Fiscal Accountability Report to the Appropriations and Finance Committees as required by CGS Sec. 2-36b

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TABLE OF CONTENTS

Introduction.....1
1) FY 12 – FY 16 Budget Estimates and Assumptions for Appropriated Funds.....2
Expenditure Detail.....5
Revenue Detail.....9
Other Appropriated Funds.....16
2) FY 12 – FY 16 Tax Credit Estimates and Assumptions.....18
3) FY 12 Deficiencies.....19
4) FY 12 – FY 16 Budget Reserve Fund Estimates.....20
5) FY 12 – FY 16 Projected Bonding and Debt Service.....21
6) Analysis of Revenue and Expenditure Trends and Major Cost Drivers; Areas of Concern; Federal Revenue.....23
Long Term Obligations.....23
Major Expenditure Growth Areas.....27
Debt Burden.....27
Federal Revenue.....30
7) Possible Uses of Surplus Funds.....32

Appendix A: Statutory Requirements.....34
Appendix B: Detail on Agency Deficiencies.....35

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 12 – FY 16 budget estimates and assumptions;
2. FY 12 – FY 16 tax credit estimates and assumptions;
3. FY 12 deficiencies;
4. FY 12 – FY 16 Budget Reserve Fund estimates;
5. FY 12 – FY 16 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 12 – FY 16 Budget Estimates and Assumptions for Appropriated Funds

General Fund

We are currently projecting a $101.2 million surplus for the current year, FY 12. This amount represents about 1/2 of 1% of total estimated expenditures. In addition, we are projecting surpluses over the next four years ranging from $310.8 million to $715.6 million.

Although we are required by statute to use the October 14, 2011 revenue estimates agreed to upon OFA and OPM for this report, we have adjusted revenue for one factor: the legislation that passed during the October 2011 special session. PA 11-1 of the October Special Session (OSS) reduced revenue in FY 12 through FY 16 by $8.3 million to $67.5 million annually, depending on the year.

Although estimated net revenues have declined by $10.9 million[1] since the year began, these are balanced by net reduced expenditure requirements of $31.2 million, which increases the FY 12 beginning budget balance of $80.9 million by $20.3 million.

Budget Outlook (in millions)

	FY 12 $	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Est. Expenditures	18,676.5	18,897.2	19,980.6	20,928.3	21,581.6
Est. Revenue	18,777.7	19,353.0	20,291.4	21,276.2	22,297.2
Surplus/(Deficit)	**101.2**	**455.8**	**310.8**	**347.9**	**715.6**
% of Est. Expenditures	0.54%	2.41%	1.56%	1.66%	3.32%

Under the provisions of PA 09-3 of the June Special Session (JSS), General Fund surplus funds must be used to redeem the $915.8 million in Economic Recovery Notes (ERNs) that were issued in 2009. Due to available surplus in FY 11, the FY 16 ERN debt service requirement of $208.4 million was eliminated.

In addition, PA 11-48 requires that available surplus funds be set aside for GAAP growth in FY 12 and FY 13, not to exceed $75.0 million and $50.0 million respectively. It also requires that the GAAP balance of $1.5 billion be amortized over 15 years starting in FY 14.

It should be noted that $150 million per year is required from FY 14 through FY 28 to pay off the GAAP balance ($100 million/year) and the growth per year ($50 million per year).

[1] $2.6 million due to consensus adjustments and $8.3 million due to PA 11-1 OSS.

The table below illustrates the use of projected surplus funds for GAAP and ERN redemption.

Budget Outlook after Impact of GAAP/ERNs (in millions)

	FY 12 $	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Surplus/(Deficit)	101.2	455.8	310.8	347.9	715.6
GAAP Reserve	(75.0)	(50.0)	(150.0)	(150.0)	(150.0)
ERN Payments	(26.2)	(390.6)	-	-	-
Debt Service Savings	-	-	208.4	208.4	-
Surplus (Adj.)	**-**	**15.2**	**369.2**	**406.3**	**565.6**

Special Transportation Fund (STF)

Projections for the STF indicate that the fund will experience positive operating balances in FY 12 through FY 16, which will result in an increase in the cumulative fund balance from $107.4 million to $252.7 million.

STF Outlook (in millions)

STF	FY 12 $	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Beginning Balance	107.4	113.1	170.6	224.1	248.9
Revenues	1,243.7	1,316.1	1,351.2	1,368.8	1,401.6
Expenditures	1,238.0	1,258.6	1,297.7	1,344.0	1,397.8
Surplus/(Deficit)	**5.7**	**57.5**	**53.5**	**24.8**	**3.8**
Ending Balance	113.1	170.6	224.1	248.9	252.7

Other Appropriated Funds

In total, the eight Other Appropriated Funds are projected to run an operating deficit in FY 12 through FY 16. These deficits, however, are covered by available balances in the funds.

Other Appropriated Funds Outlook (in millions)

	FY 12 $	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Beginning Balance	42.2	42.6	39.6	36.3	31.7
Estimated Expenditures	164.0	161.5	238.6	242.7	247.0
Estimated Revenue	161.9	155.8	232.5	235.3	239.4
Surplus/(Deficit)	**(2.1)**	**(5.7)**	**(6.1)**	**(7.4)**	**(7.6)**
Transfers	2.5	2.7	2.8	2.9	3.0
Ending Balance	42.6	39.6	36.3	31.7	27.1

Spending Cap

The state is under the spending cap in the current biennium, but is projected to be over the cap in FY 14 through FY 16. 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.

Spending Cap Calculations (in millions)

Items	FY 12 $	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Appropriations Allowed by Cap	20,141.9	20,721.8	20,888.9	21,482.8	22,112.3
Estimated Expenditures	20,140.8	20,400.0	21,517.0	22,515.0	23,226.5
Over/(Under) the Cap	(1.0)	(321.8)	628.1	1,032.2	1,114.2

Expenditure Detail

FY 12

The calculation of the estimated surplus of $101.2 million for FY 12 includes the following:

- $10.9 million lower revenue since originally budgeted; and
- $31.2 million lower expenditures than originally budgeted.

Of the total $101.2 million surplus, $75.0 million is reserved for GAAP pursuant to Section 46 of PA 11-48, with the balance applied to the Economic Recovery Notes pursuant to Section 511 of PA 09-3 JSS.

FY 12 General Fund Summary (in millions)

	Budget Plan $	Increase/ (Decreases) $	Projected $
Appropriations	19,485.6		19,485.6
Adjustments:			
FY 12 Deficiency Requirements	-	65.2	65.2
Budgeted Lapses	(777.9)	(96.4)	(874.3)
Total	**18,707.7**	**(31.2)**	**18,676.5**
Revenues			
Taxes	14,019.1	(5.7)	14,013.4
Other Revenue	1,226.5	(21.5)	1,205.0
Other Sources	3,543.0	16.3	3,559.3
Total	**18,788.6**	**(10.9)**	**18,777.7**
Est. Surplus/(Deficit)	**80.9**	**20.3**	**101.2**
Reserved Balance[1]	**(80.9)**	**(20.3)**	**(101.2)**
Estimated Balance	**0.0**	**0.0**	**0.0**

[1] Reserved $75 million for GAAP per Section 46 of PA 11-48 with the balance applied to the Economic Recovery Notes per Section 511 of PA 09-3 JSS.

Lapses

The FY 12 General Fund budget included $777.9 million in lapses (or 3.9% of the budget). Of this total, 85% is the anticipated Labor Management Savings attributed to the Revised 2011 SEBAC Agreement. The FY 12 estimated total lapses are $874.3 million, this is anticipated to remain unexpended, either through normal spending patterns (most agencies do not expend their full appropriation), or through “mandated” savings (holdbacks).

FY 14 – FY 16: 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 the current fiscal year plus any scheduled or required changes. For example, estimated expenditures are updated for: (1) inflation, (2) annualization of partial year costs, (3) projected increases or decreases in caseload, (4) completion of projects, (5) collective bargaining increases, (6) costs mandated by statute or court order, and (7) 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) January 2011 projections for national health expenditures;
- The CT Teachers' Retirement System June 30, 2010 valuation;
- Average statewide historical wage increases; and
- Average teacher contract settlements.

The tables on the following page provide the inflationary assumptions and adjustments that OFA used to estimate Current Services needs.

