
| Transfer Special Revenue | 295.1 | -4.1 | 291 | 292.6 | 293.9 | 295.3 |
| Indian Gaming Payments | 365.8 | 1 | 366.8 | 381.8 | 393.6 | 403.6 |
| Licenses, Permits and Fees | 235.4 | 6.1 | 241.5 | 263.5 | 245.2 | 266.5 |
| Sales of Commodities and Services | 34.3 | 1.5 | 35.8 | 36.4 | 37.3 | 38.2 |
| Rentals, Fines and Escheats | 99.5 | 8.2 | 107.7 | 96.9 | 98.6 | 100.5 |
| Investment Income | 6.5 | -3 | 3.5 | 7.5 | 11 | 12.5 |
| Miscellaneous | 167 | -5.7 | 161.3 | 163.3 | 164.2 | 165.1 |
| Refunds of Payments | -0.9 | -0.4 | -1.3 | -1.4 | -1.6 | -1.7 |
| Total Other Revenue | 1,202.70 | 3.6 | 1,206.30 | 1,240.60 | 1,242.20 | 1,280.00 |

| General Fund (\$ - millions) | | | | | | |
|------------------------------------------|--------------------|------------------------|--------------------|--------------------|--------------------|--------------------|
| | FY 11 Budget | Consensus Revisions | FY 11 Consensus | FY 12 Consensus | FY 13 Consensus | FY 14 Consensus |
| Other Sources | | | | | | |
| Federal Grants | 4,256.00 | -99 | 4,157.00 | 3,454.60 | 3,580.60 | 3,832.00 |
| Transfer from Tobacco Settlement Fund | 1,354.10 | - | 1,354.10 | - | - | - |
| Transfer From/ (To) Other Funds | 102.3 | 0.6 | 102.9 | 102.3 | 101.7 | 101 |
| Total Other Sources | -169.4 | - | -169.4 | -259.1 | -307.8 | -307.8 |
| | 5,543.00 | -98.4 | 5,444.60 | 3,297.80 | 3,374.50 | 3,625.20 |
| | | | | | | |
| Total Revenue | \$17,667.40 | \$267.40 | \$17,934.80 | \$16,392.60 | \$17,254.80 | \$18,221.80 |

Assumptions Used to Develop Revenue Estimates

The economic growth rates used to develop the consensus revenue projections presented above are based on economic indicators (see table below) from Moody's Economy.com and the Bureau of Labor Statistics, in conjunction with actual revenue collection figures from prior years.

| CT Economic Indicators | | | | | |
|---------------------------------------------------------|-------|-------|-------|-------|-------|
| | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |
| Gross State Product | 0.1% | 2.7% | 4.9% | 5.7% | 3.5% |
| Real Personal Income | -2.1% | 0.6% | 2.5% | 4.5% | 4.3% |
| Avg. Annual Wages (Ths.)* | 59.6 | 60.2 | 62.7 | 66.4 | 69.9 |
| Nonfarm Employment | -1.3% | -0.8% | 1.3% | 2.1% | 1.7% |
| Unemployment Rate | 8.8% | 9.3% | 8.8% | 7.1% | 5.7% |
| Total Retail Sales | 6.5% | 2.9% | 4.3% | 4.0% | 2.3% |
| Real Estate Prices | -1.0% | -5.1% | -5.4% | 7.4% | 11.3% |
| Delinquencies & Foreclosures (as a % of total loans) | 8.6% | 8.2% | 7.0% | 6.1% | 5.5% |
| * Ths. denotes thousands | | | | | |

Economic Growth Rates for Projected Tax Revenues
(Percent Change from Previous Fiscal Year)

| General Fund | | | | |
|------------------------------|--------------|--------------|--------------|--------------|
| | FY 11 | FY 12 | FY 13 | FY 14 |
| Personal Income | 7.1% | 8.0% | 8.8% | 7.1% |
| Withholding | 2.6% | 4.0% | 3.7% | 5.5% |
| Estimates & Finals | 13.0% | 15.8% | 17.5% | 9.7% |
| Sales and Use | 4.6% | 3.2% | 4.2% | 3.2% |
| Corporations | 8.5% | 0.3% | 3.9% | 5.5% |
| Public Service Corporations | 2.0% | 2.1% | 2.4% | 2.8% |
| Inheritance and Estate | 17.0% | 3.1% | 3.6% | 3.0% |
| Insurance Companies | 0.6% | 1.5% | 1.6% | 0.1% |
| Cigarettes | -1.4% | -2.7% | -2.8% | -2.7% |
| Real Estate Conveyance | 2.4% | 6.0% | 9.1% | 7.5% |
| Oil Companies | 3.8% | 4.2% | 1.9% | 12.2% |
| Alcoholic Beverages | 1.0% | 1.0% | 1.6% | 1.0% |
| Admissions, Dues and Cabaret | 1.9% | 1.3% | 1.6% | 0.9% |

Transportation Fund

FY 11

The consensus FY 11 projections for the Special Transportation Fund (STF) indicate a net increase in the fund’s operating surplus from \$3.1 million to \$4.1 million. The net increase is a combination of:

- A \$2.3 million increase in STF revenue (see table below);
- A \$2.1 million reduction in debt service expenditures due to lower interest rates; and
- A \$1.3 million deficiency in the workers’ compensation claims account³.

³ The \$1.3 million deficiency, which is approximately 20% of the total FY 11 revised appropriation, is the result of: (1) a rollout of the FY 10 deficiency, and (2) an increase in medical costs. It should be noted that even though an additional \$1.5 million was provided in FY 11 to annualize a portion of the FY 10 deficiency in this account, the FY 11 appropriation is approximately \$2 million less than actual FY 10 expenditures. The workers’ compensation claims account is under the Department of Administrative Services. Funding within the STF portion of the account is used to pay workers’ compensation claims for the Department of Transportation and the Department of Motor Vehicles.

| FY 11 Special Transportation Fund Consensus Revenues | | | |
|-------------------------------------------------------------|---------------------|---------------------------|------------------------|
| (\$ - millions) | FY 11 Budget | Consensus Revision | FY 11 Consensus |
| Taxes | | | |
| Motor Fuels Tax | \$489.7 | 1.0 | \$490.7 |
| Petroleum Products Tax | 165.3 | 0.0 | 165.3 |
| Sales Tax - DMV | 65.3 | 2.5 | 67.8 |
| Refund of Taxes | (6.9) | (0.3) | (7.2) |
| Total | \$713.4 | 3.2 | \$716.6 |
| Other Revenues | | | |
| Motor Vehicle Receipts | \$225.2 | (0.5) | \$224.7 |
| License, Permits and Fees | 137.3 | (0.2) | 137.1 |
| Interest Income | 15.0 | 0.0 | 15.0 |
| Federal Grants | 5.8 | 0.0 | 5.8 |
| Transfer From/(To) Other Funds | 101.1 | 0.0 | 101.1 |
| Total | \$484.4 | (0.7) | \$483.7 |
| Less Refunds of Payments | (\$2.5) | (0.2) | (\$2.7) |
| Less Transfers to TSB Account | (15.3) | 0.0 | (15.3) |
| Total Revenues | \$1,180.0 | 2.3 | \$1,182.3 |

| Special Transportation Fund Revenue (\$ - millions) | | | | | | |
|------------------------------------------------------------|---------------------|------------------|------------------------|------------------------|------------------------|------------------------|
| | FY 11 Budget | Revisions | FY 11 Consensus | FY 12 Consensus | FY 13 Consensus | FY 14 Consensus |
| Taxes | | | | | | |
| Motor Fuels Tax | \$489.70 | \$1.00 | \$490.70 | \$497.50 | \$501.10 | \$504.70 |
| Oil Companies Tax | 165.3 | - | 165.3 | 165.3 | 165.3 | 179.2 |
| Sales Tax - DMV | 65.3 | 2.5 | 67.8 | 68.8 | 70.5 | 70.5 |
| Total Taxes | 720.3 | 3.5 | 723.8 | 731.6 | 736.9 | 754.4 |
| Less Refunds of Taxes | -6.9 | -0.3 | -7.2 | -7.3 | -7.5 | -7.7 |
| Total - Taxes Less Refunds | 713.4 | 3.2 | 716.6 | 724.3 | 729.4 | 746.7 |
| Other Sources | | | | | | |
| Motor Vehicle Receipts | 225.2 | -0.5 | 224.7 | 228.9 | 233.9 | 238.5 |
| Licenses, Permits, Fees | 137.3 | -0.2 | 137.1 | 140 | 142.2 | 144.2 |
| Interest Income | 15 | - | 15 | 20 | 22 | 22 |
| Federal Grants | 5.8 | - | 5.8 | 5.8 | 5.8 | 5.8 |
| Transfers From (To) Other Funds | 85.8 | - | 85.8 | 102.3 | 151 | 151 |
| Less Refunds of Payments | -2.5 | -0.2 | -2.7 | -2.8 | -2.9 | -3 |
| Total - Other Sources | 466.6 | -0.9 | 465.7 | 494.2 | 552 | 558.5 |
| Total - STF Revenues | \$1,180.00 | \$2.30 | \$1,182.30 | \$1,218.50 | \$1,281.40 | \$1,305.20 |

Other Appropriated Funds

| Other Appropriated Funds Projected Revenues, Expenditures and Ending Balances | | | | | | |
|-------------------------------------------------------------------------------|--------------|--------------|--------------|---------------|---------------|---------------|
| | FY 09 | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |
| | actual | actual | estimated | projected | projected | projected |
| MASHANTUCKET PEQUOT AND MOHEGAN FUND [1] | | | | | | |
| Beginning Balance | 6,898,519 | 50,000 | 70,093 | 90,186 | 90,186 | 90,186 |
| Revenue | 86,300,000 | 61,800,000 | 61,800,000 | 135,000,000 | 135,000,000 | 135,000,000 |
| Expenditures | (92,998,519) | (61,779,907) | (61,779,907) | (135,000,000) | (135,000,000) | (135,000,000) |
| Transfers | (150,000) | - | - | - | - | - |
| Ending Balance | 50,000 | 70,093 | 90,186 | 90,186 | 90,186 | 90,186 |
| REGIONAL MARKET OPERATION FUND [2] | | | | | | |
| Beginning Balance | 1,089,686 | 915,071 | 982,139 | 999,698 | 1,014,344 | 1,050,906 |
| Revenue | 967,700 | 949,542 | 968,532 | 987,903 | 1,007,661 | 1,027,814 |
| Expenditures | (1,142,315) | (882,473) | (950,974) | (973,257) | (971,099) | (999,947) |
| Transfers | - | - | - | - | - | - |
| Ending Balance | 915,071 | 982,139 | 999,698 | 1,014,344 | 1,050,906 | 1,078,773 |
| BANKING FUND [3] | | | | | | |
| Beginning Balance | 53,811,250 | 21,293,993 | 20,939,215 | 10,961,532 | 17,331,741 | 25,414,346 |
| Revenue | 20,493,591 | 32,858,867 | 34,642,000 | 32,440,000 | 31,361,000 | 32,440,000 |
| Expenditures | (32,010,845) | (18,213,646) | (24,019,683) | (26,069,791) | (23,278,396) | (23,054,270) |
| Transfers | (21,000,000) | (15,000,000) | (20,600,000) | - | - | - |
| Ending Balance | 21,293,996 | 20,939,215 | 10,961,532 | 17,331,741 | 25,414,345 | 34,800,075 |
| INSURANCE FUND [4] | | | | | | |
| Beginning Balance | 7,348,865 | 5,788,478 | 11,500,142 | 8,504,736 | 8,931,777 | 9,450,629 |
| Revenue | 23,122,139 | 29,016,419 | 23,000,000 | 27,500,000 | 28,325,000 | 29,500,000 |
| Expenditures | (23,682,526) | (23,304,755) | (25,995,406) | -27,072,959 | (27,806,148) | (28,975,386) |
| Transfers | (1,000,000) | - | - | - | - | - |
| Ending Balance | 5,788,478 | 11,500,142 | 8,504,736 | 8,931,777 | 9,450,629 | 9,975,243 |
| CONSUMER COUNSEL AND PUBLIC UTILITY CONTROL FUND [5] | | | | | | |
| Beginning Balance | 8,786,601 | 7,203,817 | 7,767,387 | 8,492,891 | 7,611,016 | 6,832,380 |
| Revenue | 22,845,624 | 21,114,456 | 23,362,800 | 24,075,500 | 24,797,765 | 25,541,698 |
| Expenditures | (20,928,407) | (20,550,887) | (22,637,296) | (24,957,375) | (25,576,401) | (26,564,833) |
| Transfers | (3,500,000) | - | - | - | - | - |
| Ending Balance | 7,203,817 | 7,767,387 | 8,492,891 | 7,611,016 | 6,832,380 | 5,809,244 |
| WORKERS' COMPENSATION FUND [6] | | | | | | |
| Beginning Balance | 13,419,348 | 6,867,522 | 17,608,529 | 6,988,219 | 14,435,912 | 10,952,731 |
| Revenue | 22,397,105 | 30,413,151 | 14,455,221 | 29,366,194 | 18,986,791 | 23,865,093 |
| Expenditures | (21,948,931) | (19,672,144) | (21,075,531) | (21,918,501) | (22,469,972) | (23,322,853) |
| Transfers | (7,000,000) | - | (4,000,000) | - | - | - |
| Ending Balance | 6,867,522 | 17,608,529 | 6,988,219 | 14,435,912 | 10,952,731 | 11,494,971 |
| CRIMINAL INJURIES COMPENSATION FUND [7] | | | | | | |
| Beginning Balance | 6,111,136 | 5,698,827 | 3,477,978 | 2,106,030 | 1,940,228 | 1,683,665 |
| Revenue | 3,208,195 | 3,164,257 | 3,311,650 | 3,311,650 | 3,311,650 | 3,311,650 |
| Expenditures | (2,620,504) | (3,110,107) | (3,408,598) | (3,477,452) | (3,568,213) | (3,694,528) |
| Transfers | (1,000,000) | (2,275,000) | (1,275,000) | - | - | - |
| Ending Balance | 5,698,827 | 3,477,978 | 2,106,030 | 1,940,228 | 1,683,665 | 1,300,787 |
| SOLDIERS, SAILORS AND MARINES' FUND [8] | | | | | | |
| Trust Fund Value as of June 30, 2010, was \$61.7 million | | | | | | |
| Special Revenue Fund Balance - Beginning | (3,698,327) | (3,786,258) | (3,960,018) | (4,073,612) | (4,259,708) | (4,492,075) |

