Fiscal Accountability Report

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

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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 13 – FY 16 budget estimates and assumptions for appropriated funds;
2. FY 13 – FY 16 tax credit estimates and assumptions;
3. FY 13 deficiencies;
4. FY 13 – FY 16 projected balance of Budget Reserve Fund;
5. FY 13 – FY 16 projected bonding and debt service;
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 13 – FY 16 Budget Estimates and Assumptions for Appropriated Funds

General Fund

We are projecting a $320.7 million deficit for FY 13. This amount represents about 1.7% of total estimated expenditures. In addition, we are projecting deficits over the next three years ranging from $934.1 million to $1,138.1 million.

Budget Outlook (in millions)

	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Estimated Expenditures	19,335.8	20,861.7	22,048.7	23,070.7
Estimated Revenue	19,015.1	19,723.6	21,032.3	22,136.6
Surplus/(Deficit)	**(320.7)**	**(1,138.1)**	**(1,016.4)**	**(934.1)**
% of Estimated Expenditures	-1.7%	-5.5%	-4.6%	-4.0%

It should be noted that $93.3 million is currently available in the Budget Reserve Fund (BRF). However, PA 12-104 requires that, at OPM's request, $15 million be transferred from the BRF to the General Fund to offset an FY 13 revenue loss from an amendment[1] to the Indian casino compact. As of this writing, this request has not been made although the consensus revenue estimates agreed to by OFA and OPM on November 9, 2012 assumed this transfer. Were this transfer to take place, $78.3 million is anticipated to be available after the close of the fiscal year to fund a deficit. In addition to the potential BRF transfer of $78.3 million, it is anticipated that approximately $3 million of carry forward funds from prior years will lapse and help to reduce the estimated FY 13 deficit.

GAAP[2]

The state is scheduled to convert to a GAAP basis of accounting on July 1, 2013. OPM has indicated that it intends to implement GAAP by creating line items for accruals in each agency rather than incorporating it into agency operational accounting methods. Due to the availability of information on GAAP accruals, our projections for FY 14 - FY 16 include OPM's calculations of these accruals which range from $85.4 million in FY 14 to $124.6 million in FY 16.

In addition, PA 11-48 reserves unappropriated surplus to pay down the approximate $1.5 billion historical GAAP deficit in equal increments over 15 years beginning in FY

[1]The amendment increases the Free Slot Play exemption threshold from 5.5% to 11.0% and is expected to result in an annualized revenue loss of approximately $15.0 million.
[2]Generally Accepted Accounting Principles.

14. As projected, these payments would not be made in Fiscal Years 14, 15 and 16 and will only be made in years where unappropriated surpluses are realized.

Budget Outlook after Impact of GAAP (in millions)

	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Budgetary Surplus/(Deficit)	(320.7)	(1,138.1)	(1,016.4)	(934.1)
Reserve to Pay Historical GAAP Deficit	-	(100.0)	(100.0)	(100.0)
Reserve to Offset Growth in GAAP Deficit	(50.0)	-	-	-
TOTAL	**(370.7)**	**(1,238.1)**	**(1,116.4)**	**(1,034.1)**

Special Transportation Fund (STF)

Projections for the STF indicate that the fund will experience a negative operating balance in FY 13 through FY 16, and will end FY 16 with a negative cumulative balance of $25.2 million. The expenditure growth is outpacing revenue growth. Major contributing factors to expenditure growth are:

- $30 million in Town Aid Road being bonded in FY 13 and then added back to DOT appropriations for FY 14 - FY 16;
- An increase of $31.0 million in FY 14, and an additional $12.0 million in FY 15 and an additional $13.2 million in FY 16 for the State Employee Retirement System (SERS);
- An increase of $5.0 million in FY 14 and an additional $5.0 million in FY 15 for DOT operating costs to subsidize the New Britain to Hartford Busway (CT Fastrak); and
- An increase in $18.8 million in FY 14, $22.6 million in FY 15 and $30.8 million in FY 16 for Debt Service.

These expenditures are partially supplemented by an increase in the General Fund transfer to the STF by $70.1 million in FY 14, FY 15 and FY 16.

STF Outlook (in millions)

STF	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Beginning Balance	145.8	139.8	136.3	82.7
Revenues	1,234.6	1,336.0	1,342.3	1,364.5
Expenditures	1,240.6	1,347.1	1,406.6	1,472.4
Surplus/(Deficit)	(6.0)	(11.1)	(64.3)	(107.9)
Ending Balance	139.8	128.7	72.0	(25.2)
Revenue Growth	0.1%	8.2%	0.4%	1.7%
Expenditure Growth	4.0%	8.6%	4.4%	4.7%

Other Appropriated Funds

In total, the eight Other Appropriated Funds are projected to run an operating deficit in FY 13 through FY 16. These deficits, however, are covered by available balances in the funds. The Workers' Compensation Fund is projected to run surpluses while other funds run deficits or breakeven. Please see page 17 for more details.

Other Appropriated Funds Outlook (in millions)

	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Beginning Balance	54.6	47.8	44.7	40.0
Estimated Expenditures	167.1	244.9	249.4	254.4
Estimated Revenue	157.9	239.4	242.2	245.3
Surplus/(Deficit)	**(9.1)**	**(5.6)***	**(7.2)***	**(9.2)**
Transfers	2.3	2.4	2.5	2.6
Ending Balance	47.8	44.7	40.0	33.4

*The FY 14 and FY 15 deficit appears to not add up due a rounding effect.

Spending Cap

The state is under the spending cap in the current year, assuming no FY 13 deficiency appropriations are made. Calculations for the out-years 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 13 $	FY 14 $	FY 15 $	FY 16 $
Appropriations Allowed by Cap	20,685.3	21,093.2	21,694.0	22,396.0
Estimated Expenditures	20,543.0	22,455.1	23,708.7	24,802.2
Over/(Under) the Cap	(142.2)	1,361.9	2,014.7	2,406.2

*The FY 13 total appears to not add up due to a rounding effect.

Expenditure Detail

FY 13

The calculation of the estimated deficit of $320.7 million for FY 13 includes the following:

- $128.1 million lower revenue since originally budgeted; and
- $195.7 million higher expenditures than originally budgeted.

The table below compares the original budget plan with the projected FY 13 expenditures and revenues.