Inflationary Assumptions used by OFA to Estimate Current Services Needs

Type	FY 14 %	FY 15 %	FY 16 %	Source or Methodology
Base[1]	1.4	1.7	2.0	Congressional Budget Office
Personal Services/Salary	4.5	4.5	4.5	SEBAC 2011 Agreement (3.0%) and Average Annual Increment (1.5%)
Electricity	2.6	3.0	3.6	Moody's Economy.com, 10/17/11
Natural Gas	2.6	3.0	3.6	Moody's Economy.com, 10/17/11
Motor Vehicle Fuel	-0.7	-0.5	1.4	Moody's Economy.com, 10/17/11
Fuel Oil	2.6	3.0	3.6	Moody's Economy.com, 10/17/11
Medical	8.3	5.9	6.3	National Health Expenditures, CMS Office of the Actuary, January 2011
Teachers' Pension Payroll Factor	4.0	4.0	4.0	CT Teachers' Retirement System Valuation, Cavanaugh McDonald Consulting, 6/30/10
Food	1.8	1.8	1.7	Moody's Economy.com, 10/17/11
Education	3.0	3.0	3.0	Average teacher contract settlements
Non Inflationary [2]	0.0	0.0	0.0	N/A

[1] Standard inflation rate not included in the other categories listed; equivalent to the Office of Policy and Management's "All Other" category.
[2] 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 – in millions)

Type	FY 14 Inflation		FY 15 Inflation		FY 16 Inflation	
	Rate %	Amount $	Rate %	Amount $	Rate %	Amount $
Base	1.4	102.0	1.7	113.1	2.0	130.8
Personal Services/Salary	4.5	138.2	4.5	144.5	4.5	150.1
Electricity	2.6	1.3	3.0	1.5	3.6	1.8
Natural Gas	2.6	0.6	3.0	0.5	3.6	0.6
Motor Vehicle Fuel	-0.7	-0.1	-0.5	-0.1	1.4	0.2
Fuel Oil	2.6	0.1	3.0	0.1	3.6	0.2
Medical	8.3	75.9	5.9	51.9	6.3	56.9
Teachers' Pension Payroll Factor	4.0	17.1	4.0	17.5	4.0	17.9
Food	1.8	0.6	1.8	0.6	1.7	0.6
Education	3.0	62.6	3.0	64.4	3.0	66.4
Workers' Compensation	6.0	4.4	5.1	3.6	5.2	3.7
TOTAL		**402.7**		**397.7**		**429.2**

Other Current Services Adjustments

In addition to inflation, other adjustments are made to FY 13 estimated expenditures to calculate Current Services requirements in FY 14 and beyond. A table is provided below that reflects the other Current Services adjustments in the out-years.

Other Current Services Adjustments (all appropriated funds – in millions)

Other Current Services	FY 14 $	FY 15 $	FY 16 $
Caseload Adjustments	311.5	304.6	326.1
Debt Service	98.0	95.5	(93.2)
Formula Adjustments	181.7	14.1	14.9
Mandatory Rates and Standards Adjustments	11.7	12.1	12.6
Pension Obligations	56.0	33.8	36.3
Other Adjustments	138.2	140.1	(14.5)
TOTAL	**797.0**	**600.3**	**282.1**

Explanation of categories:

1. **Caseload Adjustments**: Budgeted funding necessary to accommodate changes in caseload for entitlement and certain nonentitlement programs.
2. **Debt Service**: Contractual commitment to pay the principal and interest on existing and future debt obligations.
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. **Pension Obligations**: Estimate of the state's required contribution to fund ongoing and past pension liabilities.
6. **Other Adjustments**: Miscellaneous adjustments needed to maintain Current Services funding levels in various line items.

Revenue Detail

FY 12 - FY 16 Assumptions Used to Develop Revenue Estimates

Our revenue projections incorporate the analysis of current and prior-year actual collections data, in conjunction with economic indicators from Moody's Economy.com and the Bureau of Labor statistics (see table below), to determine baseline revenue totals. These totals are then updated to account for one-time occurrences (i.e., audit collections, settlements, etc.) and policy adjustments.

Connecticut Economic Indicators

Indicator	FY 12 %	FY 13 %	FY 14 %	FY 15 %	FY 16 %
Gross State Product	2.4	3.7	3.9	3.8	3.4
Real Personal Income	1.4	4.6	3.6	2.8	2.6
$ Average Annual Wages[1]	65.4	71.2	75.4	77.9	80.7
Nonfarm Employment	-0.1	0.0	1.8	2.9	2.1
Unemployment Rate	8.8	8.4	7.4	6.2	5.6
Total Retail Sales	4.6	2.1	3.0	1.9	1.6
Real Estate Prices	-2.6	2.0	4.1	5.1	4.8
Existing Home Sales	13.0	28.6	8.1	4.6	0.0
[1] Dollars are in thousands.					

General Fund

FY 12 and FY 13

The consensus revenue estimates developed jointly with the Office of Policy and Management (OPM) in October reflect a net revenue decrease of $2.6 million in FY 12 and $46.7 million in FY 13.

General Fund Consensus Revenue Estimates for the Biennium (in millions)

Fund/Revenue	FY 12 $ Budget	Revisions $	FY 12 $ Consensus	FY 13 $ Budget	Revisions $	FY 13 $ Consensus
General Fund						
Taxes						
Personal Income	8,456.9	-	8,456.9	8,845.8	-	8,845.8
Sales and Use	3,789.0	(23.5)	3,765.5	3,955.4	(39.4)	3,916.0
Corporations	707.7	-	707.7	799.8	-	799.8
Public Service Corporations	268.7	-	268.7	275.2	-	275.2
Inheritance and Estate	158.0	-	158.0	162.1	-	162.1

Fund/Revenue	FY 12 $ Budget	Revisions $	FY 12 $ Consensus	FY 13 $ Budget	Revisions $	FY 13 $ Consensus
Insurance Companies	237.2	-	237.2	238.3	-	238.3
Cigarettes	443.8	-	443.8	425.9	-	425.9
Real Estate Conveyance	90.3	7.5	97.8	98.4	7.1	105.5
Oil Companies	93.1	22.4	115.5	120.6	22.5	143.1
Electric Generation	71.0	-	71.0	71.0	-	71.0
Alcoholic Beverages	56.9	(2.0)	54.9	57.2	0.8	58.0
Admissions, Dues and Cabaret	39.6	(1.8)	37.8	44.2	(4.5)	39.7
Health Provider Tax	525.5	0.4	525.9	530.3	0.4	530.7
Miscellaneous	16.7	(0.4)	16.3	16.4	(0.3)	16.1
Total Taxes	**14,954.4**	**2.6**	**14,957.0**	**15,640.6**	**(13.4)**	**15,627.2**
Less Refunds of Taxes	(816.1)	-	(816.1)	(884.0)	-	(884.0)
Less Earned Income Tax Credit	(110.2)	-	(110.2)	(116.5)	-	(116.5)
Less R & D Credit Exchange	(9.0)	-	(9.0)	(9.5)	-	(9.5)
Taxes Less Refunds	**14,019.1**	**2.6**	**14,021.7**	**14,630.6**	**(13.4)**	**14,617.2**
Other Revenue						
Transfer Special Revenue	288.4	3.9	292.3	289.7	4.0	293.7
Indian Gaming Payments	375.5	(20.7)	354.8	387.2	(21.7)	365.5
Licenses, Permits and Fees	271.2	2.9	274.1	252.4	(4.6)	247.8
Sales of Commodities and Services	36.4	-	36.4	37.3	-	37.3
Rentals, Fines and Escheats	127.4	-	127.4	121.7	-	121.7
Investment Income	2.9	(0.9)	2.0	4.4	(1.2)	3.2
Miscellaneous	163.0	5.0	168.0	163.9	4.6	168.5
Refunds of Payments	(38.3)	(11.7)	(50.0)	(22.6)	(13.2)	(35.8)
Total Other Revenue	**1,226.5**	**(21.5)**	**1,205.0**	**1,234.0**	**(32.1)**	**1,201.9**
Other Sources						
Federal Grants	3,589.7	16.3	3,606.0	3,717.9	(1.2)	3,716.7
Transfer from Tobacco Settlement Fund	96.1	-	96.1	93.1	-	93.1
Transfer From/(To) Other Funds	(142.8)	-	(142.8)	(234.6)	-	(234.6)
Total Other Sources	**3,543.0**	**16.3**	**3,559.3**	**3,576.4**	**(1.2)**	**3,575.2**
Total Revenue	**18,788.6**	**(2.6)**	**18,786.0**	**19,441.0**	**(46.7)**	**19,394.3**

The downward revisions in FY 12 estimated General Fund revenues are largely attributable to two decreases:

- $23.5 million in the sales and use tax due to lower-than-projected collection trends in the first quarter; and

- $20.7 million in Indian gaming payments due to continued weakness in casino revenue.

These decreases are partially offset by three major increases:

- $7.5 million in the real estate conveyance tax due to the continuation of positive end-of-year FY 11 revenue trends in FY 12, and the anticipation of increased sales volume through FY 13;
- $22.4 million in the petroleum products gross receipts tax, reflecting an increase in first quarter collections and the projected price of gasoline as outlined in the U.S. Energy Information Administration's latest short-term outlook; and
- $16.3 million in federal grants, due to increased Medicaid expenditures.

These revisions, with the exception of increased Medicaid expenditures, are carried forward into FY 13 and adjusted according to the respective economic growth rates for each revenue type (see growth rates on the following pages).