| Other Appropriated Funds Projected Revenues, Expenditures and Ending Balances | | | | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|------------------|------------------|------------------|------------------|
| | FY 09 | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |
| | actual | actual | estimated | projected | projected | projected |
| Revenue [9],[10] | 2,018 | (120) | - | - | - | - |
| Expenditures | (3,198,885) | (2,935,397) | (2,930,464) | (3,059,303) | (3,163,038) | (3,287,443) |
| Transfers from the Trust Fund | 3,108,936 | 2,761,637 | 2,816,870 | 2,873,207 | 2,930,671 | 2,989,285 |
| Special Revenue Fund Balance - Ending | (3,786,258) | (3,960,138) | (4,073,612) | (4,259,708) | (4,492,075) | (4,790,233) |
| TOTAL | | | | | | |
| Beginning Balance | 93,767,077 | 44,031,453 | 58,385,347 | 34,069,561 | 47,095,377 | 50,982,648 |
| Revenue | 179,336,371 | 179,316,572 | 161,540,203 | 252,681,247 | 242,789,867 | 250,686,255 |
| Expenditures | (198,530,933) | (150,449,315) | (162,797,859) | (242,528,638) | (241,833,267) | (244,899,260) |
| Transfers | (30,541,064) | (14,513,363) | (23,058,130) | 2,873,207 | 2,930,671 | 2,989,285 |
| Ending Balance | 44,031,453 | 58,385,347 | 34,069,561 | 47,095,377 | 50,982,648 | 59,758,928 |
| Assumptions and Notes: | | | | | | |
| Except for the Mashantucket Pequot and Mohegan Fund, expenditures are projected to increase by the standard rates of inflation described elsewhere in this report. | | | | | | |
| In addition to inflation, expenditures for the 27th payroll in FY 12, establishment of the GAAP Salary Reserve Account and RIP accrual payouts are assumed in each fund listed above which supports personnel. | | | | | | |
| (The Mashantucket Pequot and Mohegan Fund, and the Criminal Injuries Compensation Fund do not support personnel and therefore are not adjusted in this manner.) | | | | | | |
| [1] FY 12-14 assumes full funding of grant of \$135M, pursuant to CGS 3-55i. For FY 09-11, the grant was pro-rated to available appropriations. | | | | | | |
| [2] Revenue for FY 11, FY 12, FY 13, and FY 14 is anticipated to increase 2% per year based on recent historical trends for the past three (3) fiscal years. | | | | | | |
| [3] Revenue for FY 12-14 assumes \$5 million in penalties for brokers/Investment advisers per year. This is the average in penalties received in the previous two years. | | | | | | |
| [4] The FY 10 Insurance Fund (IF) ending balance was larger than typical primarily due to two factors: (1) The creation of a mandated health benefit review program in this year, increasing revenues that were expended in FY 11, and (2) an inability to re-fill vacancies in DOI and the Office of the Healthcare Advocate. FY 12 - FY 14 revenue projections are adjusted assuming an approximate annual increase of 2.5% in expenditures. | | | | | | |
| [5] Revenue for FY 11 increased to cover additional expenditures that will be made from the PUC Fund for OPM personnel. FY 12-FY 14 revenue assumes a 3% increase to reflect inflationary increases. | | | | | | |
| [6] Revenue is based on the statutorily defined assessment formula. In fiscal years following a fund sweep (FY 10 and FY 11) the amount of the revenue (assessment) reflects the impact of the fund sweep. In fiscal years where the impact of a fund sweep is not reflected in the revenue, the fund balance at the end of the fiscal year should reflect a sum equal to approximately six months worth of expenditures, which is approximately \$10-11 million. | | | | | | |
| [7] Annual revenue from criminal fines, which are set by statute, are anticipated to remain flat at approximately \$3.31 million. | | | | | | |
| [8] The SSMF expends dollars that are allocated to the agency based on level of appropriation. Interest earned on the Trust Fund is transferred to the agency on a monthly basis to be utilized for those expenditures. As of June 30, 2010 the SSMF special revenue fund had a cumulative negative balance of \$4.0 million due to expenditures exceeding actual interest income since FY 02. Actual interest income earned in FY 10 was \$2.8 million. | | | | | | |
| [9] FY 09 revenue is attributable to a refund of expenditures from a prior year. | | | | | | |
| [10] FY 10 revenue is attributable to an erroneous accounting entry which was corrected in FY 11 (July 2010). | | | | | | |

Section 2: FY 11 – FY 14 Tax Credit Estimates and Assumptions

Tax Expenditures (Credits, Exemptions, and Deductions)

The state currently foregoes about \$5.3 billion in tax revenue as a result of tax credits, exemptions, and deductions. This level is expected to grow to \$5.7 billion in FY 14, or around 29.6%-31.1% of total projected FY 11 General Fund revenue. The majority of tax expenditures occur in the Sales and Use Tax and Motor Fuels Tax (approximately 56.6% and 19.2%, respectively).

The table below presents OFA’s estimates of total tax credits, exemptions and deductions for FY 11 through FY 14.

| Summary of Major Identifiable State Tax Expenditure Estimates by Category⁴ | | | | |
|----------------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
| (\$ - Millions) | | | | |
| | FY 11 | FY 12 | FY 13 | FY 14 |
| Personal Income Tax | 589.8 | 599.1 | 616.7 | 630.4 |
| Sales and Use Tax | 3,005.5 | 3,042.7 | 3,107.3 | 3,174.9 |
| Petroleum Companies Gross Earnings Tax | 206.9 | 224.0 | 231.4 | 234.3 |
| Corporate Business Tax | 302.0 | 315.1 | 324.5 | 334.9 |
| Cigarette and Tobacco Products Tax | 6.5 | 7.0 | 7.2 | 7.3 |
| Public Service Companies Gross Earnings Tax | 105.5 | 98.1 | 101.4 | 104.7 |
| Insurance Premiums Tax | 57.9 | 56.6 | 58.0 | 59.4 |
| Admissions and Dues Tax | 12.6 | 11.7 | 12.1 | 12.4 |
| Motor Fuels and Motor Carrier Road Fuels Taxes | 1,017.6 | 965.6 | 997.6 | 1,019.6 |
| | | | | |
| Grand Total | 5,304.3 | 5,319.9 | 5,456.2 | 5,577.9 |

Please see Appendix B for a detailed listing of the revenue expenditures and the estimated value of each item.

FY 11 tax expenditure estimates were developed using data from Connecticut and federal tax returns, as well as other state and federal tax expenditure data. FY 12- 14 estimates were calculated by adjusting FY 11 figures to reflect historical trends for each item.

All estimates measure the impact of each individual provision in isolation, with economic conditions and other tax provisions held constant.

⁴ Includes estimated identifiable revenue reductions of \$100,000 or more.

Section 3: FY 11 Deficiencies

Based on current data, state agencies will require \$171.4 million in deficiency appropriations or transfers from other areas to fund projected FY 11 costs. This assumes that \$79.6 million in allotment holdbacks (as a result of budgeted lapses) are ultimately released by OPM. The deficiency amounts represent 2.5% and 20.0% of agencies' total General Fund and Special Transportation Fund FY 11 appropriations, respectively, assuming all holdbacks are released.

However, when compared to agency reduced allotment levels (no release of holdbacks), agency needs total \$234.3 million in the General Fund and \$1.3 million in the Special Transportation Fund.

The majority of the shortfall (79%) is occurring in the Department of Social Services, primarily in the Medicaid account.

Over the past ten years, General Fund agencies have required on average \$73.9 million in deficiency funding (ranging from \$26 million to \$110.8 million). This represents less than 1% of the GF budget.

| FY 11 State Agency Estimated Deficiency Needs (\$ - millions)* | | | | | |
|----------------------------------------------------------------|----------------------|-------------------|--------------------|--------------------|---------------|
| | FY 11 | | Est. Def. | Est. Def. Less | % of |
| Agency | Approp. | Holdbacks | Amount | Holdbacks | Approp. |
| Dept. of Social Services | 5,160,991,338 | 19,506,512 | 184,982,756 | 165,476,244 | 3.20% |
| Dept. of Mental Health & Addiction Services | 628,115,707 | 17,541,350 | 16,084,784 | - | 0.00% |
| Dept. of Correction | 650,798,573 | 19,967,139 | 12,528,740 | - | 0.00% |
| Dept. of Public Safety | 158,881,308 | 10,381,329 | 6,716,098 | - | 0.00% |
| Dept. of Public Works | 54,726,594 | 8,738,887 | 6,343,239 | - | 0.00% |
| Child Protection Commission | 11,468,166 | 26,332 | 2,850,000 | 2,823,668 | 24.60% |
| Public Defender Services Commission | 47,542,492 | 336,842 | 2,045,000 | 1,708,158 | 3.60% |
| Dept. of Administrative Services | 41,193,344 | 3,143,767 | 1,354,683 | - | 0.00% |
| Dept. of Administrative Services-Workers' Compensation | 26,206,154 | - | 1,416,000 | 1,416,000 | 5.40% |
| Dept. of Administrative Services-Workers' Compensation (STF) | 6,700,783 | - | 1,339,000 | 1,339,000 | 20.00% |
| Dept. of Social Services | 5,160,991,338 | 19,506,512 | 184,982,756 | 165,476,244 | 3.20% |
| Dept. of Mental Health & Addiction Services | 628,115,707 | 17,541,350 | 16,084,784 | - | 0.00% |
| Total General Fund | 6,779,923,676 | 79,642,158 | 234,321,300 | 171,424,070 | 2.50% |
| Total Special Transportation Fund | 6,700,783 | - | 1,339,000 | 1,339,000 | 20.00% |
| *All agencies are GF, except where otherwise noted | | | | | |

Section 4: FY 11 – FY 14 Budget Reserve Fund Estimates

The Budget Reserve Fund (BRF), commonly referred to as the Rainy Day Fund, was created by PA 79-623. The state constitution and general statutes give priority to using any unappropriated General Fund surplus to fund the BRF up to a maximum of 10% of the net General Fund appropriations for the fiscal year in progress. The maximum allowable in the BRF has been increased twice: PA 02-118 increased it from 5% to 7.5%, and PA 03-2 increased it to the current 10% of net General Fund appropriations.

The BRF was first funded using surplus from FY 84. The fund was first exhausted to cover the FY 90 deficit. The fund was also depleted by FY 03 when its \$594.7 million balance was used to partially cover the FY 02 deficit. The balance reached a peak of \$1,381.7 million due to surpluses from FY 04 through FY 07. PA 10-3, the deficit mitigation bill, exhausted the \$1,381.7 million balance to partially cover deficits in FY 10 (\$1,278.5 million) and FY 11 (\$103.2 million). The current balance in the Budget Reserve Fund is zero; and based on current projections will remain at that level through the out-years.

The following table shows activity and balances in the Budget Reserve Fund from FY 99 – FY 14.

| Budget Reserve Fund | | | |
|-----------------------------------------------------------|--------------------------|------------------------------------|-----------------------|
| Activity and Balance FY 99 - FY 14 (\$ - millions) | | | |
| Fiscal Year | Beginning Balance | Deposits/ (Withdrawals) | Ending Balance |
| FY 99 | 498.6 | 30.5 | 529.1 |
| FY 00 | 529.1 | 34.9 | 564.0 |
| FY 01 | 564.0 | 30.7 | 594.7 |
| FY 02 | 594.7 | (594.7) | - |
| FY 03 | - | - | - |
| FY 04 | - | 302.2 | 302.2 |
| FY 05 | 302.2 | 363.8 | 666.0 |
| FY 06 | 666.0 | 446.5 | 1,112.5 |
| FY 07 | 1,112.5 | 269.2 | 1,381.7 |
| FY 08 | 1,381.7 | - | 1,381.7 |
| FY 09 | 1,381.7 | - | 1,381.7 |
| FY 10 | 1,381.7 | (1,278.5) | 103.2 |
| FY 11 | 103.2 | (103.2) | - |
| FY 12 (Proj.) | - | - | - |
| FY 13 (Proj.) | - | - | - |
| FY 14 (Proj.) | - | - | - |

Section 5: FY 11 - FY 14 Projected Bonding and Debt Service

Summary

The table below presents OFA's estimates for General Obligation (GO) and Special Tax Obligation (STO) bond authorizations, allocations, issuance and debt service for FY 11 through FY 14. The figures show that GO bond issuance remains fairly stable over the four-year period but the expenditure on debt service gradually increases. This increase reflects the assumption that the state will issue GO bonds at higher interest rates over this period. For example, the state issued tax exempt GO bonds in June 2010 at an interest rate of 4% while the interest rate assumptions used for the projections in the table below are 5% in FY 11, 5.5% in FY 12 and 5.75% in FY 13 and FY 14. The STO debt projections use the same assumption that STO bonds will be issued at higher interest rates over this period but the effect on STO debt service is less noticeable because fewer STO bonds are issued.

| FY 11 - FY 14 Projections for General Obligation and Special Tax Obligation Bonds | | | | |
|------------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| (\$ - billions) | | | | |
| | FY 11 | FY 12 | FY 13 | FY 14 |
| General Obligation (GO) Bond Projections | | | | |
| Bond Authorizations ⁵ | 1.3 | 1.4 | 1.3 | 1.3 |
| Bond Allocations ⁶ | 1.3 | 1.4 | 1.3 | 1.3 |
| Bond Issuance ² | 1.3 | 1.3 | 1.2 | 1.2 |
| Debt Service ⁷ | 1.6 | 1.9 | 1.9 | 2.0 |
| Special Tax Obligation (STO) Bond Projections | | | | |
| Bond Authorizations ⁸ | 0.3 | 0.3 | 0.3 | 0.3 |
| Bond Allocations ⁴ | 0.6 | 0.5 | 0.5 | 0.5 |
| Bond Issuance ⁴ | 0.6 | 0.6 | 0.6 | 0.5 |
| Debt Service ⁴ | 0.5 | 0.5 | 0.5 | 0.5 |

Background/Definitions

⁵ FY 11 figures are based on authorizations made during the 2010 legislative session. FY 12 - FY 14 estimates are based information supplied by the Office of the State Treasurer. The figures include authorizations for the UConn 21st Century infrastructure program and the CSUS 2020 infrastructure program.