FY 13 General Fund Summary (in millions)

Summary	Budget Plan $	Increase/ (Decreases) $	Projected $
Appropriations	19,256.4	-	19,256.4
Adjustments			
FY 13 Deficiency Requirements	-	220.5	220.5
Budgeted Lapses	(116.3)	(24.8)	(141.1)
Total Adjustments	**19,140.1**	**195.7**	**19,335.8**
Revenues			
Taxes	14,408.2	(230.5)	14,177.7
Other Revenue	1,158.3	(27.4)	1,130.9
Other Sources	3,576.7	129.8	3,706.5
Total Revenue	**19,143.2**	**(128.1)**	**19,015.1**
Estimated Surplus/(Deficit)	**3.1**	**(323.8)**	**(320.7)**

Lapses

The FY 13 General Fund budget included $116.3 million in lapses (or 0.6% of the budget). The FY 13 estimated total lapses are $141.1 million. The lapses are 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 2012 projections for national health expenditures;
- The CT Teachers' Retirement System June 30, 2012 Valuation;
- Average contract settlements; and
- Average teacher contract settlements.

The table below and the table 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]	1.7	1.9	2.0	Congressional Budget Office
Personal Services/Salary	4.5	4.5	4.5	Average contract settlements
Electricity	4.9	6.2	4.6	Moody's Economy.com
Natural Gas	37.4	9.3	3.0	Moody's Economy.com
Motor Vehicle Fuel	7.5	2.8	0.7	Moody's Economy.com
Fuel Oil	7.5	2.0	0.5	Moody's Economy.com
Medical	7.4	5.7	6.3	National Health Expenditures, CMS Office of the Actuary, January 2012
Teachers' Pension Payroll Factor	0.0	0.0	4.0	6/30/12 TRB Valuation
Food	1.8	1.8	1.7	Moody's Economy.com
Education	3.0	3.0	3.0	Average teacher contract settlements
Workers' Compensation	5.9	5.1	5.4	National Health Expenditures, CMS Office of the Actuary, January 2012
Non-Inflationary[2]	0.0	0.0	0.0	Not applicable

[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	1.7	68.6	1.9	78.2	2.0	84.8
Personal Services/Salary	4.5	149.1	4.5	154.8	4.5	146.6
Electricity	4.9	2.9	6.2	3.9	4.6	3.1
Natural Gas	37.4	6.3	9.3	2.2	3.0	0.8
Motor Vehicle Fuel	7.5	1.7	2.8	0.7	0.7	0.2
Fuel Oil	7.5	0.4	2.0	0.1	0.5	-
Medical	7.4	103.1	5.7	86.4	6.3	101.2
Teachers' Pension Payroll Factor	0.0	-	0.0	-	4.0	39.4
Food	1.8	0.7	1.8	0.7	1.7	0.7
Education	3.0	6.0	3.0	5.5	3.0	6.1
Workers' Compensation	5.9	17.9	5.1	19.4	5.4	20.0
TOTAL		**356.8**		**351.9**		**402.8**

Other Current Services

In addition to inflation, other adjustments are made to FY 13 estimated expenditures to calculate Current Services requirements in FY 14 and beyond. The table provided below 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 $
Pension Obligation	400.8	129.9	102.5
Caseload	331.0	329.1	341.4
Statutory Formula	260.2	47.1	40.5
Debt Service	95.7	145.3	133.7
GAAP Accruals	85.4	14.3	24.9
Pick-up Federal Funding	51.6	249.5	83.4
Contractual Obligations	36.5	8.8	0.0
Adjust Operating Expenses	36.1	9.1	(1.0)
Annualizations	21.0	0.7	0.2
Federal Mandate	20.8	(20.2)	(28.3)
Deficiencies	14.5	(10.1)	(4.8)
Other Adjustments	1.3	(1.5)	(1.7)
TOTAL	**1,354.9**	**901.8**	**690.7**

Explanation of categories:

1. **Pension Obligations**: Estimate of the state's required contribution to fund ongoing and past pension liabilities for state employees and teachers.
2. **Caseload**: Budgeted funding necessary to accommodate changes in caseload for entitlement and certain non-entitlement programs.
3. **Statutory Formula Adjustments**: Resources needed to fund certain grants in accordance with current statutory formulas.
4. **Debt Service**: Contractual commitment to pay the principal and interest on existing and projected future debt obligations.
5. **GAAP Accruals**: PA 11-48, AA Implementing Provisions of the Budget Concerning General Government, requires that FY 14 and subsequent budgets reflect expenditures on a GAAP basis, which recognizes expenditures when liabilities are incurred. (FY 13 and prior budgets operated on a cash basis, which recognized expenditures when liabilities are paid.) Major GAAP accrual expenditures are to cover accounts payable in the Department of Social Services as well as wages and fringe benefits.
6. **Pick-Up Federal Funding:** The state assumes funding for programs that were previously federally funded.
7. **Contractual Obligations**: Future costs necessary to meet current contractual obligations.
8. **Adjust Operating Expenses:** Adjustments necessary to support future, planned expansions in programs or operations required by current law.
9. **Annualizations**: Full-year costs of programs or services in operation for only a portion of the prior year.
10. **Federal Mandate**: Service levels necessary to comply with federal law.
11. **Deficiencies**: Future adjustments to recognize the current year's anticipated deficits in particular agencies.
12. **Other Adjustments**: Miscellaneous adjustments needed to maintain Current Services funding levels in various line items.

Revenue Detail

FY 13 - 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 13 %	FY 14 %	FY 15 %	FY 16 %
Gross State Product	2.4	3.7	4.3	3.9
Real Personal Income	1.1	3.6	5.2	4.7
$ Average Annual Wages[1]	65.5	69.5	73.3	76.9
Nonfarm Employment	0.2	1.3	2.4	2.4
Unemployment Rate	7.9	7.1	6.0	5.3
Total Retail Sales	4.1	3.8	4.4	3.3
Real Estate Prices	-0.8	3.4	5.3	4.3
Existing Home Sales	24.2	20.9	7.3	-3.3

[1] Dollars are in thousands.

General Fund

FY 13 Overview

The consensus revenue estimates developed jointly with the Office of Policy and Management (OPM) in November reflect a net revenue decrease of $128.1 million in FY 13.