Connecticut's overall economy is expected to grow by 2.4% and 3.7% in FY 12 and FY 13, respectively, reflecting the continuing relatively weak economic recovery following the recent recession. This is expected to have a modestly positive impact on the major tax categories, though recent volatility in the financial sector and securities markets may impact income tax collections, particularly with respect to estimated and final income tax payments.[2]

FY 14 – FY 16

Overall economic growth is expected to exceed 3.0% beginning in FY 13 and continuing through the out-years, though unemployment will remain high through FY 15. This general trend is reflected in the out-year revenue figures, with most major tax categories increasing through FY 15 then moderating in FY 16.

The impact of the high unemployment rate on income tax collections is expected to be mitigated by an overall increase in personal income beginning in FY 13 and continuing through the out-years. Capital gains realizations are expected to peak in FY 13, which will result in estimated and final payments decreasing as a share of overall income tax revenue in subsequent years; withholding payments are projected to grow steadily through that same period.

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[2] Please note that due to the impact of the recent hurricane and October snow storm, the Department of Revenue Services has extended the due date for estimated payments until November 15, 2011. Consequently, information relating to the first required estimated payment since the enactment of the income tax changes included in the biennial budget will not be available until after that date. As such, consensus revenue figures did not include any changes relating to projected income tax collections.

General Fund Consensus Revenue Estimates for the Out-Years (in millions)

Fund/Revenue	Projected FY 14 $	Projected FY 15 $	Projected FY 16 $
General Fund			
Taxes			
Personal Income	9,416.0	10,035.0	10,653.6
Sales and Use	4,053.0	4,164.4	4,279.0
Corporations	746.3	765.1	795.6
Public Service Corporations	279.3	285.3	287.8
Inheritance and Estate	166.9	171.9	177.1
Insurance Companies	221.6	225.8	230.2
Cigarettes	414.2	402.8	391.8
Real Estate Conveyance	112.2	117.1	122.2
Oil Companies	149.8	151.3	151.7
Electric Generation	-	-	-
Alcoholic Beverages	58.4	58.8	59.2
Admissions, Dues and Cabaret	40.1	40.5	40.8
Health Provider Tax	533.3	535.9	538.6
Miscellaneous	16.4	16.6	16.7
Sub-total	**16,207.5**	**16,970.5**	**17,744.3**
Less Refunds of Taxes	(927.7)	(974.1)	(1,022.3)
Less Earned Income Tax Credit	(122.3)	(128.4)	(134.9)
Less R & D Credit Exchange	(10.0)	(10.5)	(11.0)
Taxes Less Refunds	**15,147.5**	**15,857.5**	**16,576.1**
Other Revenue			
Transfer Special Revenue	295.2	296.7	298.2
Indian Gaming Payments	373.8	381.3	388.9
Licenses, Permits and Fees	277.3	251.6	281.1
Sales of Commodities and Services	38.7	40.0	42.0
Rentals, Fines and Escheats	119.2	116.8	114.5
Investment Income	4.7	5.7	7.2
Miscellaneous	169.3	170.1	171.0
Refunds of Payments	(36.0)	(36.6)	(37.3)
Sub-total	**1,242.2**	**1,225.6**	**1,265.6**
Other Sources			
Federal Grants	4,146.0	4,478.4	4,692.4
Transfer from Tobacco Settlement Fund	91.0	90.0	98.4
Transfer From/(To) Other Funds	(307.8)	(307.8)	(307.8)
Sub-total	**3,929.2**	**4,260.6**	**4,483.0**
TOTAL	**20,318.9**	**21,343.7**	**22,324.7**

Impact of October 26, 2011 Special Session on General Fund Revenue Projections

PA 11-1, *AA Promoting Economic Growth And Job Creation In The State*, of the October 26, 2011 Special Session included a number of policy changes resulting in a revenue impact. The net impact of those changes is shown in the table below.

Revenue Projections	FY 12 $	FY 13 $	FY 14 $	FY 15 $	FY 16 $
October 14, 2011 Consensus Revenue	18,786.0	19,394.3	20,318.9	21,343.7	22,324.7
October 26, 2011 Special Session Revisions	(8.3)	(41.3)	(27.5)	(67.5)	(27.5)
Adjusted Revenue Projections	**18,777.7**	**19,353.0**	**20,291.4**	**21,276.2**	**22,297.2**

General Fund Economic Growth Rates for Major Tax Revenues
(percent change from the previous fiscal year)

Tax Revenues	FY 13 %	FY 14 %	FY 15 %	FY 16 %
Personal Income	7.7	6.5	6.5	6.2
Withholding	6.0	3.7	4.3	4.2
Estimates & Finals	10.6	11.0	9.8	9.0
Sales and Use	4.0	3.5	2.7	2.8
Corporations	2.9	2.9	2.0	4.1

Special Transportation Fund (STF)

The consensus revenue projections for the Special Transportation Fund (STF) indicate a net revenue decrease of $18.8 million in FY 12 and $18.9 million in FY 13. The net decrease in both years is a combination of:

- A decrease of $15.5 million in FY 12 and $14.9 million in FY 13 from lower than anticipated revenue from the gasoline tax. Year-to-date collections have declined by 4.1% compared to last year;
- A decrease of $1.9 million in FY 12 and $3.9 million in FY 13 in revenue from license, permits, and fees. The decline is primarily due to weaker collections from fees for commercial information and court fees;
- A decrease of $3.5 million in FY 12 and $3.0 million in interest income; and
- An increase in refunds of $0.6 million in FY 12 and $0.5 million in FY 13 as a result of higher refunds claimed to date.

These decreases are partially offset by an increase of $2.7 million in FY 12 and $2.8 million in sales taxes collected by the Department of Motor Vehicles from private party (non-dealer) sales of motor vehicles.

Special Transportation Fund Consensus Revenues (in millions)

Revenue Source	FY 12 $ Budget	Consensus $ Revisions	FY 12 $ Consensus	FY 13 $ Budget	Consensus $ Revisions	FY 13 $ Consensus
Taxes						
Motor Fuels	507.3	(15.5)	491.8	506.7	(14.9)	491.8
Petroleum Products Tax	226.9	-	226.9	199.4	-	199.4
Sales Tax - DMV	71.6	2.7	74.3	71.9	2.8	74.7
Refunds of Taxes	(7.2)	(0.2)	(7.4)	(7.4)	(0.1)	(7.5)
Sub-total	**798.6**	**(13.0)**	**785.6**	**770.6**	**(12.2)**	**758.4**
Other Revenue						
Motor Vehicle Receipts	237.5	-	237.5	242.4	-	242.4
License, Permits, and Fees	143.8	(1.9)	141.9	145.8	(3.3)	142.5
Interest Income	12.5	(3.5)	9.0	15.0	(3.0)	12.0
Federal Grants	13.1	-	13.1	13.1	-	13.1
Transfer From/(To) Other Funds	75.1	-	75.1	166.3	-	166.3
Sub-total	**482.0**	**(5.4)**	**476.6**	**582.6**	**(6.3)**	**576.3**
Less: Refunds of Payments	(3.1)	(0.4)	(3.5)	(3.2)	(0.4)	(3.6)
Less: Transfer to TSB Account	(15.0)	-	(15.0)	(15.0)	-	(15.0)
TOTAL	**1,262.5**	**(18.8)**	**1,243.7**	**1,335.0**	**(18.9)**	**1,316.1**

Special Transportation Fund Consensus Revenues: Out-Years (in millions)

Revenue Source	FY 14 $ Consensus	FY 15 $ Consensus	FY 16 $ Consensus
Taxes			
Motor Fuels	495.0	498.6	502.9
Petroleum Products Tax	222.7	226.8	231.4
Sales Tax - DMV	75.5	77.0	78.5
Refunds of Taxes	(7.6)	(7.7)	(8.3)
Sub-total	**785.6**	**794.7**	**804.5**
Other Revenue			
Motor Vehicle Receipts	246.0	251.3	255.0
License, Permits, and Fees	143.9	145.2	146.6
Interest Income	15.0	17.0	20.0
Federal Grants	13.1	13.1	13.1
Transfer From/(To) Other Funds	166.3	166.3	181.3
Sub-total	**584.3**	**592.9**	**616.0**
Less: Refunds of Payments	(3.7)	(3.8)	(3.9)
Less: Transfer to TSB Account	(15.0)	(15.0)	(15.0)
TOTAL	**1,351.2**	**1,368.8**	**1,401.6**

Other Appropriated Funds[1]