⁶ The estimates are based on information supplied by the Office of the State Treasurer. The figures include the UConn 21st Century infrastructure program and the CSUS 2020 infrastructure program.

⁷ The estimates are based on information supplied by the Office of the State Treasurer. OFA adjusted the projections to reflect anticipated debt service lapse for each year.

⁸ The figures are based on information supplied by the Office of the State Treasurer. The estimates include assumptions regarding the allocation and issuance of \$1.3 billion in STO bonds authorized during the 2006 legislative session for strategic transportation projects and initiatives.

General Obligation (GO) bonds finance the construction of buildings, grants and loans for housing, economic development, community care facilities, school construction grants, state parks and open space. The University of Connecticut Infrastructure Renewal Program (UConn 21st Century) and the Connecticut State University System infrastructure renewal program (CSUS 2020) are also included in this category. The revenue stream from the state's General Fund pays debt service on GO bonds.

Special Tax Obligation (STO) bonds finance the state's portion of the cost of highway and bridge construction and maintenance. In addition to the ongoing transportation infrastructure renewal program, the figures in the table also include the transportation initiatives passed during the 2005, 2006 and 2007 legislative sessions. The repayment source for STO bonds is a dedicated revenue stream from the state's motor fuels tax and motor vehicle registrations, licenses and fees.

The capital budget that is passed by the General Assembly each biennium is composed of individual bond authorizations that indicate: (1) the state agency receiving the funds, (2) a description the purpose for which the funds will be used and (3) the amount of funds for the designated purpose. Bond authorizations can be thought of as enabling legislation.

Bond allocations: For an agency to actually commit funds for a project, the bond funds authorized for the project must be allocated. This means that the State is prepared to finance the costs associated with implementation of the next phase of the project. The State Bond Commission (SBC) has statutory responsibility for the allocation process. The SBC is primarily an Executive Branch commission and is currently composed of ten members: the Governor, the Treasurer, the Comptroller, the Attorney General, the Secretary of OPM, the Commissioner of Public Works and the Senate and House Chairmen of the Finance, Revenue and Bonding Committee and the ranking members of the Committee.

Bond issuance: Bonds are issued by the Office of the State Treasurer several times each year. The issuance schedule is planned in accordance with estimates of the scale and pattern of capital expenditures. The overall pattern of expenditure flows from the capital budget approved by the General Assembly and the flow of individual projects approved for issuance by the State Bond Commission.

Debt service is the amount of money paid by the state each year for (1) interest and principal on outstanding debt and (2) fees related to debt.

Section 6: Analysis of Revenue and Expenditure Trends and Major Cost Drivers; Areas of Concern; Federal Fund Maximization

Summary

The significant shortfalls in FY 12 - FY 14 are primarily due to two factors: (1) one-time measures utilized in FY 11, and (2) increased debt service payments due to the issuance of Economic Recovery Notes (ERNs).

| One-Time Measures and Impact of ERN's and Securitization | |
|-----------------------------------------------------------------------|------------------|
| One-Time Measures Utilized in FY 11 and Not Available in FY 12 | (\$ - millions) |
| Federal Stimulus | \$757.4 |
| Proceeds from the Economic Recovery Revenue Bonds (ERRB's) | 646.6 |
| FY 10 Balance Reserved for FY 11 | 449.4 |
| Reductions to Certain Funds (Sweeps) | 154.9 |
| Budget Reserve Fund (BRF) | 103.2 |
| Corporate Surcharge | 34.1 |
| Total | \$2,145.6 |
| Impact of ERN's | |
| Economic Recovery Notes (ERN's) - Debt Service | \$208.4 |
| Total | 208.4 |
| Grand Total | \$2,354.0 |

Identified further below are other areas of concern (the state's long term obligations), major areas contributing to the budget growth and areas where Connecticut has benefitted from significant federal funds.

Long Term Obligations

Unfunded liabilities are legal commitments incurred during the current or a prior year that must be paid at some time in the future but for which no reserves have been set aside. The State of Connecticut's unfunded obligations are in four areas: (1) bonded indebtedness (debt outstanding), (2) state employee and teachers' retirement, (3) state employee and teachers' post employment benefits and (4) the Generally Accepted Accounting Principles (GAAP) deficit. The table below includes the unfunded liabilities for these four areas.

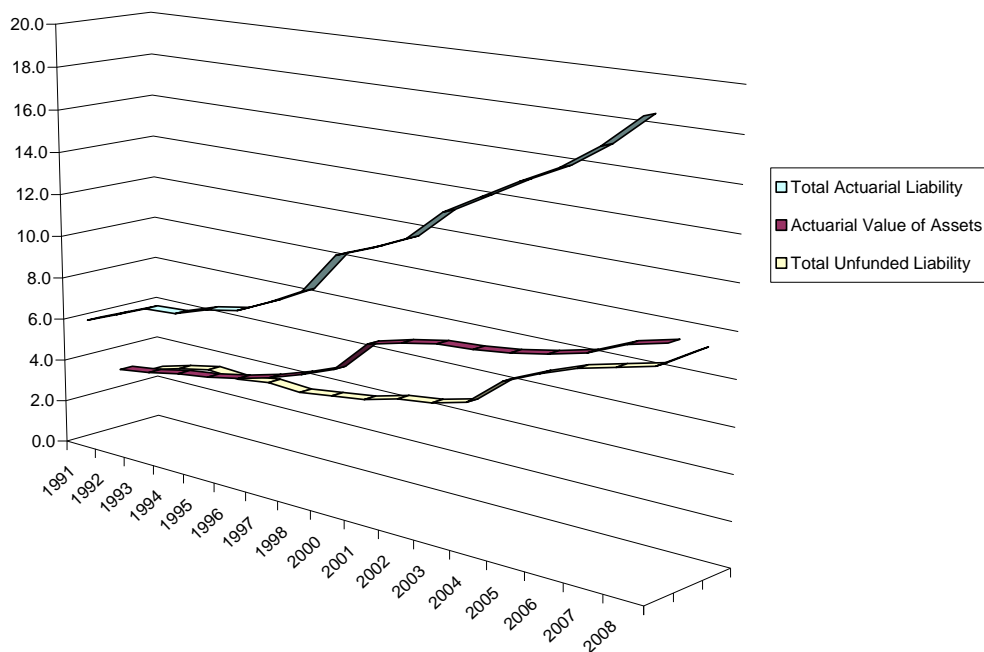
| Long-Term Obligations (\$ - billions) | |
|------------------------------------------------------|---------------|
| 1) Debt Outstanding | \$19.3 |
| 2a) State Employee Pensions - Unfunded | 11.8 |
| 2b) Teachers' Pensions - Unfunded | 9.1 |
| 3a) State Post Retirement Health and Life - Unfunded | 26.6 |
| 3b) Teachers' Post Retirement Health and Life | 2.9 |
| 4) Generally Accepted Accounting Principles Deficit | 2.3 |
| Total | \$72.0 |

The table above includes the following references:

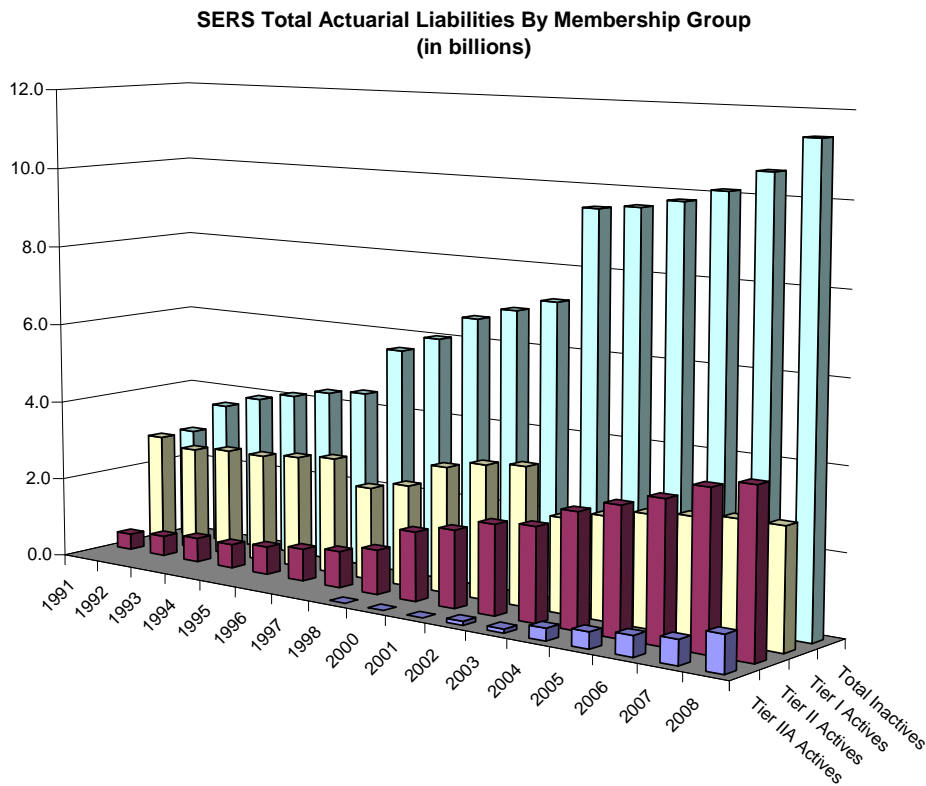
1) **Debt Outstanding:** As of 8/31/10; Source: Office of the State Treasurer. This figure includes debt that is backed by revenue derived from the General Fund, the Special Transportation Fund and a variety of other revenue sources such as the Clean Water Fund and Bradley International Airport.

2a) **State Employee Pensions:** These figures are an actuarial estimate of the cost of the future retirement payments for state employees for which reserves have not been set aside. Preliminary actuarial information based upon financial and member data from the most recent actuarial valuation, dated 6/30/08, updated to reflect market and Retirement Incentive Program impacts. The official unfunded liability will be reported in the soon to be released 6/30/10 valuation.

**SERS Accrued Liabilities and Assets
(in billions)**



The State Employees Retirement System (SERS) is structural in accordance with the collective bargaining agreement with the State Employee Bargaining Agent Coalition (SEBAC) and is statutorily required to be funded on an actuarial reserve basis. The line graph above represents historical SERS total liabilities, actuarial assets, and unfunded liabilities. The total liabilities are off-set by the fund's assets to arrive at the system's unfunded liability. As of June 30, 2008, SERS had a funding ratio (value of benefits to assets) of 52 percent. To put this into context, more than three-quarters of state pension systems nationwide maintained an average funding ratio between 75% and 125% from 2003 to 2008.⁹ The latest valuation as of June 30, 2010 has not yet been officially released however preliminary results show a further decline of this funding ratio to 46% due in large part to the severe market downturn in 2008.



The bar chart above represents total actuarial liabilities of the State Employee Retirement System (SERS) over time, broken out by active employees according to tier and inactive members (retirees and deferred vesteds¹⁰). According to the 2008 valuation, \$14.3 billion of the SERS total actuarial accrued liabilities of \$19.2 billion are attributable to current retirees and Tier I (hired prior to FY 85) active employees. This means that 75% of the plan's liabilities are not likely to be reduced by future plan or benefit modifications due to legal issues. The growth of the SERS unfunded liability will consume an increasing portion of state expenditures until the trend is remedied.

⁹ National Association of Retirement Administrators

¹⁰ Deferred vested members have left the system with vested benefits but have not yet retired.

2b) **Teachers' Pensions:** As of the most recent actuarial valuation, dated 6/30/10 (Draft Copy); Source: Teachers' Retirement Board. These figures are an actuarial estimate of the cost of the future retirement payments for Connecticut public school teachers for which reserves have not been set aside. The \$2.6 billion increase in the unfunded actuarial accrued liability from \$6.5 billion in the 2008 valuation to \$9.1 billion in the 2010 valuation is primarily the result of the recognition of investment losses from 2008 and 2009.