General Fund Consensus Revenue Estimates for FY 13 (in millions)

Revenue Source	FY 13 Revised Budget $	Consensus Revisions $	FY 13 Consensus $
Taxes			
Personal Income	8,554.3	-	8,554.3
Sales and Use	4,045.9	(43.6)	4,002.3
Corporations	793.0	(66.8)	726.2
Public Service Corporations	275.2	-	275.2

Revenue Source	FY 13 Revised Budget $	Consensus Revisions $	FY 13 Consensus $
Taxes (continued)			
Inheritance and Estate	166.2	-	166.2
Insurance Companies	234.4	3.2	237.6
Cigarettes	411.1	-	411.1
Real Estate Conveyance	100.3	-	100.3
Oil Companies	182.6	(14.8)	167.8
Electric Generation	71.0	(0.4)	70.6
Alcoholic Beverages	59.3	-	59.3
Admissions & Dues	39.6	-	39.6
Health Provider Tax	530.7	(10.7)	520.0
Miscellaneous	20.1	-	20.1
Total Taxes	**15,483.8**	**(133.2)**	**15,350.6**
Less Refunds of Taxes	(950.6)	(100.0)	(1,050.6)
Less Earned Income Tax Credit	(116.5)	-	(116.5)
Less R & D Credit Exchange	(8.5)	2.7	(5.8)
Taxes Less Refunds	**14,408.2**	**(230.5)**	**14,177.7**
Other Revenue			
Transfer Special Revenue	305.1	-	305.1
Indian Gaming Payments	336.2	(24.6)	311.6
Licenses, Permits and Fees	258.8	4.0	262.8
Sales of Commodities and Services	34.8	-	34.8
Rentals, Fines and Escheats	107.7	-	107.7
Investment Income	2.8	(1.8)	1.0
Miscellaneous	162.9	-	162.9
Refunds of Payments	(50.0)	(5.0)	(55.0)
Total Other Revenue	**1,158.3**	**(27.4)**	**1,130.9**
Other Sources			
Federal Grants	3,629.0	133.9	3,762.9
Transfer from Tobacco Settlement Fund	93.1	-	93.1
Transfer (To) Other Funds	(145.5)	(4.0)	(149.5)
Total Other Sources	**3,576.7**	**129.8**	**3,706.5**
TOTAL	**19,143.2**	**(128.1)**	**19,015.1**

The downward revisions in FY 13 estimated General Fund revenues are largely attributable to the following decreases:

- Sales and Use Tax - The projection includes a decrease of $43.6 million as a result of total collections in FY 12 coming in lower than projected in April Consensus.

- Corporations Tax - The projection includes a decrease of $66.8 million due to a negative variance in first quarter FY 13 collections relative to targets, particularly with respect to the achievement of a budgeted base increase of $76.5 million associated with the 20.0% corporation tax surcharge.

- Oil Companies Tax - The projection includes a decrease of $14.8 million because recent data suggests a higher proportion of collections are subject to the new $3.00 per gallon cap than was originally assumed in the budget. Additionally, the U.S. Energy Information Administration projects that 2013 prices will fall approximately 1.8% on a year-over-year basis.

- Health Provider Tax (Nursing Home Provider Tax portion) - The projection includes a decrease of $10.7 million because this revenue item came in $10.7 million lower than expected in FY 12. It is anticipated that this trend will continue in FY 13.

- Indian Gaming Payments - The projection includes a decrease of $24.6 million due to a net 14.0% decrease in slot revenue at the Foxwoods and Mohegan Sun casinos. Although a revenue reduction of $15.0 million was included in the FY 13 revised budget, actual collections through the first quarter of the fiscal year are trending lower than budgeted.
- Refunds of Taxes - The projection includes an increase of $100.0 million due to filing extensions and the use of Corporate Tax Credits, which were not anticipated.

These decreases are partially offset mainly by Federal Revenue:

- Federal Revenue - The projection includes an increase of $133.9 million in Federal Revenue due to higher expenditures related to the following: 1) optimistic assumptions underlying the original appropriation, 2) continued growth in caseload, particularly in the Medicaid for Low Income Adults population, and 3) an updated estimate for a federally-mandated physician rate increase. In addition, one time revenue related to the retroactive federal approval of a Medicaid rate adjustment is anticipated.

These revisions, with the exception of increased Medicaid expenditures and Refunds of Personal Income Taxes, are carried forward into FY 14 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% in FY 13, which reflects the continuing relatively weak economic recovery following the recent recession. Employment growth, personal income growth, and the housing market all continue to be relatively stagnant.

Uncertainty at the federal level, particularly taxation policies and the U.S. Defense budget, as well as the effects of the sovereign debt crisis in Europe, may potentially have a negative impact on the Connecticut economy. These issues may all have an adverse effect on the major tax categories in the current fiscal year. The table below outlines the tax provisions of the fiscal cliff.

Federal Revenue Provisions of the Fiscal Cliff

Marginal Income Tax Rate Increase
Capital Gains Tax Rate Increase
Qualified Dividends Tax Rate Increase
PEP/Pease Itemized Deduction Limitations Restoration
Child Tax Credit Reduction
American Opportunity Tax Credit Expiration
Earned Income Tax Credit Eligibility Expansion Expiration
Marriage Penalty Relief Expiration
Estate Tax Exemption Level Reduction
Estate Tax Rate Increase
Alternative Minimum Tax (AMT) Exemption Levels Unadjusted
Payroll Tax Holiday Expiration
"Tax Extenders" Expiration

FY 14 - FY 16

Overall economic growth is expected to accelerate slightly, around 4.0%, through the out-years. Unemployment is expected to remain above 6.0% through FY 15. The housing market is anticipated to improve slowly through the out-years, with increasing home sales and potential recovery in construction. This general trend is reflected in the out-year revenue figures, with most major tax categories increasing through FY 16.

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.