Fund	Actual FY 11 $	Estimated FY 12 $	Projected FY 13 $	Projected FY 14 $	Projected FY 15 $	Projected FY 16 $
Mashantucket Pequot and Mohegan Fund[2]						
Beginning Balance	70,093	90,186	110,279	130,372	130,372	130,372
Revenue	61,800,000	61,800,000	61,800,000	135,000,000	135,000,000	135,000,000
Expenditures	(61,779,907)	(61,779,907)	(61,779,907)	(135,000,000)	(135,000,000)	(135,000,000)
Transfers	-	-	-	-	-	-
Ending Balance	**90,186**	**110,279**	**130,372**	**130,372**	**130,372**	**130,372**
Regional Market Operation Fund[3]						
Beginning Balance	982,139	974,571	1,089,149	1,211,231	1,320,482	1,407,935
Revenue	943,145	950,000	950,000	959,500	969,095	978,786
Expenditures	(950,713)	(835,422)	(827,918)	(850,249)	(881,642)	(915,360)
Transfers	-	-	-	-	-	-
Ending Balance	**974,571**	**1,089,149**	**1,211,231**	**1,320,482**	**1,407,935**	**1,471,361**
Banking Fund[4]						
Beginning Balance	20,939,215	19,137,938	16,674,722	13,692,597	11,052,963	6,042,404
Revenue	40,916,068	23,465,237	21,797,352	23,128,105	21,780,905	23,128,105
Expenditures	(22,117,344)	(25,928,453)	(24,779,477)	(25,767,739)	(26,791,464)	(27,868,286)
Transfers	(20,600,000)	-	-	-	-	-
Ending Balance	**19,137,938**	**16,674,722**	**13,692,597**	**11,052,963**	**6,042,404**	**1,302,223**
Insurance Fund[5]						
Beginning Balance	11,500,142	9,748,552	9,748,552	9,748,552	9,748,552	9,748,552
Revenue	22,602,532	24,959,881	24,268,337	25,293,661	26,369,416	27,498,249
Expenditures	(24,354,123)	(24,959,881)	(24,268,337)	(25,293,661)	(26,369,416)	(27,498,249)
Transfers	-	-	-	-	-	-
Ending Balance	**9,748,552**	**9,748,552**	**9,748,552**	**9,748,552**	**9,748,552**	**9,748,552**
Consumer Counsel and Public Utility Control Fund[6]						
Beginning Balance	7,767,387	5,840,975	5,970,943	7,160,557	8,144,515	8,895,147
Revenue	20,223,267	22,623,267	23,301,965	24,001,024	24,721,055	25,462,686
Expenditures	(22,149,679)	(22,493,299)	(22,112,351)	(23,017,066)	(23,970,423)	(24,977,761)
Transfers	-	-	-	-	-	-
Ending Balance	**5,840,975**	**5,970,943**	**7,160,557**	**8,144,515**	**8,895,147**	**9,380,072**
Workers' Compensation Fund[7]						
Beginning Balance	17,608,529	9,054,146	12,405,148	11,639,963	10,562,240	10,957,092

Fund	Actual FY 11 $	Estimated FY 12 $	Projected FY 13 $	Projected FY 14 $	Projected FY 15 $	Projected FY 16 $
Revenue	14,623,798	24,805,172	20,359,296	20,836,461	23,145,265	24,054,581
Expenditures	(19,178,180)	(21,454,170)	(21,124,481)	(21,914,184)	(22,750,413)	(23,636,466)
Transfers	(4,000,000)	-	-	-	-	-
Ending Balance	**9,054,146**	**12,405,148**	**11,639,963**	**10,562,240**	**10,957,092**	**11,375,207**
Criminal Injuries Compensation Fund[8]						
Beginning Balance	3,477,978	1,972,499	1,790,336	1,499,865	1,123,664	663,748
Revenue	3,163,500	3,311,650	3,311,650	3,311,650	3,311,650	3,311,650
Expenditures	(3,393,978)	(3,493,813)	(3,602,121)	(3,687,851)	(3,771,566)	(3,867,741)
Transfers	(1,275,000)	-	-	-	-	-
Ending Balance	**1,972,499**	**1,790,336**	**1,499,865**	**1,123,664**	**663,748**	**107,657**
Soldiers, Sailors and Marines' Fund[9]						
Beginning Balance	(3,960,138)	(4,659,278)	(5,167,751)	(5,527,900)	(5,829,108)	(6,100,349)
Revenue	-	-	-	-	-	-
Expenditures	(2,964,783)	(3,030,044)	(3,033,013)	(3,107,716)	(3,190,010)	(3,280,451)
Transfers from the Trust Fund	2,265,642	2,521,571	2,672,865	2,806,508	2,918,768	2,977,144
Ending Balance	**(4,659,278)**	**(5,167,751)**	**(5,527,900)**	**(5,829,108)**	**(6,100,349)**	**(6,403,657)**
TOTAL						
Beginning Balance	58,385,347	42,159,593	42,621,381	39,555,241	36,253,684	31,744,904
Revenue	164,272,310	161,915,207	155,788,600	232,530,401	235,297,386	239,434,057
Expenditures	(156,888,706)	(163,974,989)	(161,527,605)	(238,638,466)	(242,724,934)	(247,044,314)
Transfers	(23,609,358)	2,521,571	2,672,865	2,806,508	2,918,768	2,977,144
Ending Balance	**42,159,593**	**42,621,381**	**39,555,241**	**36,253,684**	**31,744,904**	**27,111,791**

1 Except for the Mashantucket Pequot and Mohegan Fund, expenditures are projected to increase by the standard rates of inflation described elsewhere in this report.

2 FY 14-16 assumes full funding of grant at $135M, pursuant to CGS Sec. 3-55i. For FY 09 - FY 11, the grant was pro-rated to available appropriations.

3 Revenue for FY 12 and FY 13 is projected to be near FY 10 levels. Revenue for FY 14 - FY 16 is anticipated to increase at a rate of 1% over FY 13 levels reflecting inflationary increases.

4 Revenue for FY 12 - FY 14 assumes $5,000,000 in penalties for brokers/investment advisers per year. This is the average in penalties received in the previous two years.

5 The Department of Insurance annually assesses insurers by the amount necessary to meet appropriated budgeted levels.

6 FY 13 - FY 16 revenue assumes a 3% increase to reflect inflationary increases.

7 Revenue is based on the statutorily defined assessment formula. In fiscal years following a fund sweep (FY 10 and FY12) 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.

8 Annual revenue from criminal fines, which are set by statute, are anticipated to remain flat at approximately $3.31 million.

9 The SSMF expends dollars that are allocated to the agency based on appropriation level. Interest earned on the SSMF Trust Fund is transferred to the agency on a monthly basis to be utilized for those expenditures. The SSMF Trust Fund value, as of June 30, 2011, was $64.5 million.

Section 2: FY 12 – FY 16 Tax Credit Estimates and Assumptions

Methodology and Assumptions

FY 12 tax expenditure estimates were developed using data from Connecticut and federal tax returns, as well as other state and federal tax expenditure data. FY 13 - 16 estimates were calculated by adjusting FY 12 figures to reflect historical and economic trends for each item.

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

Please note that pursuant to CGS 12-7b(e), OFA will be releasing a more detailed tax expenditure report in January, 2012.

Tax Expenditures (Credits, Exemptions, and Deductions)

There are currently about $5.4 billion in tax expenditures resulting from tax credits, exemptions, and deductions offered by the state. This level is expected to grow to $5.8 billion in FY 16, or around 28.9% - 31.1% of total projected FY 12 General Fund revenue. The majority of tax expenditures occur in the Sales and Use Tax and Motor Fuels Tax (approximately 57.1% and 18.7%, respectively).

The table below presents OFA's estimates of total tax credits, exemptions and deductions for FY 12 through FY 16.

Summary of Major Identifiable State Tax Expenditure Estimates[1]
(by category - in millions)

Category	FY 12 $	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Personal Income Tax	413.5	417.4	420.6	424.0	427.3
Sales and Use Tax	3,102.2	3,187.7	3,275.3	3,340.6	3,407.4
Petroleum Companies Gross Earnings Tax	450.6	463.0	475.8	485.4	495.1
Corporate Business Tax	263.8	280.6	290.1	295.2	300.3
Cigarette and Tobacco Products Tax	6.2	6.4	6.6	6.7	6.8
Public Service Companies Gross Earnings Tax	99.7	102.4	105.2	107.2	109.3
Insurance Premiums Tax	65.9	67.0	68.1	69.0	69.9
Admissions and Dues Tax	11.2	7.4	7.6	7.8	8.0
Motor Fuels and Motor Carrier Road Fuels Taxes	1,017.6	965.6	997.6	1,019.6	1,019.6
TOTAL	**5,430.7**	**5,497.5**	**5,646.9**	**5,755.5**	**5,843.7**

[1] Includes estimated identifiable revenue reductions of $100,000 or more.

Section 3: FY 12 Deficiencies

Based on current data, state agencies will require $66.5 million in deficiency appropriations or transfers from other areas to fund projected FY 12 costs. This assumes that $363.3 million in allotment holdbacks (as a result of budgeted lapses) are not released by OPM. The deficiency amounts represent 1.9% and 0.2% of agencies' total General Fund and Special Transportation Fund FY 12 available funding, respectively, assuming all holdbacks are not released.