3a) **State Other Post Employment Benefits:** This figure is an actuarial estimate of non-pension post employment benefits (primarily retiree health insurance) for state employees for which reserves have not been set aside. Retiree health benefits are currently funded on a pay-as-you-go basis. The state first quantified its retiree health liability with a full actuarial valuation as of April 2006. Since then, the OPEB liability has grown by \$4.9 billion. According to the July 2010 interim report based on 2008 data, the OPEB liability could be reduced by nearly 48% if the state were to begin fully funding this liability. This would build up a cash reserve that would earn investment returns over time and become a significant source of additional funding. The state appropriated \$10 million from the FY 07 surplus to establish an OPEB trust fund in FY 08. The impact of various aspects of the 2009 SEBAC Agreement including the deferral of \$14.5 million to the OPEB trust, the Retirement Incentive Program, Rule of 75, and the 3 percent retiree health contribution from employees with less than 10 years of service has yet to be evaluated in regards to the total liability.

3b) As of most recent actuarial valuation, dated 6/30/10; Source: Teachers' Retirement Board.

4) **Generally Accepted Accounting Principles Deficit** - This figure represents the amount by which General Fund liabilities exceed assets. This unfunded liability is associated with the state converting from a modified cash basis of accounting to an accrual basis of accounting, which is recommended under Generally Accepted Accounting Principles (GAAP). Under the state's current accounting method, the recognition of expenses is postponed, thus making it appear that the state has fewer liabilities than it would otherwise have under the GAAP method. PA 08-111, *AAC the Implementation of Generally Accepted Accounting Principles (GAAP)*, allows the Comptroller to initiate a process intended to result in the implementation of the use of GAAP. The Office of the State Comptroller, which officially tracks GAAP, reported a \$2,303.4 million GAAP deficit in FY 09, which included \$947.6 million from the issuance of Economic Recovery Notes in FY 10.

Major Expenditure Growth Areas

The table below identifies some of the major accounts with significant increases in FY 12 through FY 14. This represents over 90% of the expenditure growth in FY 12.

| Major General Fund Increases for FY 12 - FY 14 (\$ - millions) (increases shown are above prior year base) | | | |
|----------------------------------------------------------------------------------------------------------------------|------------------|----------------|----------------|
| Agency/Account | FY 12 | FY 13 | FY 14 |
| DSS - Medicaid ¹¹ | \$491.9 | \$105.8 | \$109.9 |
| Debt Service (includes UConn 2000) | 237.5 | 0.5 | 27.6 |
| Fringe Benefit - Retirement Contribution | 179.5 | 24.9 | 38.4 |
| TRB - Retirement Contribution | 175.7 | 30.3 | 31.5 |
| Personal Services (state-wide) | 153.5 | 147.8 | 152.6 |
| 27 th Payroll | 124.5 | - | - |
| Reimb. Towns for Loss Taxes Private Property | 115.3 | 34.6 | 39.8 |
| Fringe Benefit - State Employee Health Service Cost | 113.5 | 60.9 | 26.6 |
| Reimb. Towns for Loss Taxes State Property | 69.1 | 10.7 | 11.5 |
| SDE - Transportation of School Children | 60.1 | 5.4 | 5.7 |
| SDE - Education Equalization Grant (ECS) | 51.9 | 58.4 | 60.2 |
| Fringe Benefit - Retired State Employee Health | 30.9 | 38.2 | 61.2 |
| DDS - Community Residential | 25.4 | 25.8 | 28.4 |
| SDE - Excess Cost Student Based | 30.1 | 13.5 | 14.7 |
| SDE - Magnet Schools | 28.8 | 22.5 | 6.6 |
| Total | \$1,887.7 | \$579.3 | \$614.7 |

Debt Burden

As the tables below show, in 2008 Connecticut ranked: (1) number one in net tax-supported debt per capita, and (2) number three in net tax-supported debt as a percentage of personal income. The per capita figure provides a common basis for comparing states based on the number of people in each state. The percentage-of-personal-income figure is a way of comparing states based on personal wealth.

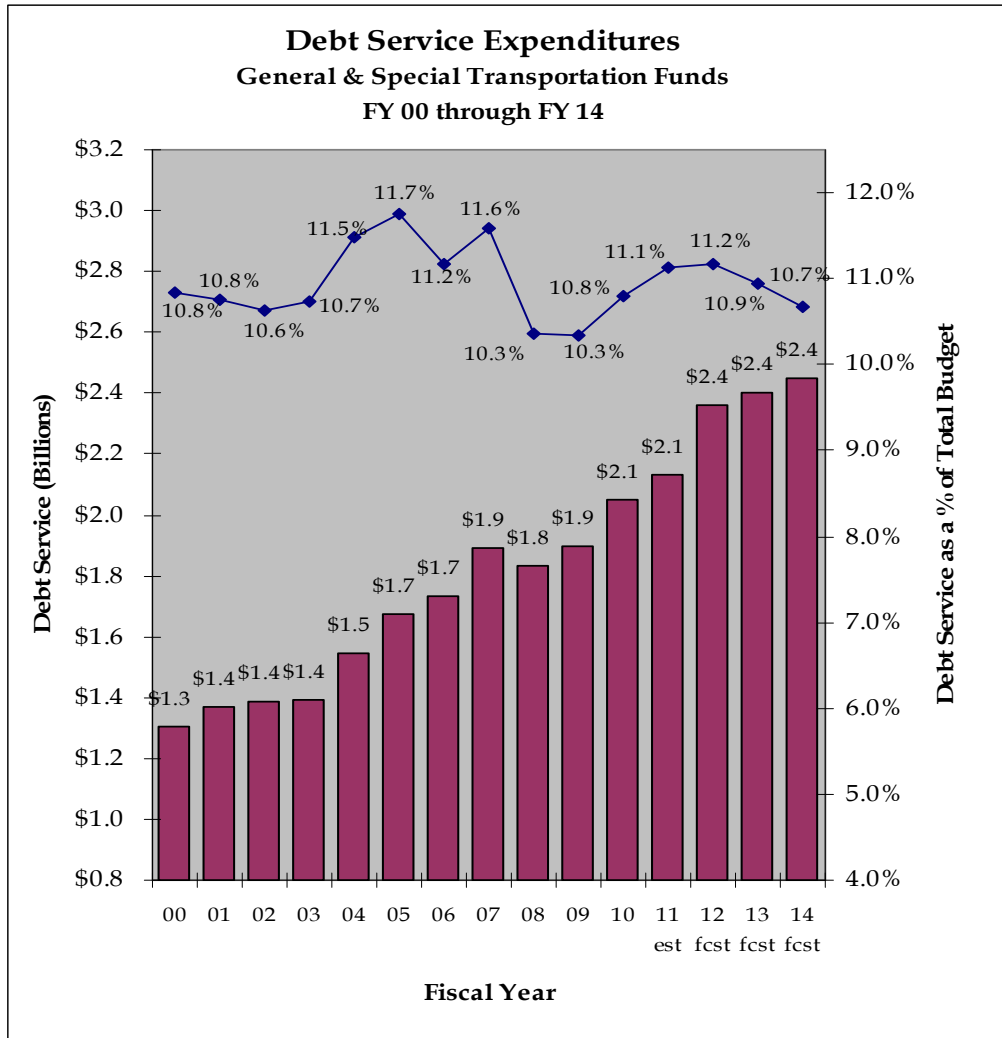
Net tax supported debt is defined as all debt serviced by direct tax or special tax revenues of the state. For Connecticut that includes all debt payable from the General Fund (i.e., GO, UCONN 2000) and well as Special Tax Obligation bonds payable from the Special Transportation Fund. It does not include: (1) bonding programs such as Clean Water Revenue Bonds and (2) the Economic Recovery Revenue Bonds scheduled to be issued in FY 11 because they will rely on electric bill surcharges for debt service.

¹¹ The FY 12 increase includes \$160 million to reflect the continued transfer of SAGA into Medicaid.

| Ranked by Net Tax-Supported Debt Per Capita among the 50 States in 2008 | | | | Ranked by Net Tax-Supported Debt As a % of Personal Income (PI) - 2008 | | |
|-------------------------------------------------------------------------|--------------------|----------------|---------------------|------------------------------------------------------------------------|--------------------|-------------|
| Rank | State | Amount (\$) | Moody's Bond Rating | Rank | State | Debt/PI |
| 1 | Connecticut | \$4,859 | Aa2 | 1 | Hawaii | 9.9% |
| 2 | Massachusetts | \$4,606 | Aa1 | 2 | Massachusetts | 9.2% |
| 3 | Hawaii | \$3,996 | Aa1 | 3 | Connecticut | 8.7% |
| 4 | New Jersey | \$3,669 | Aa2 | 4 | New Jersey | 7.2% |
| 5 | New York | \$3,135 | Aa2 | 5 | New York | 6.5% |
| 6 | Delaware | \$2,489 | Aaa | 6 | Delaware | 6.2% |
| 7 | California | \$2,362 | A1 | 7 | California | 5.6% |
| 8 | Washington | \$2,226 | Aa1 | 8 | Kentucky | 5.4% |
| 9 | Rhode Island | \$2,127 | Aa2 | 9 | Washington | 5.3% |
| 10 | Oregon | \$1,859 | Aa1 | 10 | Oregon | 5.2% |
| 11 | Illinois | \$1,856 | Aa3 | 11 | Rhode Island | 5.2% |
| 12 | Wisconsin | \$1,720 | Aa2 | 12 | Mississippi | 5.0% |
| | Mean | \$1,297 | | | Mean | 3.2% |

Source: Moody's Investors Service

The figure below compares General and Transportation Fund debt service expenditures (bars) with debt service expenditures expressed as a percent of total General and Transportation Fund expenditures (line). The graph shows that the increase in debt service expenditures, which is nondiscretionary, crowds out other discretionary expenditures.



Efforts to Maximize Federal Funds

Notable recent initiatives that will result in the receipt of significant additional federal funds by the state include:

- The Federal Health Care Reform Act (the Patient Protection and Affordable Care Act, or PPACA);
- The American Recovery and Reinvestment Act of 2009 (ARRA);
- Public Law 111-226, which: (a) establishes the Education Jobs Fund Program (EduJobs) and (b) extends the temporary increase in the federal medical assistance percentage (FMAP) that was first raised under ARRA; and
- A successful application for funding for the New Haven-Hartford-Springfield Rail Line.

1) Federal Health Care Reform Act

- Medicaid Low Income Adults - The state is expected to receive \$32 million in additional federal revenue in FY 11 as a result of moving State Administered General Assistance (SAGA) recipients into a new Medicaid coverage group, Low Income Adults. The estimate is a combination of an additional cost of \$97.5 million to move this group to Medicaid and \$129.5 million in additional revenue from federal matching funds for all expenditures for the group.
- Temporary High Risk Pool - The state received a \$50 million grant under PPACA that enabled the Department of Social Services (DSS) to establish a temporary high risk pool¹² for individuals with pre-existing conditions. The pool is for individuals with pre-existing conditions who have been uninsured for six months and are otherwise ineligible for Medicaid or Medicare. Only 247 individuals have qualified since DSS began determining eligibility for the program in August 2010 and only 12 have enrolled. The limited number of enrollees is due to: (1) the six-month no-insurance requirement, which limits eligibility and (2) the lower cost for HUSKY B, band 3 and Charter Oak participants.
- Health Care Reform Cabinet - Connecticut's Health Care Reform Cabinet has a Funding Opportunities Work Group that provides information on grant-funding opportunities that are intended to link national health care reform with a state's current health care programs. One of the cabinet's upcoming priorities is the exchange planning grant, which would enable the state to assess the needs and viable exchange options. For further information, please see:
www.ct.gov/dph/lib/dph/ohca/hcrcabinet/hcrc_funding_wkgrp_inventory_102710.pdf.
- Early Retiree Reinsurance Program (ERRP)¹³ - The state's retiree health plan is expected to be eligible for \$2.5 million in reimbursement in FY 11 due to FY 10 ERRP claims submitted by the Office of the State Comptroller (OSC). Up to a total of \$30 million in state reimbursements are anticipated in FY 12 and FY 13 combined, assuming that federal funding is available.

¹² The pool will be eliminated in 2014 under other PPACA provisions.

¹³ The Early Retiree Reinsurance Program was established by section 1102 of the Patient Protection and Affordable Care Act, Public Law 111-148, enacted on March 23, 2010. The program provides reimbursement to public and private employer health plans choosing to participate. Participating plans are reimbursed at 80% of the annual cost of benefits per retired enrollee (age 55 - 64) and their dependents. Annual claims cost per enrollee must fall between \$15,000 and \$90,000 to be eligible for reimbursement. A total of \$5 billion dollars has been appropriated for the program. Funding is available through 2013, or until expended.

ERRP guidelines limit the use of the reimbursements to reduce premiums, health benefit costs or other costs incurred by the state (with maintenance of effort restrictions) or by plan participants. The guidelines prohibit the direct deposit of these funds into the General Fund as revenue. OSC is waiting for additional federal guidance about how the funds may be used.

2) ARRA/Temporary Assistance to Needy Families Emergency Fund (TANF) – Connecticut may receive one-time additional revenue from the TANF emergency fund¹⁴ of: (1) \$11.6 million in basic assistance, (2) \$20.7 million in non-recurrent short term benefits, and (3) \$13.9 million in subsidized employment. Receipt of the funds will depend on whether all services identified in the state’s grant request are fully rendered. Since the funds will be shared with the non-state entities that provide the eligible services, the state’s portion cannot be determined until the services are fully rendered.