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

Revenue Source	Projected FY 14 $	Projected FY 15 $	Projected FY 16 $
Taxes			
Personal Income	9,011.9	9,631.8	10,289.3
Sales and Use	4,158.0	4,322.4	4,529.7
Corporations	660.6	698.8	688.6
Public Service Corporations	279.3	284.4	288.7
Inheritance and Estate	172.9	179.8	187.0
Insurance Companies	221.4	225.6	230.2
Cigarettes	399.1	388.0	376.9
Real Estate Conveyance	104.3	109.8	114.9
Taxes (continued)			
Oil Companies	209.1	209.9	207.8
Electric Generation	0.0	0.0	0.0
Alcoholic Beverages	59.8	60.2	60.6
Admissions & Dues	40.0	40.4	40.8
Health Provider Tax	522.6	525.2	527.8
Miscellaneous	20.5	20.8	21.2
Total Taxes	**15,859.5**	**16,697.1**	**17,563.5**
Less Refunds of Taxes	(1,065.2)	(1,117.3)	(1,171.4)
Less Earned Income Tax Credit	(126.6)	(133.0)	(139.7)
Less R & D Credit Exchange	(7.3)	(7.8)	(8.2)
Taxes Less Refunds	**14,660.4**	**15,439.0**	**16,244.2**
Other Revenue			
Transfer Special Revenue	306.0	306.9	309.0
Indian Gaming Payments	310.1	308.5	307.0
Licenses, Permits and Fees	296.0	272.4	306.9
Sales of Commodities and Services	36.1	37.2	38.5
Rentals, Fines and Escheats	112.5	114.4	116.3
Investment Income	1.9	2.2	2.5
Miscellaneous	166.5	168.3	170.1
Refunds of Payments	(55.0)	(55.0)	(57.5)
Total Other Revenue	**1,174.1**	**1,154.9**	**1,192.8**
Other Sources			
Federal Grants	4,105.9	4,656.2	4,909.0
Transfer from Tobacco Settlement Fund	91.0	90.0	98.4

Revenue Source	Projected FY 14 $	Projected FY 15 $	Projected FY 16 $
Other Sources (continued)			
Transfer (To) Other Funds	(307.8)	(307.8)	(307.8)
Total Other Sources	**3,889.1**	**4,438.4**	**4,699.6**
TOTAL	**19,723.6**	**21,032.3**	**22,136.6**

The following table outlines year-over-year growth rates for the various revenue categories after controlling for changes in the revenue base, such as policy adjustments or one-time occurrences.

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

Tax Revenues	FY 14 %	FY 15 %	FY 16 %
Personal Income	5.3	6.8	6.8
Withholding	7.1	8.2	7.7
Estimates & Finals	2.6	4.5	5.4
Sales and Use	3.9	4.0	4.8
Corporations	8.1	5.1	4.8
Public Service Corporations	1.5	1.8	1.5
Inheritance and Estate	4.0	4.0	4.0
Insurance Companies	1.5	1.9	2.0
Cigarettes	-2.9	-2.8	-2.9
Real Estate Conveyance	4.0	5.3	4.6
Oil Companies	1.3	2.4	1.7
Alcoholic Beverages	0.8	0.7	0.7
Admissions & Dues	1.0	1.0	1.0
Health Provider Tax	0.5	0.5	0.5
Miscellaneous Taxes	2.0	1.5	1.9
Other Revenues	**FY 14 %**	**FY 15 %**	**FY 16 %**
Transfers - Special Revenue	0.3	0.3	0.7
Indian Gaming Payments	-0.5	-0.5	-0.5
Licenses, Permits and Fees	1.1	2.4	1.5
Sales of Commodities	3.7	3.0	3.5
Rents, Fines and Escheats	4.5	1.7	1.7
Investment Income	90.0	15.8	13.6
Miscellaneous	2.2	1.1	1.1
Refunds	**FY 14 %**	**FY 15 %**	**FY 16 %**
Earned Income Tax Credit	8.7	5.1	5.0

Special Transportation Fund (STF)

The consensus revenue projections for the Special Transportation Fund (STF) indicate a net revenue increase of $0.9 million in FY 13. The net increase is a combination of:

- $2.4 million in Motor Vehicle Receipts;
- $2.1 million in License, Permits and Fees and
- $0.8 million in Sales Tax collected by the Department of Motor Vehicles.

These increases are partially offset by a decrease of:

- $1.7 million from lower than anticipated revenue from the gasoline tax. Year-to-date collections have declined by 2.9% compared to last year; and
- A decrease of $2.9 million in interest income.

Special Transportation Fund Consensus Revenues (in millions)

Revenue Source	FY 13 Budget $	Consensus Revisions $	FY 13 Consensus $
Taxes			
Motor Fuels	497.5	(1.7)	495.8
Petroleum Products Tax	199.4	0.0	199.4
Sales Tax - DMV	76.4	0.8	77.2
Refunds of Taxes	(7.8)	0.0	(7.8)
Subtotal	**765.5**	**(0.9)**	**764.6**
Other Revenue			
Motor Vehicle Receipts	233.4	2.4	235.8
License, Permits, and Fees	137.9	2.1	140.0
Interest Income	6.0	(2.9)	3.1
Federal Grants	13.1	0.0	13.1
Transfer From/(To) Other Funds	96.2	0.0	96.2
Subtotal	**486.6**	**1.6**	**488.2**
Less: Refunds of Payments	(3.4)	0.2	(3.2)
Less: Transfer to TSB Account	(15.0)	0.0	(15.0)
TOTAL	**1,233.7**	**0.9**	**1,234.6**

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

Revenue Source	FY 14 Consensus $	FY 15 Consensus $	FY 16 Consensus $
Taxes			
Motor Fuels	500.4	499.5	498.4
Petroleum Products Tax	222.7	226.8	231.4
Sales Tax - DMV	78.4	79.9	81.4
Refunds of Taxes	(7.9)	(8.0)	(8.3)
Subtotal	**793.6**	**798.2**	**802.9**
Other Revenue			
Motor Vehicle Receipts	236.3	236.9	237.5
License, Permits, and Fees	140.4	141.1	141.7
Interest Income	4.6	5.0	6.4
Federal Grants	13.1	13.1	13.1
Transfer From/(To) Other Funds	166.3	166.3	166.3
Subtotal	**560.7**	**562.4**	**565.0**
Less: Refunds of Payments	(3.3)	(3.3)	(3.4)
Less: Transfer to TSB Account	(15.0)	(15.0)	0.0
TOTAL	**1,336.0**	**1,342.3**	**1,364.5**

Other Appropriated Funds Projected Revenues, Expenditures and Ending Balances[1]