The majority of the shortfall (80%) is occurring in the Fringe Benefits Health Care accounts.

Over the past ten years, General Fund agencies have required on average $98.7 million in deficiency funding (ranging from $26 million to $355 million). This represents less than 1% of the General Fund budget.

The following table shows the level of funding available (post-holdbacks) to affected agencies. Holdbacks for these agencies total $363.3 million, which is significantly higher than the deficiency level. Holdbacks could be released by OPM and would therefore reduce the level of deficiency funding required.

The following table includes the agency's original appropriation, total level of holdbacks, projected deficiency and the percentage of the deficiency compared to the available funding.

FY 12 Estimated Agency Deficiency Needs (in millions)

Fund/Agency	Approp. $	Holdbacks $	Available $	OFA Deficiency $	Deficiency % of Available
General Fund					
OSC - Fringe Benefits	2,213.9	(303.8)	1,910.1	52.9	2.8%
Department of Correction	695.2	(36.4)	658.8	8.8	1.3%
Teachers' Retirement Board	792.0	(0.3)	791.7	2.4	0.3%
Public Defender Services Commission	64.7	(2.2)	62.5	1.1	1.8%
Sub-total	**3,765.8**	**(342.7)**	**3,423.1**	**65.2**	**1.9%**
Transportation Fund					
Department of Transportation	602.3	(20.6)	581.7	1.3	0.2%
Sub-total	**602.3**	**(20.6)**	**581.7**	**1.3**	**0.2%**
TOTAL	**4,368.1**	**(363.3)**	**4,004.8**	**66.5**	**1.7%**

Section 4: FY 12 – FY 16 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. Based on current projections, the BRF will have a surplus deposit of $15.2 million in FY 13 and an ending balance of $1.4 billion in FY 16.

The following table shows activity and balances in the Budget Reserve Fund from FY 00 – FY 16.

FY 00 - FY 16 Budget Reserve Fund Activity and Balance (in millions)

Fiscal Year	Beginning Balance $	Deposits/ (Withdrawals) $	Ending Balance $
00	529.1	34.9	**564.0**
01	564.0	30.7	**594.7**
02	594.7	(594.7)	**-**
03	-	-	**-**
04	-	302.2	**302.2**
05	302.2	363.8	**666.0**
06	666.0	446.5	**1,112.5**
07	1,112.5	269.2	**1,381.7**
08	1,381.7	-	**1,381.7**
09	1,381.7	-	**1,381.7**
10	1,381.7	(1,278.5)	**103.2**
11	103.2	(103.2)	**-**
12 (Est.)	-	-	**-**
13 (Proj.)	-	15.2	**15.2**
14 (Proj.)	15.2	369.2	**384.4**
15 (Proj.)	384.4	406.3	**790.7**
16 (Proj.)	790.7	565.6	**1,356.3**

Section 5: FY 12 – FY 16 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 12 through FY 16. The figures show that GO bond issuance remains fairly stable over the six-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 November 2011 at an interest rate of 3.2% while the assumptions used for the projections in the table below are 5.5% in FY 13 and 5.75% between FY 14 and FY 16. The STO debt service projections use the same assumption that bonds will be issued at higher interest rates over this period but the effect on STO debt service is less noticable because fewer bonds are issued.

FY 12 – FY 16 Projections for General Obligation and Special Tax Obligation Bonds

Projections	FY 12 $	FY 13 $	FY 14 $	FY 15 $	FY 16 $
General Obligation (GO) Bond					
Bond Authorizations[1]	1.8	2.0	1.4	1.4	1.4
Bond Allocations[2]	1.6	1.5	1.4	1.4	1.4
Bond Issuance[3]	1.5	1.4	1.4	1.5	1.5
Debt Service[3]	1.8	1.9	2.0	2.0	1.9[4]
Special Tax Obligation (STO) Bond					
Bond Authorizations[5]	0.6	0.5	0.4	0.4	0.4
Bond Allocations[3]	0.6	0.5	0.5	0.5	0.5
Bond Issuance[3]	0.6	0.6	0.6	0.6	0.6
Debt Service[3]	0.5	0.5	0.5	0.5	0.6

[1] FY 12 and FY 13 figures are based on authorizations made during the 2011 legislative session and Public Acts 11-1 and 11-2 of the October 2011 Special Session. FY 14 - FY 16 estimates are based on information supplied by the Office of the State Treasurer. FY 12 through FY 16 figures include authorizations for the UConn 21st Century infrastructure program and the CSUS 2020 infrastructure program.

[2] OFA's estimates include the UConn 21st Century infrastructure program, the CSUS 2020 infrastructure program and Public Acts 11-1 and 11-2 of the October 2011 Special Session.

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

[4] The projected FY 16 debt service figure for GO bonds was reduced by about $200 million to reflect the use of FY 11 General Fund surplus to defease Economic Recovery Notes (ERNs) issued in 2009.

[5] FY 12 and FY 13 figures are based on authorizations made during the 2011 legislative session and Public Act 11-1 of the October 2011 Special Session. FY 14 - FY 16 estimates are based on information supplied by the Office of the State Treasurer.

Background/Definitions

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 Construction Services 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, Expenditure Trends and Major Cost Drivers; Areas of Concern; Federal Revenue

Summary

Identified on the following pages are areas of concern (the state's long term obligations), and major areas contributing to budget growth.

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 major 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 following table includes the unfunded liabilities for these four areas.

Long-Term Obligations (in billions)

Unfunded Liabilities	Amount $
1) Debt Outstanding	19.4
2a) State Employee Pensions – Unfunded	11.7
2b) Teachers' Pensions – Unfunded	9.1
3a) State Post Employment Health and Life – Unfunded	26.6
3b) Teachers' Post Employment Health and Life - Unfunded	2.9
4) Generally Accepted Accounting Principles Deficit	1.5
TOTAL	**71.2**

Explanation of these areas:

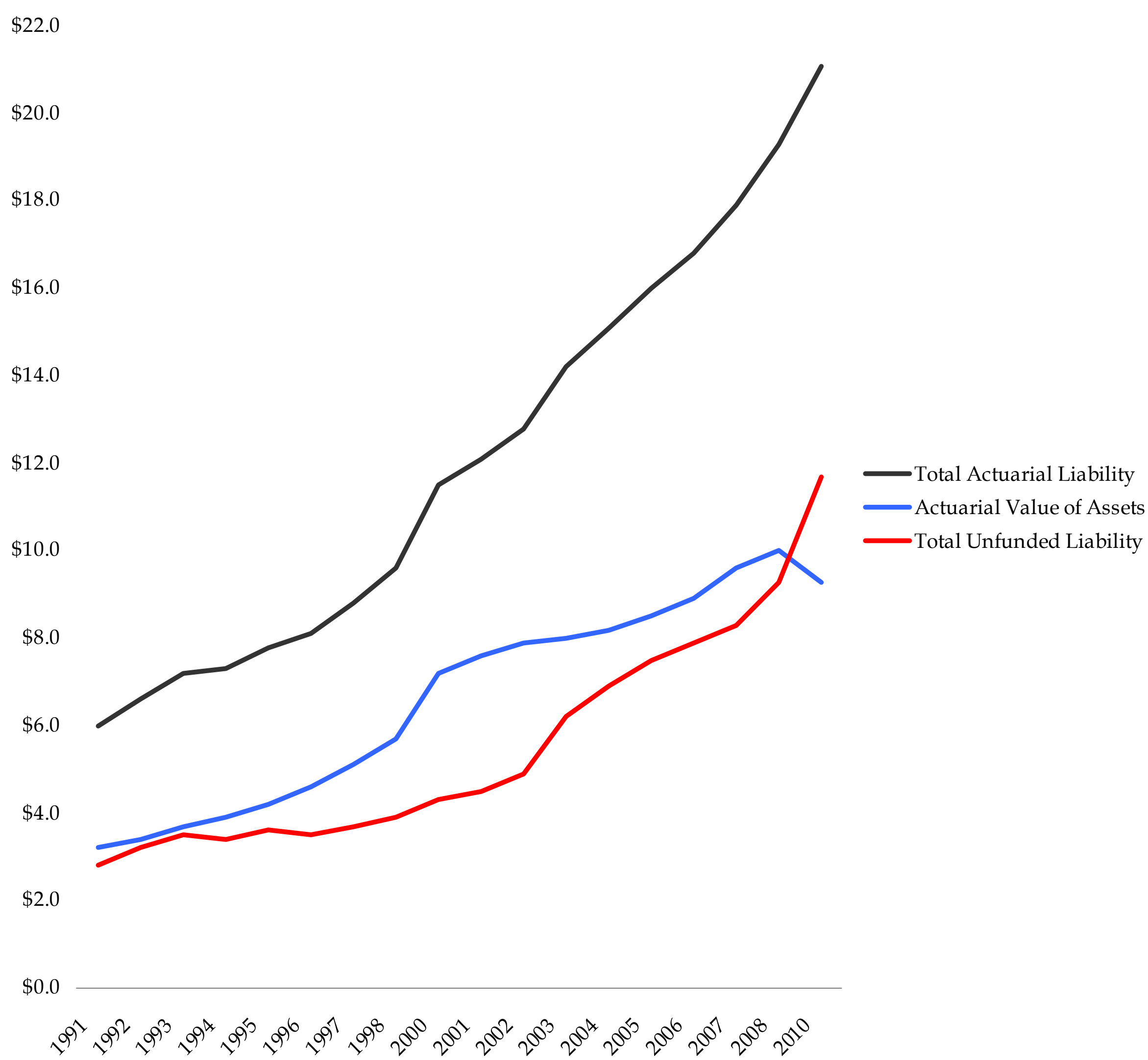
1) <u>Debt Service</u>: As of July 31, 2011; Source: Office of the State Treasurer. This figure includes debt that is backed by revenue derived from the General Fund, the Special Transportation Fund and a variety of other revenue sources such as the Clean Water Fund and Bradley International Airport. The figure also includes $915.8 million in outstanding Economic Recovery Notes that were issued in 2009.