3) Education Jobs and State Fiscal Relief (Public Law 111-226)

- Education Jobs Fund Program (EduJobs) – The state received \$110,486,654 under this program. The Governor elected to allocate the funds based on the Education Cost Sharing (ECS) grant formula. A total of \$782,803 was distributed by the end of September 2010, which created or retained approximately 376 jobs for: (1) teachers, instructors, or department heads (72%), (2) paraprofessionals (16%), and (3) administration; clerical support; guidance counselors; maintenance services; technical/computer specialists; food services; athletics/coaches; and class advisors (12%). Local Education Agencies (LEAs) with funds remaining after the 2010-2011 school year may use the remainder through September 30, 2012.
- Federal Medical Assistance Percentage (FMAP) Extension – The state will receive approximately \$190 million in additional federal revenue as a result of the six-month extension (through June 2011) of the higher FMAP rate. Connecticut normally receives a 50% federal match for eligible Medicaid expenditures but ARRA increased the match to 58.9% from January through March 2011, and Public Law 111-226 set the rate at 56.9% from April through June 2011. The FMAP rate will return to the 50% level in July 2011.

4) New Haven to Springfield Rail Project –The state received \$120.9 million in October 2010 from the Federal Railroad Administration for an upgrade of the New Haven-Hartford-Springfield Rail Line. The funds will supplement a \$260 million allocation of Special Tax Obligation (STO) bonds made by the State Bond Commission in August 2010. Upgrades to the rail line include: construction of new track, rehabilitation of

¹⁴ The additional funds were provided under ARRA to permit states to draw down up to half their annual TANF block grant amount based on increased expenditures under three categories: basic assistance (caseload growth); non-recurrent short term expenditures; and subsidized employment.

deteriorated bridges, installation of new crossovers and signaling, and improvements to crossings and station facilities.

Federal Revenue

In FY 10 the state received approximately \$4.0 billion in federal revenue, primarily from: (1) Medicaid (\$3.18 billion), (2) Temporary Assistance to Needy Families (TANF)/Child Care Development Block Grant (\$0.29 billion), (3) ARRA Fiscal Stabilization (\$0.27 billion), (4) Title IV-E-Foster Care/Adoption (\$0.10 billion), and (5) Social Services Administration (\$0.09 billion). This represents an 11.8% increase over the prior fiscal year, or \$428.0 million over FY 09¹⁵.

The table below shows the October 15, 2010 consensus estimates for federal revenue between FY 11 and FY 14.

| October 15, 2010 Consensus Estimates for Federal Revenue - FY 11 to FY 14 (\$ - millions) | | | | |
|----------------------------------------------------------------------------------------------|--------------|-----------|-----------|-----------------------|
| Description | FY 11 | FY 12 | FY 13 | FY 14 |
| Federal Revenue | \$4,157.0 | \$3,454.6 | \$3,580.6 | \$3,832.0 |
| Change from Prior Year | | -702.4 | 126.0 | 251.4 |
| Percent Change from Prior Year | | -16.9% | 3.6% | 7.0% |
| <u>Major ARRA Revenue</u> | | | | |
| Enhanced Federal Match (Medicaid & Title IV-E) | 486.4 | - | - | - |
| State Fiscal Stabilization | 271.0 | - | - | - |
| TOTAL | 757.4 | - | - | - |
| Change from Prior Year | | -757.4 | - | - |
| Remainder of Change | | \$55.0 | \$126.0 | \$251.4 ¹⁶ |

The \$702.4 million decrease in revenue between FY 11 and FY 12 reflects: (a) the one-time nature of \$757.4 million in federal stimulus funds, and (b) partially offsetting increased Medicaid reimbursements due to caseload growth.

A table showing a detailed history of federal grant revenue from FY 05 to FY 10 appears at the end of this section.

¹⁵ Without American Recovery and Reinvestment Act of 2009 (ARRA) funding, federal revenue would have declined by 0.14% between FY 09 and FY 10.

¹⁶ The FY 14 estimate includes a \$100 million revenue gain as a result of the 100% federal match for the cost of extending Medicaid coverage to former State Administered General Assistance (SAGA) clients. Please refer to the section on Medicaid Low Income Adults (above) for further information.

Expenditure of Federal Funds

1) Federal Grants-in-Aid

State agencies expended \$2.27 billion from federal grants-in-aid in FY 10¹⁷. This was \$435 million (or 23.6%) more than aggregate FY 09 expenditures of \$1.84 billion. The Department of Transportation accounted for \$170 million of the growth, primarily due to increased expenditures under Highway Planning and Construction and Federal Transit grants. Significant expenditure growth was also experienced by the State Department of Education (\$150.5 million) and the Department of Social Services (\$54.1 million).

A table showing a history of expenditures from federal grants-in-aid from FY 01 to FY 10 appears at the end of this section.

2) ARRA Funds

A total of \$1.22 billion in various ARRA grants-in-aid had been awarded to the state as of 10/20/10¹⁸. Approximately 82% of this amount went to five agencies:

1. the Department of Transportation (\$509.3 million),
2. the State Department of Education (\$215.6 million),
3. the Department of Social Services (\$105.5 million),
4. the Department of Information Technology (\$93.7 million), and
5. the Connecticut Housing Finance Authority (\$76.7 million).

In addition, \$413.0 million in ARRA funds was awarded directly to municipalities and/or other entities within Connecticut.

| Federal Grant Revenue: FY 05 - FY 10 | | | | | | |
|-------------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| FEDERAL REVENUE (\$ - millions) | FY 05 | FY 06 | FY 07 | FY 08 | FY 09 | FY 10 |
| Medicaid | 1,923.63 | 1,959.24 | 1,996.97 | 2,060.91 | 2,576.93 | 2,642.42 |
| ARRA Enhanced Medicaid Federal Match | - | - | - | - | 403.29 | 536.14 |
| TOTAL - Medicaid | 1,923.63 | 1,959.24 | 1,996.97 | 2,060.91 | 2,980.21 | 3,178.56 |
| State Children's Health Insurance Program | 18.00 | 17.19 | 21.44 | 32.36 | 31.92 | 24.98 |
| Temporary Assistance to Needy Families/ Child Care Development Block Grant | 300.37 | 289.56 | 291.51 | 287.74 | 290.25 | 292.09 |
| ARRA TANF Basic Assistance | - | - | - | - | - | 2.62 |

¹⁷ FY 10 figures are preliminary in nature; they are unaudited and subject to change upon final publication by the Office of the State Comptroller. FY 09 numbers are taken from the 2009 Annual Report of the State Comptroller (General and Special Transportation Funds: statements of appropriations and expenditures).

¹⁸ This figure excludes: (a) \$1.36 billion to be deposited as revenue to the General Fund, and (b) \$1.09 billion for extended benefits to the unemployed and related Department of Labor administrative costs paid via the Unemployment Compensation Fund. (Source: www.recovery.ct.gov)

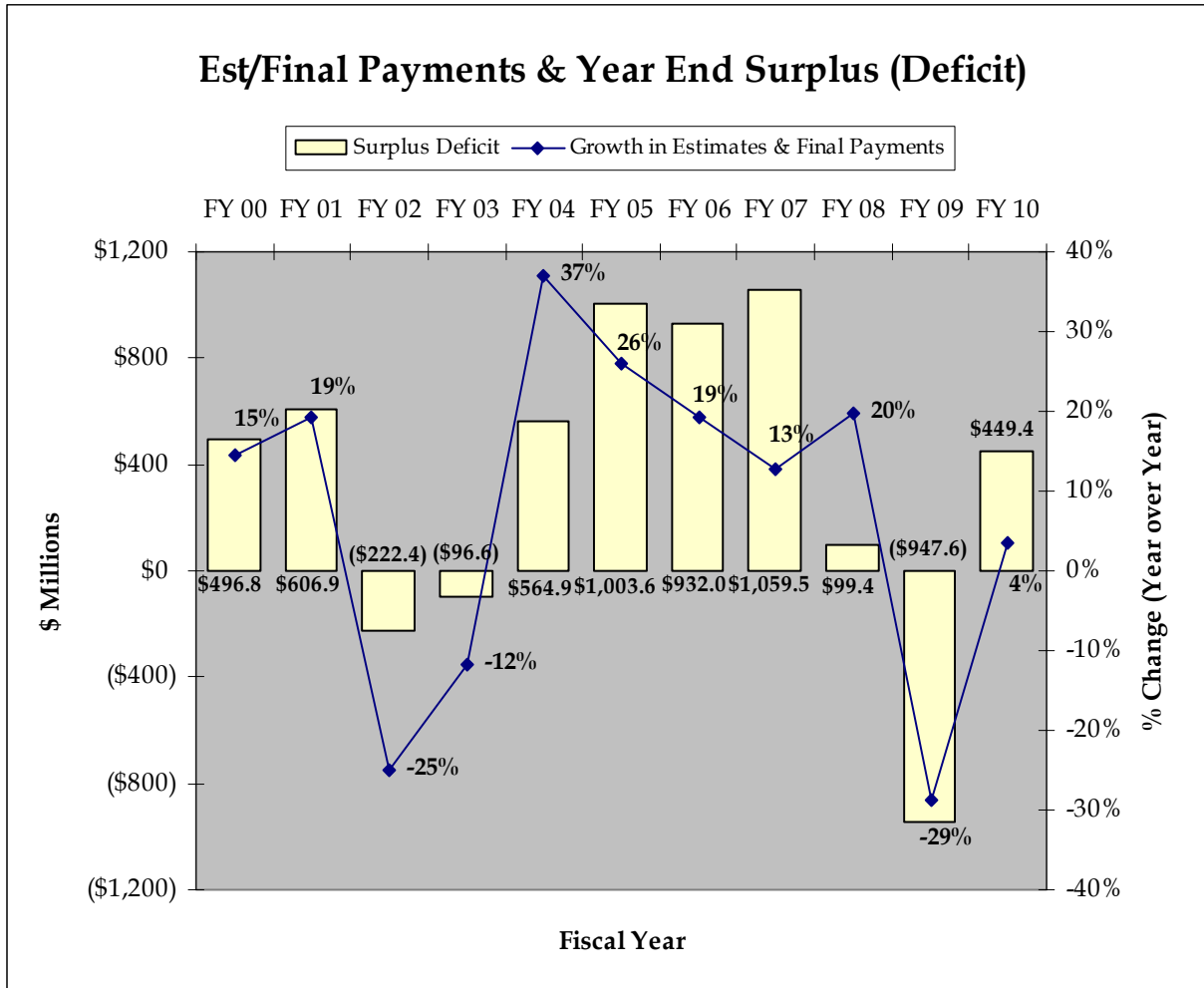
| Federal Grant Revenue: FY 05 - FY 10 | | | | | | |
|-----------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| FEDERAL REVENUE (\$ - millions) | FY 05 | FY 06 | FY 07 | FY 08 | FY 09 | FY 10 |
| Social Services Administration | 88.41 | 109.49 | 120.79 | 126.99 | 144.10 | 90.99 |
| Child Support Enforcement Administration | 27.78 | 26.91 | 35.92 | 32.66 | 26.72 | 25.49 |
| ARRA - Child Support Enforcement | - | - | - | - | - | 12.36 |
| TOTAL - Child Support Enforcement | 27.78 | 26.91 | 35.92 | 32.66 | 26.72 | 37.85 |
| Medicare | 0.06 | 0.16 | 0.30 | 0.15 | 0.25 | 0.08 |
| Soldiers' Homes | 6.51 | 6.61 | 6.74 | 6.54 | 8.19 | 8.00 |
| Title IV-E - Foster Care/ Adoption | 106.75 | 109.83 | 99.91 | 123.93 | 98.01 | 92.60 |
| ARRA Enhanced Title IV-E Federal Match | - | - | - | - | 4.43 | 6.25 |
| TOTAL - Title IV-E | 106.75 | 109.83 | 99.91 | 123.93 | 102.45 | 98.85 |
| Child Nutrition Program | 1.11 | 1.31 | 1.78 | 1.56 | 1.50 | 1.49 |
| Workforce Investment Act | 22.05 | 25.92 | 25.56 | 25.10 | 27.06 | 23.60 |
| ARRA Workforce Investment Act | - | - | - | - | 3.26 | 16.58 |
| TOTAL - Workforce Investment Act | 22.05 | 25.92 | 25.56 | 25.10 | 30.32 | 40.17 |
| Occupational Safety and Health Administration | 1.39 | 1.13 | 1.08 | 1.05 | 1.10 | 0.76 |
| Miscellaneous Federal Aid | 1.62 | 2.27 | 0.79 | 2.62 | 2.48 | 1.47 |
| ARRA State Fiscal Stabilization | - | - | - | - | - | 269.52 |
| ARRA Other Revenue | - | - | - | - | - | 0.05 |
| SUBTOTAL - ARRA REVENUE | - | - | - | - | 410.98 | 843.52 |
| SUBTOTAL - NON ARRA REVENUE | 2,497.68 | 2,549.63 | 2,602.77 | 2,701.60 | 3,208.51 | 3,203.95 |
| Percent Change | | 2.08% | 2.08% | 3.80% | 18.76% | -0.14% |
| TOTAL REVENUE | 2,497.68 | 2,549.63 | 2,602.77 | 2,701.60 | 3,619.49 | 4,047.47 |
| Percent Change | | 2.08% | 2.08% | 3.80% | 33.98% | 11.82% |

Source: CORE-CT.

| Federal Grants-In-Aid Expenditures: FY 01 - FY 10 | | | | | | |
|----------------------------------------------------------|--------------------------------------------------------------|------------------------------------|------------------------------|----------------------------------------------------------------------------------------------------------|------------------------------------|------------------------------|
| | Expenditures of Federal Grants In Aid (\$ - millions) | | | Federal Grants-In-Aid Expenditures as a Percent of All Funds Expenditures (State, Federal, Other) | | |
| | General Fund | Special Transportation Fund | Combined GF & STF | General Fund | Special Transportation Fund | Combined GF & STF |
| FY 01 | 689.39 | 85.27 | 774.65 | 5.39% | 9.11% | 5.65% |
| FY 02 | 833.42 | 98.52 | 931.93 | 6.27% | 10.10% | 6.53% |
| FY 03 | 954.84 | 86.69 | 1,041.53 | 7.09% | 8.79% | 7.21% |
| FY 04 | 941.97 | 70.49 | 1,012.46 | 6.83% | 7.27% | 6.86% |
| FY 05 | 1,051.51 | 72.25 | 1,123.76 | 7.17% | 7.02% | 7.16% |
| FY 06 | 1,113.55 | 75.21 | 1,188.76 | 6.99% | 6.87% | 6.98% |
| FY 07 | 1,142.60 | 397.05 | 1,539.64 | 6.78% | 26.98% | 8.40% |
| FY 08 | 1,126.90 | 506.96 | 1,633.86 | 6.20% | 30.92% | 8.25% |
| FY 09 | 1,223.73 | 614.71 | 1,838.44 | 6.44% | 34.78% | 8.85% |
| FY 10 | 1,488.60 | 784.56 | 2,273.16 | 7.77% | 41.39% | 10.80% |

Source: Annual Report of the State Comptroller, 2001 - 2009; preliminary (unaudited) 2010 data, Office of the State Comptroller.