Fund	Actual FY 12 $	Estimated FY 13 $	Estimated FY 14 $	Estimated FY 15 $	Estimated FY 16 $
Mashantucket Pequot and Mohegan Fund[2]					
Beginning Balance	90,186	211,279	231,372	231,372	231,372
Revenue	61,800,000	61,800,000	135,000,000	135,000,000	135,000,000
Expenditures	(61,678,907)	(61,779,907)	(135,000,000)	(135,000,000)	(135,000,000)
Transfers	-	-	-	-	-
Ending Balance	**211,279**	**231,372**	**231,372**	**231,372**	**231,372**
Regional Market Operation Fund[3]					
Beginning Balance	974,571	975,131	1,041,610	1,076,872	1,076,274
Revenue	889,963	950,000	950,000	950,000	950,000
Expenditures	(889,403)	(883,521)	(914,738)	(950,598)	(990,638)
Transfers	-	-	-	-	-
Ending Balance	**975,131**	**1,041,610**	**1,076,872**	**1,076,274**	**1,035,636**
Banking Fund[4]					
Beginning Balance	19,112,660	26,657,245	26,115,190	24,436,461	21,647,088
Revenue	31,551,683	25,000,000	25,000,000	25,000,000	25,000,000
Expenditures	(24,007,098)	(25,542,055)	(26,678,729)	(27,789,373)	(29,002,927)
Transfers	-	-	-	-	-
Ending Balance	**26,657,245**	**26,115,190**	**24,436,461**	**21,647,088**	**17,644,161**
Insurance Fund[5]					
Beginning Balance	9,748,552	10,124,701	10,124,701	10,124,701	10,124,701
Revenue	24,963,800	28,722,297	30,122,589	31,419,446	32,885,643
Expenditures	(24,587,651)	(28,722,297)	(30,122,589)	(31,419,446)	(32,885,643)
Transfers	-	-	-	-	-
Ending Balance	**10,124,701**	**10,124,701**	**10,124,701**	**10,124,701**	**10,124,701**
Consumer Counsel and Public Utility Control Fund[6]					
Beginning Balance	5,841,002	5,589,473	4,984,178	4,063,753	2,789,605
Revenue	22,261,095	22,261,095	22,928,928	23,616,796	24,325,300
Expenditures	(22,512,624)	(22,866,390)	(23,849,353)	(24,890,944)	(25,988,894)
Transfers	-	-	-	-	-
Ending Balance	**5,589,473**	**4,984,178**	**4,063,753**	**2,789,605**	**1,126,011**
Workers' Compensation Fund[7]					
Beginning Balance	9,054,146	14,958,793	10,006,617	10,305,107	10,605,961
Revenue	24,949,093	15,896,040	22,066,553	22,893,596	23,799,192

Fund	Actual FY 12 $	Estimated FY 13 $	Estimated FY 14 $	Estimated FY 15 $	Estimated FY 16 $
Workers' Compensation Fund[7] (continued)					
Expenditures	(19,044,446)	(20,848,216)	(21,768,063)	(22,592,742)	(23,585,662)
Transfers	-	-	-	-	-
Ending Balance	**14,958,793**	**10,006,617**	**10,305,107**	**10,605,961**	**10,819,491**
Criminal Injuries Compensation Fund[8]					
Beginning Balance	1,972,499	1,508,997	1,418,997	1,242,389	978,909
Revenue	2,930,948	3,310,000	3,310,000	3,310,000	3,310,000
Expenditures	(3,394,450)	(3,400,000)	(3,486,608)	(3,573,480)	(3,675,253)
Transfers	-	-	-	-	-
Ending Balance	**1,508,997**	**1,418,997**	**1,242,389**	**978,909**	**613,656**
Soldiers, Sailors and Marines' Fund[9]					
Beginning Balance	(4,659,158)	(5,399,056)	(6,097,524)	(6,788,017)	(7,469,727)
Revenue	-	-	-	-	-
Expenditures	(3,034,941)	(3,039,412)	(3,125,075)	(3,213,675)	(3,309,839)
Transfers from the Trust Fund	2,295,043	2,340,944	2,434,582	2,531,965	2,633,244
Ending Balance	**(5,399,056)**	**(6,097,524)**	**(6,788,017)**	**(7,469,727)**	**(8,146,322)**
TOTAL					
Beginning Balance	42,134,458	54,626,563	47,825,141	44,692,638	39,984,183
Revenue	171,641,625	160,280,376	241,812,652	244,721,803	247,903,379
Expenditures	(159,149,520)	(167,081,798)	(244,945,155)	(249,430,258)	(254,438,856)
Transfers	-	-	-	-	-
Ending Balance	**54,626,563**	**47,825,141**	**44,692,638**	**39,984,183**	**33,448,706**

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 - FY 16 assume full funding of the grant at $135 million, pursuant to CGS Sec. 3-55i. For FY 12 - FY 13, the grant was pro-rated to available appropriations.

3 Revenue is anticipated to be approximately $950,000 for FY 14 - FY 16.

4 Revenue for FY 13 - FY 16 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 (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 to $11 million.

8 Annual revenue from criminal fines, which are set by statute, are anticipated to remain flat at approximately $3.3 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 13 – FY 16 Tax Credit Estimates and Assumptions

Methodology and Assumptions

FY 13 tax expenditure estimates were developed using data from Connecticut and federal tax returns, as well as other state and federal tax expenditure data. FY 14 - 16 estimates were calculated by adjusting FY 13 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 Sec. 12-7b(e), OFA released a more detailed tax expenditure report in January 2012, which can be found on OFA's website.[3]

Tax Expenditures (Credits, Exemptions, and Deductions)

There are currently $6.8 billion in tax expenditures in FY 13 resulting from tax credits, exemptions, and deductions offered by the state. This level is approximately 33.5% of the total projected FY 13 General Fund and Special Transportation Fund revenue. The majority of tax expenditures occur in the Sales and Use Tax and Motor Fuels Tax (approximately 54.8% and 26.1%, respectively).

Tax credits are estimated to be $629.1 million in FY 13, or 9.3% of all projected FY 13 tax expenditures. Of the $629.1 million in tax credits, Personal Income Tax credits comprise 44.3%, or $278.4 million, and Corporation Business Tax credits comprise 23.5%, or $148.0 million. The remaining $6.15 billion in total FY 13 tax expenditures includes all exemptions and deductions.