2a) <u>State Employee Pensions</u>: As of the most recent actuarial valuation, dated June 30, 2010; Source: State Employees Retirement Commission[3]. These figures are an actuarial estimate of the cost of the future retirement payments for state employees for which

[3] A new actuarial valuation of the State Employee Pension is pending.

reserves have not been set aside. The State Employees Retirement System (SERS) is provided 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 below 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, 2010, SERS had a funding ratio (value of benefits to assets) of 44 percent.

SERS Accrued Liabilities and Assets (in billions)

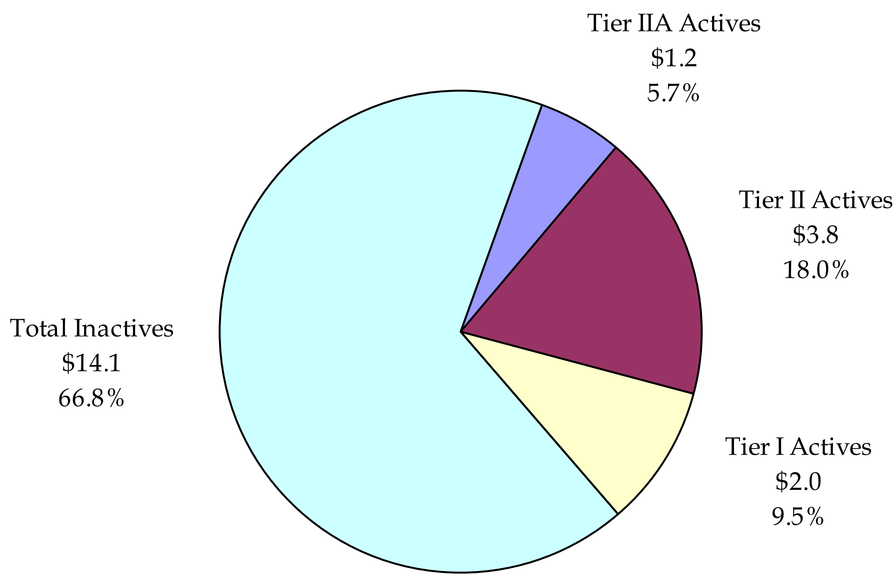


The chart below represents total actuarial liabilities of the State Employee Retirement System (SERS), broken out by active employees according to tier and inactive members (retirees and deferred vesteds[4]). According to the 2010 valuation, $14.1 billion of the SERS total actuarial accrued liabilities of $21.1 billion are attributable to current retirees

[4] Deferred vested members have left the system with vested benefits but have not yet retired.

and Tier I (hired prior to FY 85) active employees. This means that 67% 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. The impact of various aspects of the Revised 2011 SEBAC Agreement including a salary cap on earnings for the purposes of pension calculations, changes to the COLA, increasing the early retirement reduction factor from 3% to 6%, modifications to the breakpoint used to calculate pension benefits, increasing the age and years of services required in order to be eligible for normal retirement, and the creation of a new Tier III has yet to be evaluated in regards to the total liability. As a result of the various pension related provisions of the Revised 2011 SEBAC Agreement a new valuation is pending. Various aspects of the Revised 2011 SEBAC Agreement apply to individuals who retire after October 2, 2011.

SERS Total FY 10 Actuarial Liabilities by Membership Group (in billions)
$21.1



2b) <u>Teachers' Pensions</u>: As of the most recent actuarial valuation, dated June 30, 2010; Source: Teachers' Retirement Board. This figure is 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) <u>State Other Post Employment Benefits (OPEB)</u>: 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 would be substantially reduced by nearly 48% if the state were to begin to fully fund this liability. This is because over time, accumulated reserves earn investment returns which 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 and the Revised 2011 SEBAC Agreements explained below have yet to be evaluated in regards to the total liability. 2009 SEBAC Agreement provisions include the deferral of $14.5 million to the OPEB trust (per the 2009 Agreement, $14.5 million of FY 11 surplus was transferred to the OPEB trust), the Retirement Incentive Program, Rule of 75, and the 3% retiree health contribution from employees with less than 10 years of service. 2011 Revised Agreement Provisions include the implementation of the Health Enhancement Program and various benefit changes, State contributions to the OPEB Trust Fund starting in 2017, expansion of the 3% retiree health contribution to all employees for ten years, health care premiums for early retirees, and an increase in the minimum number of years required for retiree health to 15. A new OPEB valuation is pending.

3b) Teachers' Other Post Employment Benefits: As of most recent actuarial valuation, dated June 30, 2010; 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). Sections 43 - 49 of PA 11- 48 implemented certain GAAP procedures. These procedures will put the state on a GAAP basis starting in FY 14 and sets aside funds in FY 12 (up to $75 million) and FY 13 (up to $50 million) to prevent further increase in the GAAP deficit which currently stands at about $1.5 billion. The public act further authorizes the paying down of the accumulated GAAP deficit over 15 years, which would be about $100 million per year, beginning in FY 14. These GAAP changes have the effect of reducing available surplus funding that exist or would exist under the modified cash basis of accounting that the state currently uses.

Major Expenditure Growth Areas

The table below identifies the top ten accounts with significant increases in FY 13 through FY 16.

FY 13 - FY 16 Major Expenditure Growth Areas
(increases shown are above the prior year's base - in millions)

Agency/Account	FY 13 $	FY 14 $	FY 15 $	FY 16 $
DSS - Medicaid	123.1	372.8	384.6	275.6
Debt Service - Pension Obligation Bonds - TRB	40.5	23.7	(11.2)	(1.0)
TRB - Retirement Contributions	30.3	31.5	32.8	34.1
OSC - State Employees Health Service Cost	27.5	42.3	32.9	37.1
Debt Service - UConn 2000	20.1	14.8	12.5	4.3
SDE - Magnet Schools	19.5	19.2	9.1	4.1
MHA - General Assistance Managed Care	13.3	7.7	8.1	8.5
DDS - Community Residential Services	12.4	18.1	19.6	21.4
DDS - Employment Opportunities and Day Services	10.5	14.5	15.4	16.5
DCF - Board and Care for Children - Residential	7.5	5.8	5.9	7.1
TOTAL	**304.7**	**550.3**	**509.7**	**407.7**