Tax Volatility: General Fund Surpluses and Deficits follow Estimated and Final Income Tax Payments



- There is a strong correlation between the annual change in Estimate and Final Income Tax Payments and state's fiscal condition
- When Estimates and Final Payments are growing the state's budget historically ends the year in surplus
- When Estimate and Final Payments are contracting the state's budget has historically ended the year in deficit
- The annual change in Estimate and Final Payment is very volatile, +37% in FY 04 and -29% in FY 09

Section 7: Possible Uses of Surplus Funds

Use of Surplus

The Connecticut Constitution and General Statutes explicitly authorize two¹⁹ possible uses of unappropriated surplus funds.

1. **The Budget Reserve (Rainy Day) Fund:** Under Article 28, Section 18(c) of the Connecticut Constitution, any unappropriated General Fund surplus is first transferred to the Budget Reserve Fund (BRF) to raise the balance to 10% of net General Fund appropriations. The resources of the BRF are invested in the Short Term Investment Fund (STIF), which has a 10-year annualized rate of return of 2.95%.
2. **Reduction of Bonded Indebtedness:** If any additional surplus remains after the BRF transfer, Article 28 stipulates that it must be used to reduce bonded indebtedness. The average interest rate for General Obligation (GO) bonds is currently about 4.5%.

Historical Review of Recent Uses of Surplus

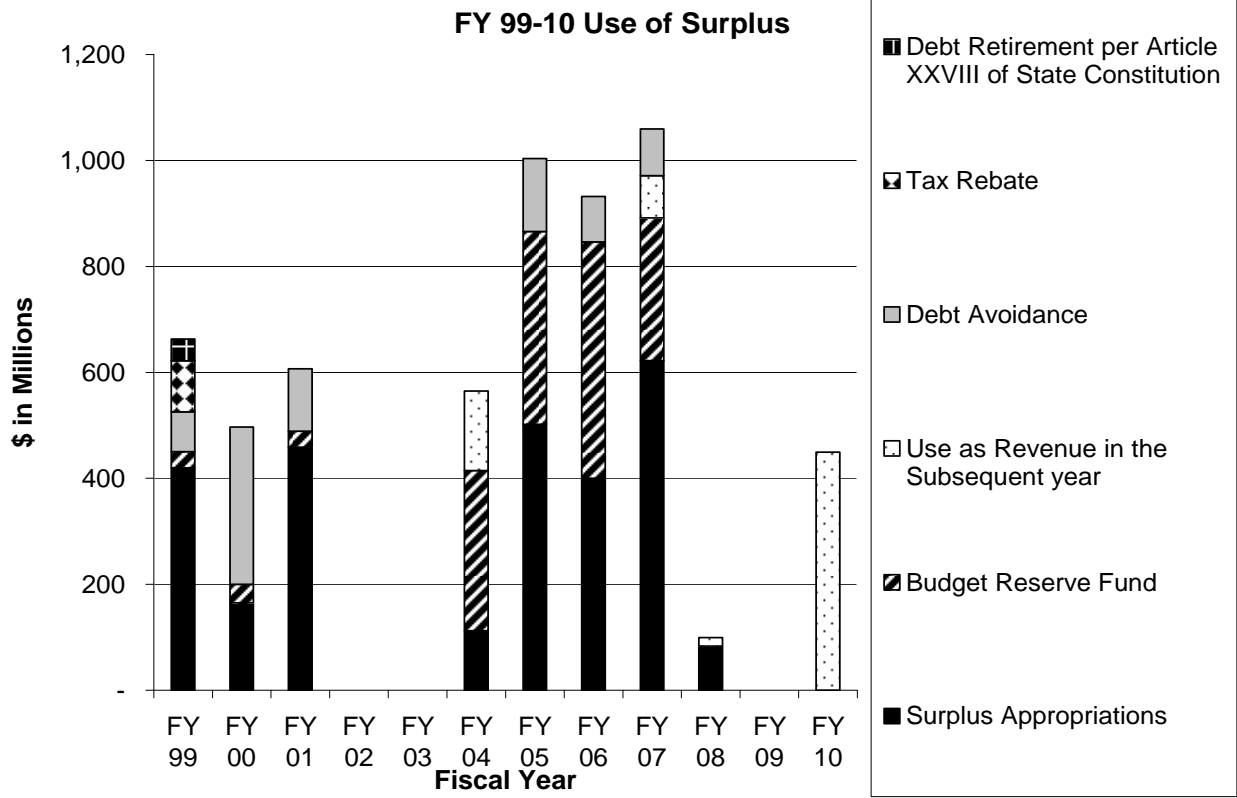
Although there are two current authorized uses of surplus funds, the law has been changed at various times to allow for the use of surplus on other areas.

For the period FY 99-10, there was \$5.87 billion in surplus funds, of which:

- \$1.47 billion was deposited to the Budget Reserve Fund;
- \$41.3 million used for reduction of bonded indebtedness, pursuant to the Connecticut Constitution;
- \$2.76 billion was appropriated for both one-time expenditures and on-going uses;
- \$96.2 million was used for a rebate to taxpayers;
- \$800 million was used for debt avoidance;²⁰ and
- \$695.7 was used as one-time revenue to balance the budget in subsequent fiscal years.

¹⁹ Note: the statutes authorize a third use of surplus funds, to reduce the unfunded pension liability in the State Employees Retirement Fund and Teachers' Retirement Fund. However, since the Constitution supersedes this statute, this statute is inoperative.

²⁰ By using surplus funds for things that would have otherwise been bonded, such as school construction, Local Capital Improvement Payments (LOCIP), or the payment of Economic Recovery Notes, the state avoided future debt service payments.



Appendix A

Statutory Requirements

C.G.S. 2-36b requires the Office of Fiscal Analysis (and the Office of Policy and Management) to report on the following by November 15 each year:

- (1) A consensus estimate of state revenues, an estimate of expenditures and ending balance for each fund, for the current biennium and the next ensuing three fiscal years, and the assumptions on which such estimates are based;
- (2) the projected tax credits to be used in the current biennium and the next ensuing three fiscal years, and the assumptions on which such projections are based;
- (3) a summary of any estimated deficiencies in the current fiscal year, the reasons for such deficiencies, and the assumptions upon which such estimates are based;
- (4) the projected balance in the Budget Reserve Fund at the end of each uncompleted fiscal year of the current biennium and the next ensuing three fiscal years;
- (5) the projected bond authorizations, allocations and issuances in each of the next ensuing five fiscal years and their impact on the debt service of the major funds of the state;
- (6) an analysis of revenue and expenditure trends and of the major cost drivers affecting state spending, including identification of any areas of concern and efforts undertaken to address such areas, including, but not limited to, efforts to obtain federal funds; and
- (7) an analysis of possible uses of surplus funds, including, but not limited to, the Budget Reserve Fund, debt retirement and funding of pension liabilities.

Appendix B State Tax Expenditure Summary

The table below summarizes state tax expenditures over \$100,000 and provides estimates for the value of each.

Summary of Major Identifiable State Tax Expenditures Estimates [1]

| (\$-millions) | FY 11 | FY 12 | FY 13 | FY 14 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| Personal Income Tax | | | | |
| Interest on US Obligations | 50.0 | 45.0 | 40.0 | 35.0 |
| Dividends from Mutual Funds Derived from US Govt Obligations | 5.5 | 5.0 | 6.0 | 6.0 |
| Refunds of State and Local Income Taxes | 55.0 | 65.0 | 69.0 | 72.0 |
| Tier I Railroad Retirement Benefits | 0.8 | 1.0 | 1.0 | 1.1 |
| Beneficiary's share of Connecticut fiduciary adjustment | 0.7 | 0.8 | 0.8 | 0.9 |
| Gain on sale of Connecticut Bonds | 0.3 | 0.3 | 0.4 | 0.4 |
| Social Security Benefits | 90.0 | 85.0 | 90.0 | 95.0 |
| Military Retirement Income | 2.5 | 2.5 | 2.5 | 2.5 |
| Contributions to CHET | 5.0 | 4.5 | 5.0 | 5.5 |
| Other Deductions | 15.0 | 17.0 | 21.0 | 23.0 |
| Credit for Property Taxes Paid | 365.0 | 373.0 | 381.0 | 389.0 |
| Total Personal Income Tax | 589.8 | 599.1 | 616.7 | 630.4 |
| Sales and Use Tax | | | | |
| <i>Consumer Goods</i> | | | | |
| Sales of Food Products for Human Consumption | 375.0 | 380.0 | 387.0 | 395.0 |
| Oxygen, Blood Plasma, Prostheses, Wigs, Hearing Aids, Crutches, Walkers, Wheel Chairs, Life Support Equipment, Apnea Monitors, Chairlifts, Relate Repair Services, Reading Aids, Canes, and Support Hoses | 5.0 | 5.8 | 6.1 | 6.3 |
| Prescription Medicines, Syringes and Needles | 325.0 | 350.0 | 358.0 | 362.0 |
| Non-prescription Drugs and Medicines | 18.0 | 21.0 | 23.0 | 25.0 |
| Clothing Under \$50.00 | 130.0 | 140.0 | 145.0 | 150.0 |
| Cloth or Fabric Purchased for Non-Commercial Sewing | 0.5 | 0.5 | 0.5 | 0.5 |
| Sales Tax "Free Week" | 5.0 | 5.7 | 6.1 | 6.5 |
| Fuel for Heating Purposes | 175.0 | 180.0 | 195.0 | 205.0 |
| Certain Utilities Sales | 53.0 | 57.0 | 59.0 | 61.0 |
| Water Companies Purchases | 4.0 | 4.0 | 4.0 | 4.0 |
| Motor Vehicle Fuel | 400.0 | 410.0 | 415.0 | 425.0 |
| Newspapers and Magazines | 65.0 | 60.0 | 55.0 | 50.0 |
| The first \$2,500 of Burial or Cremation Services; Caskets | 5.0 | 6.0 | 7.0 | 8.0 |
| Weatherization Products and Fluorescent Light Bulbs | 5.5 | 7.0 | 7.0 | 8.0 |
| Household Energy Star rated appliances | 7.0 | 9.0 | 11.0 | 12.0 |
| College Text Books | 2.5 | 3.0 | 3.1 | 3.5 |
| Solar Energy, Geothermal, and Ice Storage Systems | 2.0 | 2.5 | 2.5 | 2.5 |
| <i>Subtotal Consumer Goods</i> | <i>1577.5</i> | <i>1641.5</i> | <i>1684.3</i> | <i>1724.3</i> |