The table below presents OFA's estimates of total tax credits, exemptions and deductions for FY 13 through FY 16.

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

Category	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Personal Income Tax	409.8	419.5	429.0	442.1
Sales and Use Tax	3,715.1	3,859.3	4,011.8	4,203.7
Petroleum Companies Gross Earnings Tax	376.1	377.5	386.8	393.4

[3]Connecticut Tax Expenditure Report, Office of Fiscal Analysis, January 2012 (Revised April 2012). http://www.cga.ct.gov/ofa/Documents/year/TER/2012TER-20120410_Tax%20Expenditure%20Report%20FY%2012%20Revised.pdf

Category	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Corporate Business Tax	313.0	338.3	355.3	372.1
Cigarette and Tobacco Products Tax	13.3	13.0	12.6	12.2
Public Service Companies Gross Earnings Tax	64.5	65.5	66.8	67.9
Insurance Premiums Tax	78.7	79.9	81.4	83.0
Admissions and Dues Tax	21.5	21.6	21.7	21.8
Health Provider Tax	5.7	5.7	5.7	5.7
Miscellaneous Tax	5.5	5.6	5.7	5.8
Electric Generation Tax	4.2	0.0	0.0	0.0
Real Estate Conveyance Tax	1.0	1.0	1.0	1.0
Motor Fuels and Motor Carrier Road Fuels Taxes	1,770.4	1,793.9	1,809.6	1,809.6
TOTAL	**6,778.8**	**6,980.8**	**7,187.4**	**7,418.3**

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

Section 3: FY 13 Deficiencies

Based on current data, state agencies will require $221.4 million in deficiency appropriations or transfers from other areas to fund projected FY 13 costs. This assumes that $1.9 million in allotment holdbacks in the associated agencies (as a result of budgeted lapses) are not released by OPM. The deficiency amounts represent 3.1% of agencies' total FY 13 available funding, assuming all holdbacks are not released.

The majority of the shortfall (86%) is projected to occur in the Medicaid accounts.

Over the past ten years, General Fund agencies have required on average $99.5 million in deficiency funding (ranging from $26 million to $355 million). This represents less than 1% of the General Fund budget.

The following table includes the agency's FY 13 appropriation, total level of available funding (less holdbacks and plus any transfers for collective bargaining costs from the Reserve for Salary Adjustments account), estimated expenditures, and projected deficiency amount.

FY 13 Estimated Agency Deficiency Needs

Fund/Agency	Budgeted Appropriation $	Available Appropriation[1] $	Estimated Expenditures $	Deficiency without release of holdbacks	Deficiency with release of holdbacks
General Fund					
Department of Social Services	5,812,216,680	5,811,442,574	6,002,341,708	(190,899,134)[2]	(189,055,254)
Department of Correction	618,949,296	621,185,947	641,230,124	(20,044,177)	(19,994,789)
Department of Emergency Services and Public Protection	151,569,768	154,175,180	163,714,509	(9,539,329)	(9,539,329)
Total General Fund				**(220,482,640)**	**(218,589,372)**
Transportation Fund					
Department of Transportation	551,596,805	552,902,613	553,841,537	(938,924)	-
Total Transportation Fund				**(938,924)**	**-**
TOTAL (all appropriated funds)				**(221,421,564)**	**(218,589,372)**

[1]Appropriation less budgeted lapses; plus transfers from the Reserve for Salary Adjustments account to cover the costs of collective bargaining agreements that were not otherwise provided in the agencies' budgets.

[2]This figure is consistent with OFA/OPM consensus federal revenue amounts agreed to on November 9th, 2012.

Section 4: Projected Balance of the Budget Reserve Fund

The current balance in the Budget Reserve Fund (BRF) is $93.3 million. Based on current projections the BRF will have a zero balance at the end of FY 13 and will remain at that level through FY 16.

Budget Reserve Fund Background and Recent Activity

The BRF, also referred to as the Rainy Day Fund, was created by PA 79-623. The maximum allowable in the BRF has been increased twice. PA 02-118 increased it from 5% to 7.5% of net General Fund appropriations and PA 03-2 increased it to the current 10%.

In June of 2012, PA 12-104 transferred $222.4 million in unappropriated FY 11 General Fund surplus to the BRF instead of using the funds to redeem Economic Recovery Notes, as required by PA 09-3 of the June Special Session. An additional $14.5 million was added to the BRF to reflect the unassigned portion of fund balance reserves from FY 11.* Therefore, a total of $236.9 million was deposited into the BRF in FY 12. However, $143.6 million was released from the BRF to eliminate the FY 12 deficit. Thus, the BRF balance at the end of FY 12 was $93.3 million. PA 12-104 also requires, at OPM's request, transfer of up to $15 million from the BRF to the General Fund as FY 13 revenue. The funding must be used to implement any agreement related to the state's Indian gaming compact.

As of this date OPM has not requested this transfer, although the OFA/OPM consensus revenue estimates of November 9, 2012 assume this $15 million transfer will take place in FY 13. Consequently, it is anticipated that $78.3 million of the $93.3 million balance will be available to mitigate the projected deficit at the end of FY 13.

The following table shows activity and balances in the Budget Reserve Fund from FY 04 – FY 12 and projected balances from FY 13 - FY 16.

Budget Reserve Fund Activity and Balance: FY 04 - FY 16 (in millions)

Fiscal Year	Beginning Balance $	Deposits/ (Withdrawals) $	Ending Balance $
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	-	93.3	**93.3**
13 (Est.)	93.3	(93.3)**	**-**
14 (Proj.)	-	-	**-**
15 (Proj.)	-	-	**-**
16 (Proj.)	-	-	**-**

*The 2009 SEBAC agreement required that $14.5 million in General Fund surplus be deposited into the OPEB Trust Fund if there was a surplus as of January 1, 2011. Although there was no surplus as of that date, the $14.5 million was transferred to the Trust Fund. This transfer was reversed administratively and the $14.5 million was subsequently reflected as unassigned fund balance reserves.
**CGS Sec. 4-30a(b) appropriates BRF funds to offset a General Fund year-end deficit. OFA is estimating a FY 13 deficit of $320.7 million. Thus, it is anticipated that the balance of the BRF would be released to mitigate the projected FY 13 deficit, pending any other action.