Debt Burden

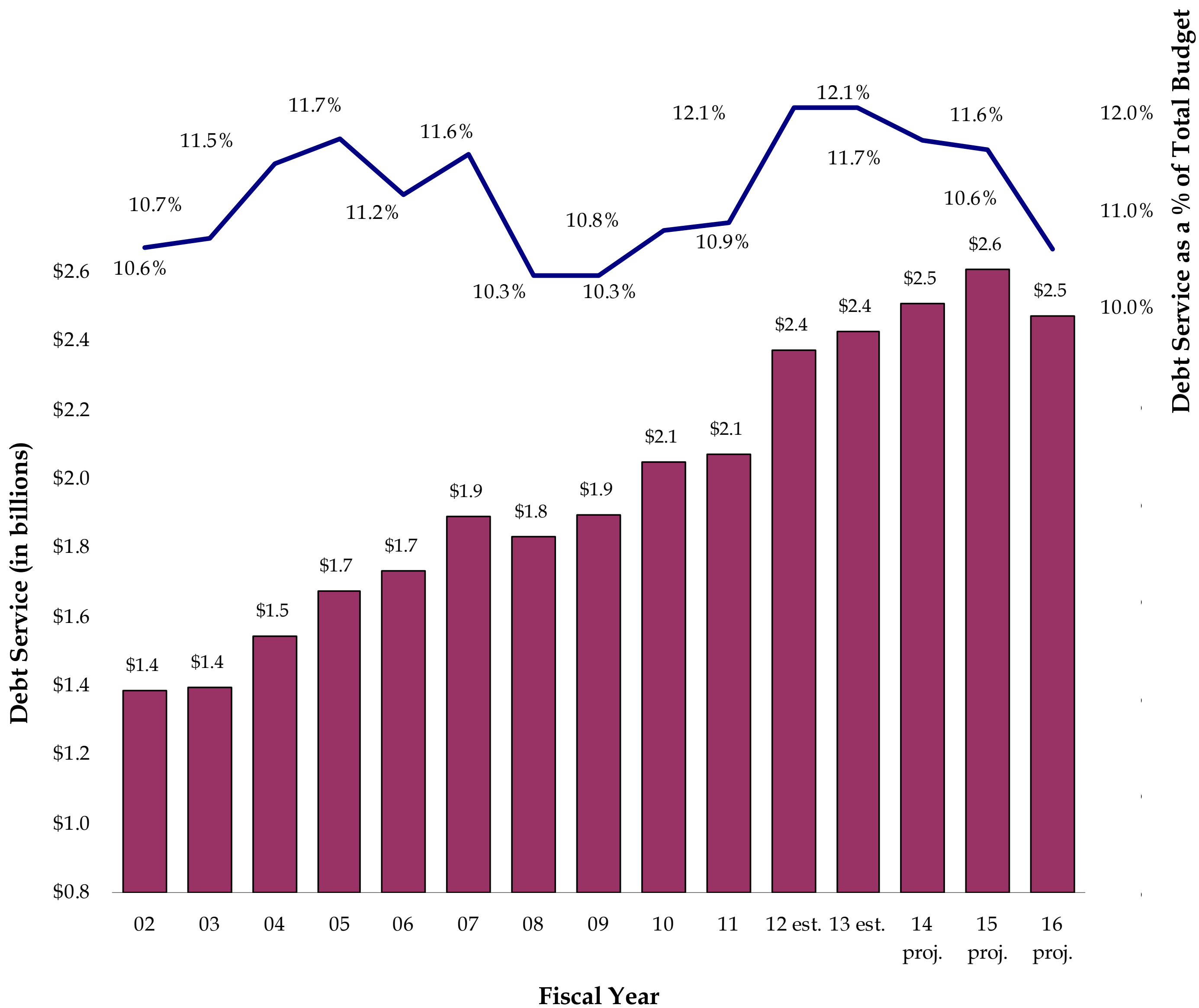
As the table below shows, in 2010 Connecticut ranked: (1) number one in net tax-supported debt per capita, and (2) number three in net tax-supported debt as a percentage of personal income. The per capita figure provides a common basis for comparing states based on the number of people in each state. 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) as well as Special Tax Obligation bonds payable from the Special Transportation Fund. It does not include bonds with debt service that is paid from non-tax sources such as Clean Water Revenue Bonds.

Ranked by Net Tax-Supported Debt Per Capita among the 50 States in 2010					Ranked by Net Tax-Supported Debt as a % of Personal Income (PI) in 2010		
Rank	**State**	**Amount $**	**Moody's Bond Rating**		**Rank**	**State**	**Debt/PI**
1	**Connecticut**	**5,236**	**Aa2**		1	Hawaii	10.1%
2	Massachusetts	4,711	Aa1		2	Massachusetts	9.5%
3	Hawaii	4,236	Aa2		**3**	**Connecticut**	**9.5%**
4	New Jersey	3,940	Aa3		4	New Jersey	7.9%
5	New York	3,149	Aa2		5	Delaware	6.8%
6	Delaware	2,676	Aaa		6	New York	6.8%
7	Washington	2,626	Aa1		7	Washington	6.2%
8	California	2,542	A1		8	Kentucky	6.1%
9	Illinois	2,383	A1		9	California	6.0%
10	Rhode Island	2,191	Aa2		10	Illinois	5.7%
11	Oregon	2,006	Aa1		11	Oregon	5.6%
12	Kentucky	1,961	Aa2		12	New Mexico	5.6%
	Mean	**1,404**				**Mean**	**3.5%**
Source: Moody's Investors Service							

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

FY 02 – FY 16 Debt Service Expenditures – General & Transportation Funds



Federal Revenue

The table below identifies estimated federal grant revenue in FY 12 through FY 16. Totals reflect consensus revenue estimates as of October 14, 2011.

FY 12 - FY 16 Federal Grant Revenue (in millions)

Grant	FY 12 $	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Medicaid Related	3,116.7	3,232.2	3,657.8	3,986.5	4,196.7
Temporary Assistance to Needy Families (TANF)/Child Care Development Block Grant (CCBDG)	295.0	295.0	295.0	295.0	295.0
Title IV-E - Foster Care/Adoption	90.6	84.0	85.7	87.4	89.1
Child Support Enforcement	36.8	38.6	40.6	42.6	44.7
Build America Bonds	27.5	27.5	27.5	27.5	27.5
Workforce Investment Act (WIA)	27.4	27.4	27.4	27.4	27.4
Miscellaneous	12.0	12.0	12.0	12.0	12.0
TOTAL	**3,606.0**	**3,716.7**	**4,146.0**	**4,478.4**	**4,692.4**

Federal Health Care Reform Update

- Connecticut Pre-Existing Condition Insurance Plan - Previously known as the Temporary High Risk Pool, the Connecticut Pre-Existing Condition Insurance Plan is available to residents with qualifying, diagnosed medical conditions who have been uninsured for six months. As of September 1, 2011, the premium rate was established at $381 per member per month, for all participants. As of November 1, 2011, 147 individuals were actively enrolled in the plan. Since the program's inception in August 2010, approximately $2.0 million of the $50 million federal grant has been expended.

- Health Insurance Exchange – The state received a planning grant totaling $996,848 in September 2010 for the purposes of designing and beginning the implementation of a state health insurance exchange. Mercer Health and Benefits, LLC was chosen as the exchange planning grant vendor. The exchange board and Mercer are in the process of implementing the Level One planning grant, which focuses on business operations and IT, and consumer assistance and support. The state anticipates applying for the Level Two Establishment funding in March. Level Two funding is expected to fund the Exchange through 2014.

- Early Retiree Reinsurance Program (ERRP)[5] – As of October 2011 the state's retiree health plan received approximately $4.6 million for ERRP claims submitted by the Office of the State Comptroller (OSC). Up to $40 million in state reimbursements are anticipated for FY 11 and FY 12 claims and is contingent on the availability of federal funds.

  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. The manner in which the funds will be utilized is still under discussion.

[5] 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 was made available through January 1, 2014, or until expended. The Government Accountability Office (*Private Health Insurance: Implementation of the Early Retiree Reinsurance Program*, September 30, 2011) reports the funds will be fully expended by end of federal fiscal year 2012.

Section 7: Possible Uses of Surplus Funds

Use of Surplus

The Connecticut Constitution and General Statutes explicitly authorize two possible uses[6] 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%.

The following page provides a historical review of recent uses of surplus dollars.

[6] State 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.

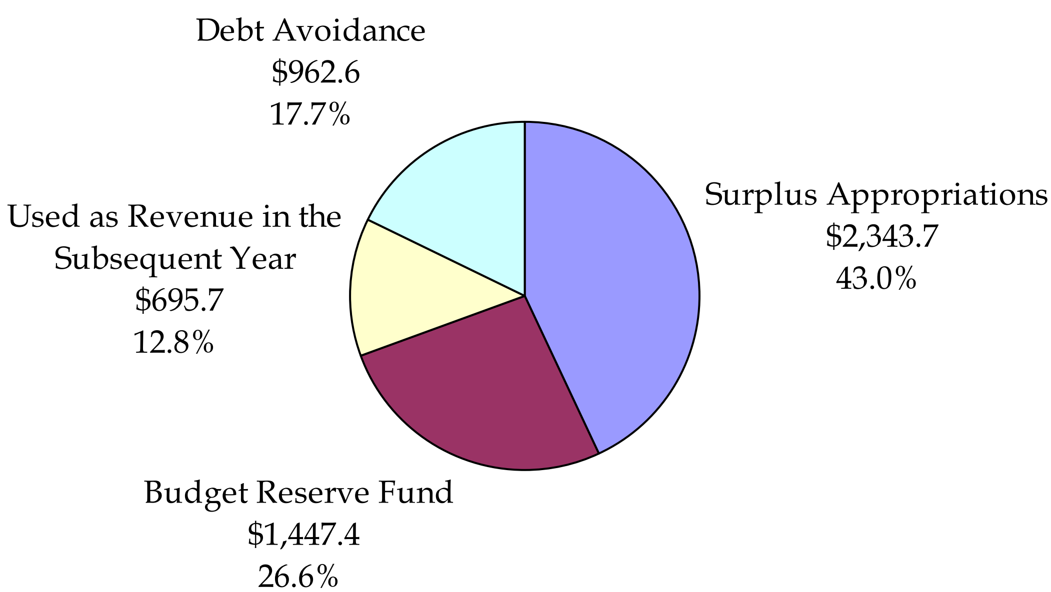
Historical Review of Recent Uses of Surplus

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 00 – FY 11, there was $5.45 billion in surplus funds, of which:

- $1.45 billion was deposited to the Budget Reserve Fund;
- $2.34 billion was appropriated for both one-time expenditures and on-going uses;
- $962.6 million was used for debt avoidance;[7] and
- $695.7 million was used as one-time revenue to balance the budget in subsequent fiscal years.