| (\$-millions) | FY 11 | FY 12 | FY 13 | FY 14 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| <i>Business and Agricultural Exemptions</i> | | | | |
| Machinery Used in Manufacturing and Component Parts for Assembly of Manufacturing Machinery and Production Materials | 100.0 | 90.0 | 93.0 | 95.0 |
| Partial Exemption for Materials, Tools, Fuels, Machinery and Equipment used in Manufacturing | 3.0 | 2.8 | 3.0 | 3.1 |
| Replacement Parts in Enterprise Zones | 0.7 | 0.6 | 0.7 | 0.8 |
| Agriculture Production | 5.0 | 5.0 | 5.0 | 5.0 |
| Commercial Fishing | 5.0 | 4.0 | 4.0 | 3.8 |
| Aircraft Repair, Replacement Parts; Aircraft Repair Services; Materials, Tools, Fuel, Machinery and Equipment used in an Aircraft Manufacturing Facility | 10.0 | 8.0 | 8.5 | 9.0 |
| Commercial Trucks, Trailers and Combination, and Commercial Vehicles used in Inter-State Business | 6.0 | 6.0 | 6.1 | 6.3 |
| Motor Buses used in Inter-State Business | | | | |
| Aviation Fuel | 5.0 | 5.1 | 5.3 | 5.5 |
| Printed Material Sent Out of State | 2.0 | 2.0 | 2.0 | 2.0 |
| Commercial Printing | 5.0 | 4.5 | 4.8 | 5.0 |
| Typesetting, Color Separation and Finished Copy | | | | |
| Waste Treatment and Air Pollution Facilities | 3.0 | 3.0 | 3.0 | 3.0 |
| Motion Picture, Video, TV and Radio Production & Broadcast Equipment | 2.0 | 2.0 | 2.0 | 2.0 |
| Lease of Rental of Motion Pictures by Theater Owners | 2.0 | 2.0 | 2.0 | 2.0 |
| Solid Waste to Energy Facilities | 0.2 | 0.2 | 0.2 | 0.2 |
| <i>Subtotal Business and Agricultural Exemptions</i> | <i>148.9</i> | <i>135.2</i> | <i>139.6</i> | <i>142.7</i> |
| <i>Non-Profit Organization Exemptions</i> | | | | |
| Children's Hospital and the John Dempsey Hospital | 5.0 | 5.0 | 5.0 | 5.0 |
| Sales to Nonprofit organizations (combined lease, labor, and goods) | 700.0 | 678.0 | 685.0 | 694.0 |
| <i>Subtotal Government and Charitable Organizations</i> | <i>705.0</i> | <i>683.0</i> | <i>690.0</i> | <i>699.0</i> |
| <i>Miscellaneous Exemptions</i> | | | | |
| Motor Vehicles & Vessels Purchased by Non-Residents to use Out of State | 45.0 | 48.0 | 46.0 | 47.0 |
| Vessels Brought in to the State for Storage, Maintenance or Repair | 3.5 | 3.5 | 3.5 | 3.5 |
| <i>Subtotal Miscellaneous Exemptions</i> | <i>48.5</i> | <i>51.5</i> | <i>49.5</i> | <i>50.5</i> |
| <i>Service Exemptions</i> | | | | |
| Computer and Data Processing | 90.0 | 87.0 | 86.0 | 88.0 |
| Sale of Repair or Maintenance on Vessels | 3.8 | 3.4 | 3.5 | 3.6 |
| Renovation & Repair for Residential Property | 21.0 | 29.0 | 25.0 | 25.0 |
| Patient Care Services | 180.0 | 185.0 | 188.0 | 190.0 |
| Tangible Property Purchased by For-Profit Hospitals | 0.5 | 0.5 | 0.5 | 0.5 |
| Motor Vehicle Parking | 5.0 | 5.0 | 5.0 | 5.0 |
| Car Washes | 4.0 | 4.0 | 4.0 | 4.0 |
| Amusement and Recreation Services | 65.0 | 55.0 | 58.0 | 60.0 |
| Massage Therapist and Electrology Services | 1.5 | 1.1 | 1.0 | 1.0 |

| (\$-millions) | FY 11 | FY 12 | FY 13 | FY 14 |
|-----------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| Advertising | 30.0 | 35.0 | 38.0 | 41.0 |
| Tax Preparation | 4.0 | 4.0 | 4.2 | 4.5 |
| Winter Boat Storage | 0.3 | 0.2 | 0.2 | 0.3 |
| World Wide Web | 30.0 | 35.0 | 37.0 | 40.0 |
| Hazardous Waste Removal | 4.0 | 3.5 | 3.5 | 3.5 |
| Media Payroll Services | 1.5 | 1.8 | 2.0 | 2.0 |
| <i>Subtotal Service Exemptions</i> | <i>440.6</i> | <i>449.5</i> | <i>455.9</i> | <i>468.4</i> |
| | | | | |
| <i>Items Subject to a Lower Sales Tax Rate or Basis</i> | | | | |
| Trade-In of Motor Vehicles, Snowmobiles, Vessels or Farm Tractors Coupons and Discounts and Battery Deposits and Trade-Ins of Like Kind | 45.0 | 40.0 | 43.0 | 45.0 |
| Trade-In of Core Parts | 40.0 | 42.0 | 45.0 | 45.0 |
| <i>Subtotal of Items Subject to a Lower Sales Tax Rate or Basis</i> | <i>85.0</i> | <i>82.0</i> | <i>88.0</i> | <i>90.0</i> |
| Total of Sales and Use Tax | 3005.5 | 3042.7 | 3107.3 | 3174.9 |
| | | | | |
| Petroleum Companies Gross Earnings Tax | | | | |
| #2 Heating Oil used for Heating Purposes | 150.0 | 165.0 | 170.0 | 173.0 |
| #2 Heating Oil used in Commercial Fishing | 0.3 | 0.2 | 0.2 | 0.1 |
| Propane Used for Residential Heating | 8.0 | 9.0 | 9.0 | 10.0 |
| Bunker Fuel Oil, Intermediate Fuel, Marine Diesel Oil & Gas Oil | | | | |
| Kerosene Used for Residential Heating | 0.4 | 0.3 | 0.3 | 0.2 |
| Deisel Fuel First Sale | 40.0 | 41.0 | 43.0 | 42.0 |
| Fuel Used by Industrial Consumers (SIC 2000-3999) | 2.0 | 1.8 | 2.0 | 2.0 |
| Petroleum Products used in Fuel Cells | 0.2 | 0.4 | 0.4 | 0.5 |
| Commercial Heating Oil Blend | 1.5 | 1.8 | 2.0 | 2.0 |
| Credit for Sale to Resellers Located Outside the State | 4.5 | 4.5 | 4.5 | 4.5 |
| Total Petroleum Companies Gross Earnings Tax | 206.9 | 224.0 | 231.4 | 234.3 |
| | | | | |
| Corporate Business Tax | | | | |
| <i>Exemptions and Deductions</i> | | | | |
| Net Operating Loss Carry-Forward | 150.0 | 160.0 | 165.0 | 172.0 |
| Net Capital Loss Carry-Over | 10.0 | 10.0 | 10.0 | 10.0 |
| Capital Gains from Sales of Open Space or Watershed Land | 1.3 | 0.9 | 1.0 | 1.1 |
| <i>Subtotal Exemptions and Deductions</i> | <i>161.3</i> | <i>170.9</i> | <i>176.0</i> | <i>183.1</i> |
| | | | | |
| <i>Credits</i> | | | | |
| Apprenticeship | 0.1 | 0.1 | 0.1 | 0.1 |
| Electronic Data Processing | 14.0 | 11.0 | 13.0 | 14.0 |
| Film and Digital Media Production | 11.0 | 15.0 | 15.0 | 15.0 |
| Fixed Capital | 45.0 | 47.0 | 48.0 | 49.0 |
| Historic Home Rehabilitation, Historic Structure and Mixed Use Rehabilitaiton | 19.5 | 19.7 | 19.7 | 19.8 |
| Housing Program Contribution | 3.0 | 3.0 | 3.0 | 3.0 |

| (\$-millions) | FY 11 | FY 12 | FY 13 | FY 14 |
|--------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| Human Capital | 1.5 | 1.6 | 1.7 | 1.7 |
| Insurance Reinvestment | 5.0 | 5.0 | 5.1 | 5.5 |
| Machinery and Equipment | 2.0 | 1.8 | 2.0 | 2.0 |
| Mfg Facilities/Service Facilities/Enterprise Zones | 3.5 | 3.4 | 3.5 | 3.6 |
| Film Production Infrastructure | 10.0 | 10.0 | 10.0 | 10.0 |
| Neighborhood Assistance | 1.0 | 1.0 | 1.0 | 1.0 |
| Research & Development | 5.0 | 4.8 | 4.9 | 5.0 |
| Research & Experimentation | 10.0 | 9.8 | 10.0 | 10.1 |
| Sale of Certain Credits | 9.6 | 10.5 | 11.0 | 11.5 |
| Urban and Industrial Reinvestment Credit | 0.5 | 0.5 | 0.5 | 0.5 |
| <i>Subtotal Credits</i> | <i>140.7</i> | <i>144.2</i> | <i>148.5</i> | <i>151.8</i> |
| Total Corporate Income Tax | 302.0 | 315.1 | 324.5 | 334.9 |
| Cigarette and Tobacco Products Taxes | | | | |
| Tobacco Products Exported Out of State | 6.5 | 7.0 | 7.2 | 7.3 |
| Public Service Companies Gross Earnings Tax | | | | |
| <i>Exemptions and Deductions</i> | | | | |
| Sales for Resale | 75.0 | 70.0 | 73.0 | 75.0 |
| Earnings to Pay for Debt Service on Energy Securitization | 1.0 | 1.0 | 1.0 | 1.0 |
| Railroad Companies When Certified by DOT | 2.0 | 2.0 | 2.0 | 2.0 |
| Propane Gas Used as Motor Fuel | | | | |
| Gas and Electricity Used by Industrial Consumers (SIC 2000-3999) | 15.0 | 13.0 | 13.0 | 14.0 |
| Gas Sold to Facility with 775 MW of Capacity | 5.0 | 4.5 | 4.8 | 5.0 |
| <i>Subtotal Exemptions and Deductions</i> | <i>98.0</i> | <i>90.5</i> | <i>93.8</i> | <i>97.0</i> |
| Lowered Rate for Residential Utilities | 7.5 | 7.6 | 7.6 | 7.7 |
| Total Public Service Companies Gross Earnings Tax | 105.5 | 98.1 | 101.4 | 104.7 |
| Insurance Premiums Tax | | | | |
| <i>Exemptions and Deductions</i> | | | | |
| Ocean Marine Insurance | 0.5 | 0.5 | 0.5 | 0.5 |
| State Employee Health Plans | 2.0 | 2.1 | 2.1 | 2.2 |
| Municipal, Non-profit and Teachers Retirement System | 5.0 | 5.2 | 5.3 | 5.5 |
| Small/Self Employer Health Insurance Plans | 2.0 | 2.2 | 2.3 | 2.4 |
| Medicaid, HUSKY and General Assistance | 7.0 | 7.2 | 7.3 | 7.3 |
| <i>Sub Total Credits</i> | <i>16.5</i> | <i>17.2</i> | <i>17.5</i> | <i>17.9</i> |
| <i>Credits</i> | | | | |
| Insurance Department Assessment Credit | 1.0 | 1.0 | 1.1 | 1.1 |
| Neighborhood Assistance | 0.7 | 0.6 | 0.6 | 0.5 |
| Historic Home Rehabilitation and Historic Structure Rehabilitation | 1.2 | 1.3 | 1.3 | 1.4 |
| Insurance Reinvestment | 2.5 | 2.5 | 2.5 | 2.5 |

| (\$-millions) | FY 11 | FY 12 | FY 13 | FY 14 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
| Electronic Data Processing | 16.0 | 14.0 | 15.0 | 16.0 |
| Film and Digital Media Production | 5.0 | 5.0 | 5.0 | 5.0 |
| Digital Animation Production | 15.0 | 15.0 | 15.0 | 15.0 |
| <i>Subtotal Credits</i> | <i>41.4</i> | <i>39.4</i> | <i>40.5</i> | <i>41.5</i> |
| Total Insurance Premiums Tax | 57.9 | 56.6 | 58.0 | 59.4 |
| Admissions and Dues Taxes | | | | |
| Admission Tax | | | | |
| Charges less than \$1.00 and Movies less than \$5.00 | 3.0 | 2.7 | 2.9 | 3.0 |
| Admission to events held at: | | | | |
| Hartford Civic Center, New Haven Coliseum, New Britain Beehive Stadium, New Britain Veterans Memorial Stadium, Tennis Foundation, O'Neill Convocation Center, Stafford Motor Speedway, Thompson Speedway, Waterford Speedbowl, Lime Rock Park, Bridgeport Harbo | 8.0 | 7.5 | 7.7 | 8.0 |
| Nonprofit Theater or Playhouse, Gateway's Candlewood House and Ocean Beach Park | 0.1 | 0.1 | 0.1 | 0.1 |
| Carnival or Amusement Rides | | | | |
| Establishments subject to the Cabaret Tax before July 1, 1999 | 1.5 | 1.4 | 1.4 | 1.3 |
| <i>Subtotal Admissions Tax</i> | <i>12.6</i> | <i>11.7</i> | <i>12.1</i> | <i>12.4</i> |
| Total Admissions and Dues Taxes | 12.6 | 11.7 | 12.1 | 12.4 |
| Motor Fuels and Motor Carrier Road Taxes | | | | |
| <i>Exemptions to Motor Fuels Tax</i> | | | | |
| US Government | 0.10 | 0.10 | 0.10 | 0.10 |
| Municipalities, Transit Districts and the State | 5.00 | 5.00 | 5.00 | 5.00 |
| Fuel Distributors | 900.00 | 850.00 | 880.00 | 900.00 |
| Fuel Exported Out of State | 80.00 | 80.00 | 80.00 | 80.00 |
| Aviation Fuel | 25.00 | 23.00 | 25.00 | 27.00 |
| <i>Subtotal Motor Fuels Tax Exemptions</i> | <i>1010.10</i> | <i>958.10</i> | <i>990.10</i> | <i>1012.10</i> |
| <i>Refunds of Motor Fuels Tax</i> | | | | |
| Vehicles not Operated on Public Highways | 2.50 | 2.50 | 2.50 | 2.50 |
| CT Motor Bus Companies and Other Livery Services | 1.50 | 1.50 | 1.50 | 1.50 |
| Municipalities, Transit Districts, State, US Govt, and Ambulances | 1.00 | 1.00 | 1.00 | 1.00 |
| Farming | 0.50 | 0.50 | 0.50 | 0.50 |
| Meals on Wheels for Seniors | 1.00 | 1.00 | 1.00 | 1.00 |
| <i>Subtotal Refunds of Motor Fuels Tax</i> | <i>6.50</i> | <i>6.50</i> | <i>6.50</i> | <i>6.50</i> |
| Credit for Motor Carrier Road Tax on Motor Fuels Tax Paid in State | 1.00 | 1.00 | 1.00 | 1.00 |
| Total Motor Fuels and Motor Carrier Road Taxes | 1017.60 | 965.60 | 997.60 | 1019.60 |
| Grand Total – Major Identifiable State Tax Expenditures^[1] | 5304.30 | 5319.90 | 5456.20 | 5577.90 |

| (\$-millions) | FY 11 | FY 12 | FY 13 | FY 14 |
|--------------------------------------------------------------------------------|-------|-------|-------|-------|
| ^[1] Estimated identifiable revenue reductions of \$100,000 or more. | | | | |

Appendix C

Detail on Agency Deficiencies²¹

Department of Social Services (DSS) - \$185.0 million

The agency's projected FY 11 budget shortfall is composed of:

- \$177.4 million in Medicaid;
- \$18.1 million in Other Expenses;
- \$4.5 million in Child Care Services;
- \$2.0 million in the Supplemental Assistance accounts;
- \$1.6 million in Charter Oak;
- \$1.1 million in ConnPACE; and
- \$0.2 million in the State Food Stamp Supplement.