Section 5: FY 13 – 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 13 through FY 16. 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 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 13 – FY 16 Projections for General Obligation and Special Tax Obligation Bonds (in billions)

Projections	FY 13 $	FY 14 $	FY 15 $	FY 16 $
General Obligation (GO) Bond				
Bond Authorizations[1]	2.6	1.9	1.7	1.6
Bond Allocations[2]	1.5	1.5	1.4	1.4
Bond Issuance[3]	1.7	1.7	1.7	1.7
Debt Service[3]	1.8	1.9	2.0	2.1
Special Tax Obligation (STO) Bond				
Bond Authorizations[4]	0.6	0.6	0.5	0.5
Bond Allocations[3]	0.6	0.6	0.5	0.5
Bond Issuance[3]	0.6	0.6	0.6	0.6
Debt Service[3]	0.5	0.5	0.5	0.5

[1]The FY 13 figures are based on authorizations made during the 2011 and 2012 legislative sessions 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 13 through FY 16 figures include authorizations for the UConn 21st Century infrastructure program, the CSUS 2020 infrastructure program and the Connecticut Bioscience Collaboration program (Jackson Lab).

[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 FY 13 figures are based on authorizations made during the 2011 and 2012 legislative sessions 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), the Connecticut State University System infrastructure renewal program (CSUS 2020) and the Connecticut Biosience Collaboration program (Jackson Lab project) 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 primarily 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 state's unfunded liabilities total $63.9 billion, a decrease of 10.3% from last year's reported amount of $71.2 billion, primarily due to a decrease in the OPEB unfunded liability. The following table includes the unfunded liabilities for these four areas.

Long-Term Obligations (in billions)

Unfunded Liabilities	Amount $
Debt Outstanding	19.3
State Employee Retirement System (SERS)[1]	11.0
Teachers' Retirement System	11.1
State Post Employment Health and Life	18.0
Teachers' Post Employment Health	3.0
Generally Accepted Accounting Principles Deficit	1.5
Total	**63.9**

Explanations of the unfunded liabilities are included below:

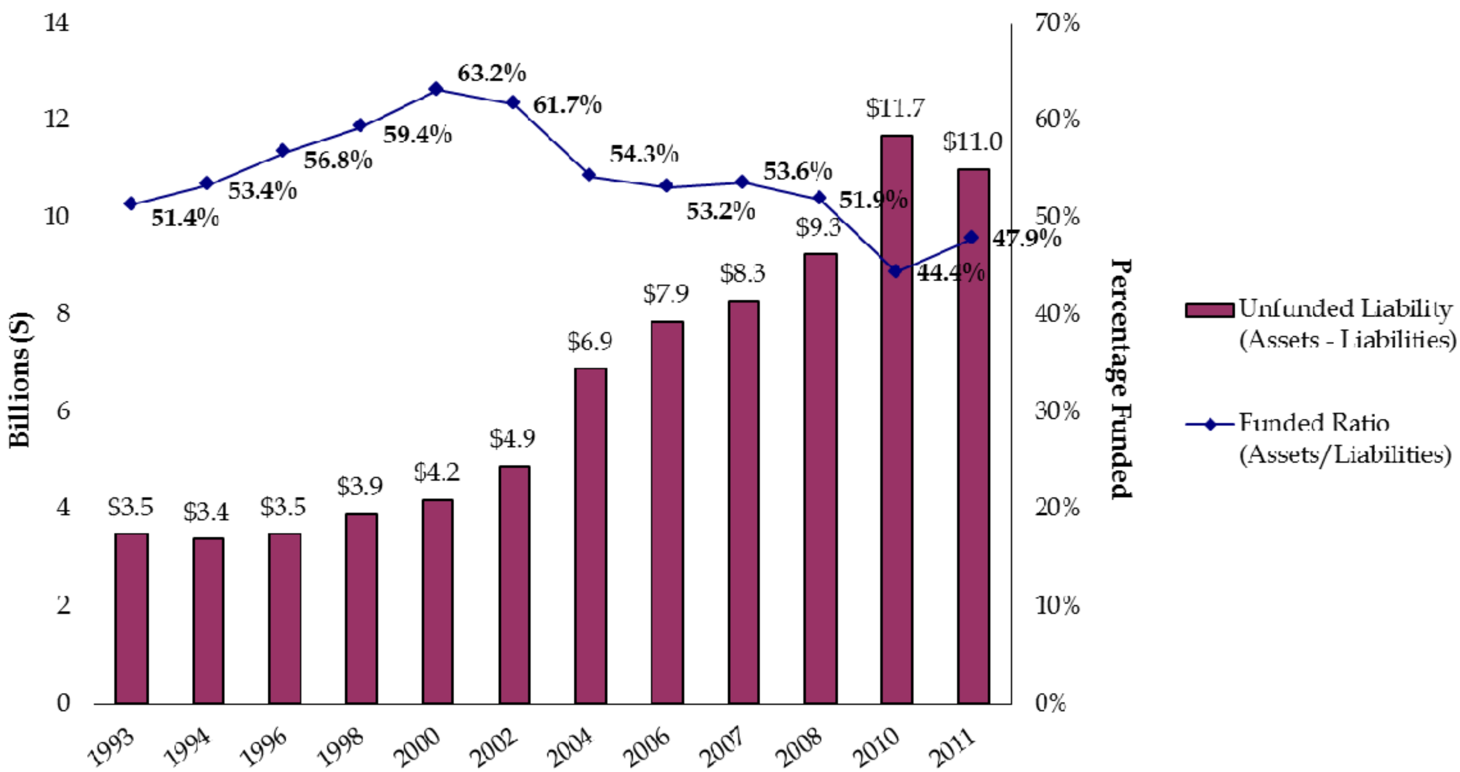
Debt Outstanding: The amount is as of August 31, 2012 (source: Office of the State Treasurer). The figure includes debt that is backed by revenue derived from the General Fund, the Special Transportation Fund and a variety of other revenue sources such as the Clean Water Fund and Bradley International Airport. The figure also includes $747.9 million in outstanding Economic Recovery Notes that were issued in 2009.