Use of Surplus: FY 00 – FY 11 Combined (in millions)



[7] 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
Detail on Agency Deficiencies

TOTAL NET DEFICIENCIES (GF & TF) - $66.5 million

Note: The following assumes that holdbacks will not be released by OPM.

Office of the State Comptroller - Fringe Benefits (OSC) - $52.9 million

The agency's projected FY 12 General Fund budget shortfall is composed of:
- $25.7 million in State Employees Health Service Cost; and
- $33.6 million in Retired State Employees Health Service Cost.
- These shortfalls are offset by $6.4 million in lapsing funds from Employers Social Security Tax ($4.1 million) and Unemployment Compensation ($2.3 million).

The projected deficiency in the State Employees Health Service Cost account is due to an inability to fully achieve the application of a $82.7 million holdback to the account, which represents approximately 14% of the $602.4 million FY 12 appropriation. The inability to fully achieve the holdback is likely the result of various factors, including: (1) higher than expected claims expenditures, (2) the portion of the University of Connecticut Health Center fringe differential anticipated to be expended from the active health account ($6.0 million)[1] and (3) wide-spread enrollment in the Health Enhancement Program (HEP). The budget assumed savings from various health plan changes as a result of the Revised 2011 SEBAC Agreement. Specifically, the savings assumed 50% enrollment in HEP; actual enrollment across state agencies is approximately 96% (a 46% difference).[2]

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[1] The University of Connecticut Health Center (UCHC) employees, including those at John Dempsey Hospital, are state employees and are entitled to the state fringe benefit package. The fringe costs associated with some UCHC employees is greater than the average rate paid for employees at private Connecticut hospitals. In order to address this fringe benefit cost differential, the state included $13.5 million in FY 10 and FY 11 in the State Employee Health-Active Employee Account to compensate UCHC.

The FY 12 and FY 13 budget does not include funding for the UCHC fringe differential. The budget bill includes language that states, the Comptroller's Office shall fund the UCHC fringe differential out of available resources. It is anticipated the UCHC fringe differential will be paid out of the fringe accounts in accordance with past practice, where a portion is paid out of the Active Health Account.

[2] The Revised 2011 SEBAC Agreement assumed savings from various factors, including the implementation of HEP. The savings assumed 50% of eligible employees would participate and the remaining 50% would pay $1,200 more annually in premiums and up to a $350 annual medical deductible. 96% of eligible employees are enrolled in the HEP program, as a result the anticipated savings to the state from increased employee contributions (premium and medical deductible) is $2.9 million which is $46.7 million less than what was assumed.

The projected deficiency in the Retired State Employees Health Service Cost account is due to an inability to fully achieve the application of a $111.1 million holdback to the account, which represents approximately 20% of the $565.1 million FY 12 appropriation. The inability to fully achieve the holdback is likely the result of various factors, including 1) higher than expected claims expenditures and 2) higher than expected number of employees retiring.[3] It is unclear at this point in time whether an increase in the number of individuals covered by retiree health will equate to a reduction in active employee health expenditures.

It is important to note, as of July 1, 2010 the State Employee and Retiree Health Plan converted from fully-insured, where a set premium was paid, to self-insured where the state pays the total cost of claims on an incurred basis. In addition, since October, claims experience in both the active and retired state employees' health accounts has been fluctuating.[4]

The projected lapse in the Employers Social Security Tax account is due to a reduction in the number of state employees and not refilling vacancies. The projected lapse in the Unemployment Compensation account is due to lower than expected claims costs.

Department of Correction (DOC) - $8.8 million

The agency's projected FY 12 budget shortfall is composed of:

- $9.8 million in Personal Services.
- This shortfall is offset by $1.0 million in lapsing funds in various accounts.

The shortfall in Personal Services (PS) is due to an inability to fully achieve the application of a $33.7 million total holdback to the account, in addition to appropriations reductions to PS totaling $28.3 million included in the FY 12 budget. This $62.0 million in savings assumptions represents 14.1% of the total Personal Services line item appropriation of $440.5 million. Such items include implementing risk reduction credits ($7.8 million), revising the time-off allotments ($6.3 million), the intensive probation initiative ($2.3 million), and house arrest for certain offenders ($1.5 million).

[3] On average 1,000 employees retire annually. As of October 1, 2011, 1,575 employees have retired (a 58% increase).

[4] The Active Employee Health Account expenditures increased 35% from July to August, decreased 3% from August to September, and increased 39% from September to October. Expenditures reflected in the Retired State Employee Health Account during the first quarter do not currently represent the bulk of claims expenditures which are anticipated to be paid out of the account. In FY 11, 57.7% of total expenditures were not reflected in the account until the fourth quarter.

The projected shortfall is partially offset by projected lapses in the Workers' Compensation Claims ($850,000) and other various accounts ($188,000). Lapses are based on anticipated contract delays and historical expenditure trends.

Teachers' Retirement Board (TRB) - $2.4 million

The agency's projected FY 12 budget shortfall is composed of:
- $2.4 million in Retirees Health Service Costs.

The $2.4 million shortfall in the Retirees Health Service Costs account is due to higher than anticipated enrollment in the retiree health insurance program offered by the TRB. The account was originally budgeted based upon approximately 17,000 participants. Actual enrollment for FY 12 is now estimated to be 1,600 members higher for a total enrollment of approximately 18,600.

Public Defenders Services Commission (PDS) - $1.1 million

The agency's projected FY 12 budget shortfall is composed of:
- $0.4 million in Personal Services;
- $0.1 million in Expert Witnesses; and
- $1.7 million in Contracted Attorneys.

These shortfalls are partially offset by projected lapses of:
- $0.3 million in Assigned Counsel – Contractual;
- $0.3 million in Family Contracted Attorneys; and
- $0.5 million in various other accounts.

The $0.4 million shortfall in the Personal Services account is due to the inability to fully achieve the application of a $1.9 million holdback to the account. The projected deficiency of $120,000 in the Expert Witnesses account is related to costs for services of psychiatric and forensic professionals required in the defense of capital felony cases. The anticipated number of cases that will require this type of expert witness is greater than originally expected.

The $1.7 million shortfall in Contracted Attorneys is the result of a buy-out agreement between the agency, the Office of Policy and Management, and the child protection attorneys involved. The Child Protection Commission was merged into this agency in FY 12 but the agency was obligated to honor the prior year's increased hourly rates for Child Protection Attorneys. This agreement resulted in a one-time buy-out to close current cases. Prior to the buy-out, most child protection cases were contracted at a rate of $75/hour. All pending cases (in which an agreement has been made between the attorney and the agency) will be closed out at a rate of $200/case. All future cases will be structured at a new flat rate of $500/case rather than the previous hourly rate. This new flat rate for child protection cases is more consistent with the payment structure of contracted public defender cases.

The projected shortfall is partially offset by projected lapses of $1.1 million in various accounts including the Assigned Counsel - Contractual and Family Contracted Attorneys accounts. These lapses are due, in part, to a decreased usage of per diem attorneys by the Public Defenders Services Commission. The number of per diem attorneys used by the agency was decreased by 19 (from 31 to 12 attorneys) as part of an effort to decrease the agency's expenditures.

Department of Transportation (DOT) - $1.3 million

The agency's project FY 12 shortfall is comprised of:

- $5.8 million in Other Expenses.
- This short fall is offset by $3.7 million Rail Operations and $0.8 million in Bus Operations.

The shortfall in the Other Expense account is the result of applying past expenditure trends to the account, which includes expenses related to winter storms. The current projection assumes the three year average, which is approximately $55.4 million, will be spent this year. It should be noted that over 40% of the funds spent in this account occur between January and March related to winter storm clean up costs. Therefore, actual expenditures will be significantly contingent on the severity of the upcoming winter storm season.

The table below shows the amount budgeted and the actual amount spent from the Other Expenses account for the last three fiscal years.

DOT – Other Expenses Account (in millions)

Fiscal Year	Budget $	Actual $
FY 09	47.9	56.6
FY 10	43.4	52.2
FY 11	46.9	57.3

A projected lapse of $3.7 million in the Rail Operation account and $0.8 million in the Bus Operation account are the result of additional revenue from 4% fare increases scheduled to take effect January 1, 2012. This is anticipated to result in a reduction in both the rail and bus subsidies needed to meet current operations. For FY 12, the budget includes $145.0 million and $135.0 million to subsidize rail and bus services.