These shortfalls are partially offset by projected lapses of:

- \$10.4 million in Temporary Family Assistance;
- \$6.5 million in the Connecticut Home Care program;
- \$1.6 million in Personal Services;
- \$1.0 million in the HUSKY B program; and
- \$0.5 million in Housing and Homeless Services.

SHORTFALLS

The Medicaid shortfall is primarily due to continued caseload increases as well as adopted savings assumptions that have not been achieved. Over the past year, the HUSKY A program has seen caseload growth of 27,212 (a 7.6% increase). The new Medicaid Low Income Adults (MLIA) category, formerly State Administered General Assistance clients, has seen enrollment grow from 44,752 in April, when the program was converted, to 53,302 in September (an increase of 19.0% in six months).

The FY 11 Medicaid budget also had significant savings assumed for converting the HUSKY A program to an administrative services organization model (\$76.7 million) and for managing the care of the fee-for-service Aged, Blind and Disabled population (\$60.0 million). As it does not appear that the department will implement these policies prior to the end of the fiscal year, it is unlikely that these savings will be achieved.

The \$18.1 million shortfall in Other Expenses is due to the OPM holdback of \$18.5 million. Should this holdback be released, this shortfall would be eliminated.

²¹ The sum of individual agency projection figures in the detail section varies from the financial tables due to rounding.

The shortfalls in the Child Care Services, Supplemental Assistance, Charter Oak and State Food Stamp Supplement accounts are all due to caseload growth in excess of what was originally projected. Demand for these entitlement programs has remained strong due to persistently weak economic conditions. The department has announced that enrollment in the highest income, and non-entitlement, band of the Child Care Services program would be closed effective November 6, 2010. This action may partially mitigate the projected shortfall.

Caseloads in the ConnPACE program continue to decline as clients transition to benefits under the federal Medicare Savings program. However, the rate of decline is below the original projection, resulting in the estimated \$1.1 million shortfall. Overall, expenditures in this program have declined from \$32.0 million in FY 08 to a projected \$10.6 million in FY 11.

LAPSES

Despite current economic conditions, enrollments in the Temporary Family Assistance (TFA) and HUSKY B programs have fallen. TFA enrollment fell 3.0% from 19,528 cases to 18,932 cases in the last year, and HUSKY B enrollment fell 5.0% from 15,665 cases to 14,891 cases during that same period. These enrollment reductions have resulted in the projected lapses noted above.

The Connecticut Home Care program has a projected lapse of \$6.5 million. Enrollment in this program decreased significantly when a 15.0% cost sharing requirement was imposed in January 2010. The FY 11 budget included funds necessary to reduce this cost sharing requirement to 6.0%, however enrollment has not subsequently grown at the pace originally projected to result from this policy change.

The Personal Services account has a projected lapse of \$1.6 million due to slower-than-anticipated refills of vacant positions.

Department of Mental Health and Addiction Services (DMHAS) - \$16.1 million

The agency's projected FY 11 budget shortfall is composed of:

- \$13.0 million in General Assistance Managed Care;
- \$4.7 million in Other Expenses; and
- Offset by \$1.6 million in lapsing funds in the Behavioral Health Medications account.

This assumes that various holdbacks totaling approximately \$ 17.5 million are not released.

The deficiency in the General Assistance Managed Care account is due to higher than expected caseload growth in the Medicaid Low Income Adults (MLIA) population. The new MLIA category, formerly State Administered General Assistance clients, has seen enrollment grow from 44,752 in April, when the program was converted, to 53,302 in September (an increase of 19.0% in six months).

The deficiency in the Other Expenses account is due to an inability to fully achieve the application of a \$14.8 million total holdback to the account, which represents 40.0% of the \$36.7 million Other Expenses FY 11 appropriation.

The \$1.6 million lapse in the Behavioral Health Medications account is a result of the agency's efforts to distribute less expensive, generic medications to patients, and ensuring more individuals are fully utilizing entitlements to cover pharmaceutical costs.

Department of Correction (DOC) - \$12.5 million

The agency's projected FY 11 budget shortfall is composed of:

- \$11.9 million in Other Expenses;
- \$0.7 million in Workers Compensation; and
- \$0.2 million in Legal Services to Prisoners;
- Offset by \$0.3 in lapsing funds under various accounts.

The shortfall in Other Expenses is due to an inability to achieve a reduced adjusted appropriation. It should be noted that the FY 11 adjusted appropriation (after the imposition of holdbacks totaling \$16.4 million) is approximately \$9.2 million less than the amount expended by the DOC for Other Expenses in FY 10.

The shortfall in Workers' Compensation Claims results from an inability to achieve an appropriation that is \$2.2 million lower than the amount expended by the DOC on Workers' Compensation Claims in FY 10.

The shortfall in Legal Services to Prisoners results from the inability to achieve a budgeted lapse for outside consultant contracts while maintaining mandated services.

These shortfalls are partially offset by projected lapses in the Children of Incarcerated Parents (\$0.1 million) and Community Support Services (\$0.2 million) accounts.

The original FY 11 budget provided \$700,000 for the DOC's Children of Incarcerated Parents account. However, the revised FY 11 budget moved half of this amount to the Judicial Department and inadvertently left the remainder under DOC. The Finance Advisory Committee approved the transfer of \$240,000 from the remainder to another

DOC line item at its 10/7/10 meeting, thus leaving an unobligated balance of \$110,000 under the Children of Incarcerated Parent's account. No commitments have been made against these funds.

The lapse under the Community Support Services account is attributable to delays in implementing privately operated residential services due to siting issues.

Department of Public Safety (DPS) - \$6.7 million

The agency's projected FY 11 budget shortfall is composed of:

- \$4.5 million in Other Expenses; and
- \$2.9 million in Fleet Purchase;
- Offset by a \$740,000 lapse in Workers' Compensation Claims.

The deficiency assumes that a bottom-line holdback of \$6.0 million is not released.

The \$4.5 million shortfall in Other Expenses (OE) is due to the inability to achieve a reduced appropriation and maintain holdback savings. In FY 10, DPS expended \$26.9 million in OE; in FY 11, \$22.3 million is available net the holdback. This represents a 17.0% decrease from the FY 10 actual OE expenditure to the FY 11 available funds for OE.

The \$2.9 million shortfall in Fleet Purchase results from a contract savings holdback which cannot be achieved. DPS leases vehicles from the Department of Administrative Services (DAS) through monthly payments over a 48-month period. In FY 10, DPS expended \$6.6 million in the Fleet Purchase account; in FY 11, \$3.6 million is available net the holdback. It is anticipated that DPS will not be able to pay DAS fleet invoices going forward beginning in December if a portion of the \$3.4 million Fleet Purchase holdback is not released.

A projected \$740,000 lapse in Workers' Compensation Claims is attributable to average monthly payments in FY 11 falling below budgeted levels. Actual monthly claims payments are expected to average around \$366,500 per month for FY 11 which is below the average appropriated funding of \$428,000 per month. The monthly average for the first quarter of FY 11 was \$306,000.

Department of Public Works (DPW) - \$6.3 million

The agency's projected FY 11 budget shortfall is composed of:

- \$3.0 million in Rents and Moving;
- \$2.7 million in Other Expenses;
- \$0.4 million in Property Management Services; and
- \$0.4 million in Facilities Design Expenses;
- Offset by a \$0.2 million lapse in Personal Services.

The Rents and Moving deficiency is due to a \$2.9 million holdback. The agency is unlikely to achieve significant savings in this account because it primarily funds fixed costs such as lease payments.

The Other Expenses deficiency is mainly the result of: (1) payment of an unanticipated \$0.5 million contractor's claim, and (2) higher-than-anticipated operating and utility costs at state-owned buildings in Hartford.

The Property Management Services deficiency is due to the agency's assumption of care and control of Cedar Crest Hospital from DMHAS.

The Facility Design deficiency is due to a reduction in the number of projects that have received funding through the State Bond Commission. As a result, more administrative expenses are being charged to the General Fund rather than to bond-funded accounts associated with capital projects.

These deficiencies will be partially offset by a lapse of \$0.2 million in the Personal Services account.

Child Protection Commission (CPC) - \$2.9 million

The agency's projected FY 11 budget shortfall is composed of:

- \$2.9 million in Contracted Attorneys.

This assumes that various holdbacks totaling approximately \$26,332 are not released.

The deficiency in the Contracted Attorneys account is a result of the CPC replacing a flat fee compensation rate for contracted attorneys with an hourly rate payment system of \$40 or \$75. These rate increases went into effect in 2008 in an effort to provide an improved rate of compensation to their contracted attorneys. In the Spring of 2010, an additional 40 attorneys were certified as Certified Child Welfare Specialists, bringing the total number of attorneys compensated at the hourly rate of \$75 to 81 (out of a total of 228 attorneys currently contracted by the CPC). For illustrative purposes, if each of

these attorneys had a caseload of 50, and worked 40 hours per case, the additional cost would be \$150,000 per attorney.

It should be noted that the CPC has unilateral authority to change how they compensate their contracted attorneys, including the rate they are paid and any increases or decreases to that rate.

Public Defender Services Commission (PDS) - \$2.0 million

The agency's projected FY 11 budget shortfall is composed of:

- \$990,000 in Special Public Defenders – Non Contractual;
- \$798,000 in Expert Witnesses; and
- \$257,000 in Other Expenses.

This assumes that various holdbacks totaling approximately \$336,842 are not released.

The projected deficiency in the Special Public Defenders - Non Contractual account is a result of higher-than-expected case assignments and billed hours, in addition to \$546,000 in FY 10 obligations carried forward into the current fiscal year.

The projected deficiency in the Expert Witnesses account is related to costs for the services of psychiatric and forensic professionals required in the defense of capital felony cases.

The projected deficiency in the Other Expenses account is related to the increased overall caseload, which has forced increased expenditures on the printing of legal briefs, postage, record storage and mileage reimbursement. The number of cases per attorney has consistently been above the recommended level of 450 to 500 set by the Public Defender Commission. On average, caseloads per attorney have increased from 514 in 2009 and 527 in 2010 to a projected 529 per attorney in 2011.

These deficiencies will likely continue unabated due to the increased caseload for public defenders and high costs associated with capital, habeas and appellate cases.

Department of Administrative Services (DAS) - \$1.4 million

The agency's projected FY 11 budget shortfall is composed of:

- \$1.4 million in Workers' Compensation Administrator.

This assumes that various holdbacks totaling \$3.1 million are not released; if the Outside Consultant Contracts holdback were released, DAS would not incur an account deficiency.

The deficiency is the result of contractual requirements with the workers' compensation third party administrator. The Workers' Compensation Administrator account provides funding for the third party administrator contract for workers' compensation claims administration and medical case management.

Department of Administrative Services - General Fund - Workers' Compensation Claims - \$1.4 million

The projected deficiency is the result of two factors: (1) a rollout of the FY 10 deficiency and (2) an increase in medical costs. The FY 11 Revised Budget included an additional \$1.5 million in the General Fund to annualize a portion of the FY 10 deficiency in the Workers' Compensation Claims Account. The projected net deficiency represents approximately 5.0% of the total FY 11 revised appropriation. The FY 11 revised appropriation was approximately \$1.0 million less than actual FY 10 General Fund expenditures.

Funding within the Department of Administrative Services Workers' Compensation Claims General Fund account is used to pay the workers' compensation claims costs for state employees in 77 agencies that do not receive a direct appropriation. This includes the legislative branch, the judicial branch and all executive branch agencies except the Departments of Correction, Public Safety, Children and Families, Developmental Services, and Mental Health and Addiction Services. These agencies have their own Workers' Compensation Claims accounts.

Department of Administrative Services - Special Transportation Fund - Workers' Compensation Claims - \$1.3 million

The projected deficiency is the result of two factors: (1) a rollout of the FY 10 deficiency and (2) an increase in medical costs. The FY 11 Revised Budget included an additional \$1.5 million in the Special Transportation Fund to annualize a portion of the FY 10 deficiency in the Workers' Compensation Claims Account. The projected net deficiency represents approximately 20.0% of the total FY 11 revised appropriation. The FY 11 revised appropriation was approximately \$2.0 million less than actual FY 10 Special Transportation Fund expenditures.

Funding within the Workers' Compensation Claims Special Transportation Fund Account is used to pay workers' compensation claims for the Department of Transportation and the Department of Motor Vehicles.