[1]In addition to SERS and TRS, the state appropriates funds for 3 other pension systems: (1) the Higher Education Alternative Retirement System (ARP) which is a defined contribution plan for which there is no unfunded liability, (2) the Judges Retirement System (JRS) has an unfunded liability of $97.1 million and lastly, (3) the state provides retirement benefits for a small group of employees including statutory (e.g. Governor), state's attorneys and public defenders which is funded on a pay-as-you-go basis.

State Employee Retirement System (SERS)[2]: 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. Total liabilities are off-set by the fund's assets to arrive at the system's unfunded liability. The SERS unfunded liability decreased by $700 million or 5.9% since the June 30, 2010 valuation[3]. As of June 30, 2011, SERS had a funded ratio (assets to liabilities) of 47.9%, an improvement of 3.5% over the state's June 30, 2010 valuation. The average funded ratio from 2006 to 2011 was approximately 50.2 percent.

The February 2012 agreement between the state and SEBAC eliminated annual adjustments to the state's annual required contribution to improve the plan's funding ratio. Approximately $98 million (General Fund and Special Transportation Fund) was added to the Revised FY 13 budget SERS account to reflect the elimination of the SEBAC IV and V adjustments. The chart below represents the historical SERS unfunded liabilities and funded ratio.

State Employees Retirement System Unfunded Liability

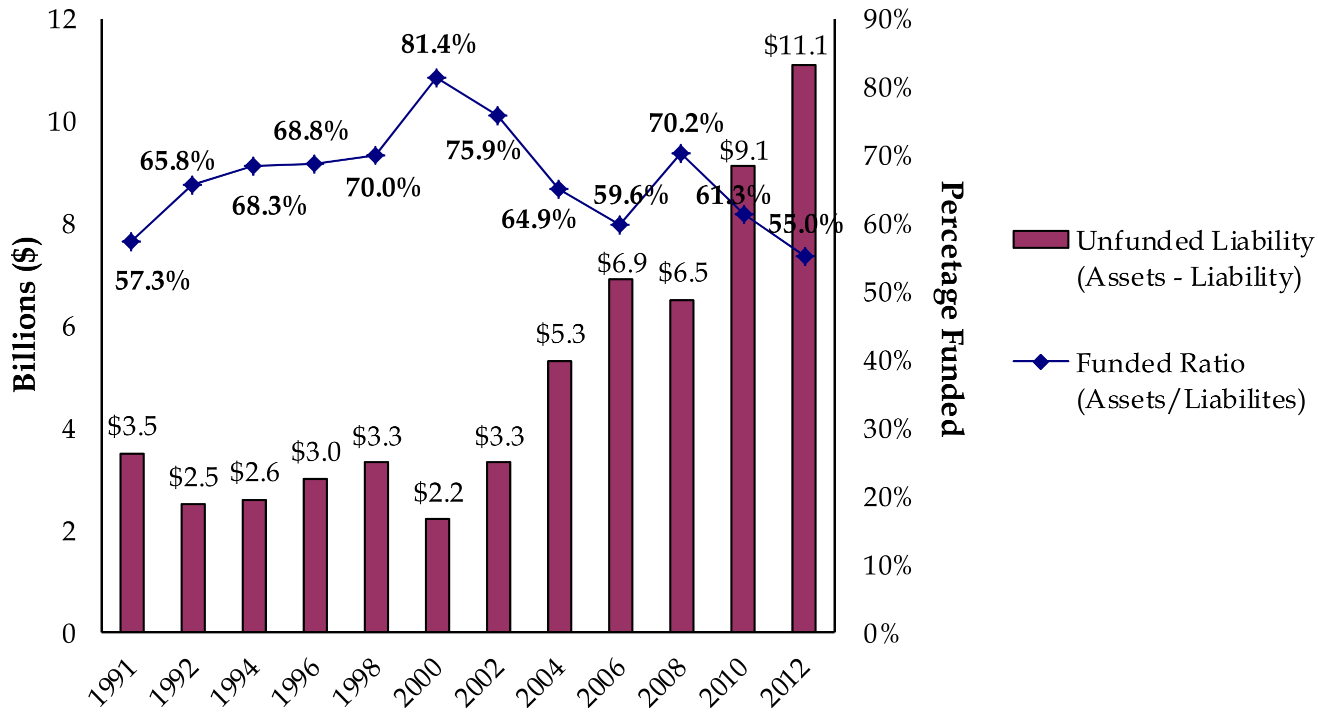


Teachers' Retirement System (TRS)[4]: This figure is an actuarial estimate of the cost of the future retirement payments for Connecticut public school teachers for which reserves have not been set aside. The $2.0 billion increase in the unfunded actuarial

[2]Source: *State Employees' Retirement System Actuarial Valuation Report*, for fiscal year ending June 30, 2011.
[3]The 2012 full valuation of the State Employees Retirement System is pending.
[4]Source: *Connecticut State Teachers' Retirement System Actuarial Valuation*, as of June 30, 2012.

accrued liability from $9.1 billion in the 2010 valuation to $11.1 billion in the 2012 valuation is primarily the result of the recognition of investment losses from 2008 and 2009 which overwhelm other actuarial gains. As of June 30, 2012, TRS had a funded ratio (assets to liabilities) of 55%, which represents a decrease from the 61% funded ratio in the June 30, 2010 valuation. The chart below represents the historical TRS unfunded liabilities and funded ratio.

Teachers' Retirement Fund Unfunded Liability



State Other Post Employment Benefits (OPEB): 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 wholly set aside. Pursuant to the 2009 and 2011 SEBAC agreements retiree health benefits for current employees will be funded partially through employee and state contributions.

The impact of the two agreements was first quantified in the state's most recent OPEB valuation, issued in May of 2012. The most recent full valuation, issued in May, reported an unfunded liability of $17.9 billion, a reduction of $8.6 billion (or 32.7%)[5] from the 2008 unfunded liability of $26.6 billion, and plan assets of $49.6 million compared to $0 in 2008. The May valuation assumed a 5.7% discount rate based on the migration to a partially pre-funded model. 81% of the reduction in the projected 2011 unfunded actuarial accrued liability (UAAL) and the actual 2011 UAAL reported is due to the following factors: (1) changes in actuarial assumptions, including the discount

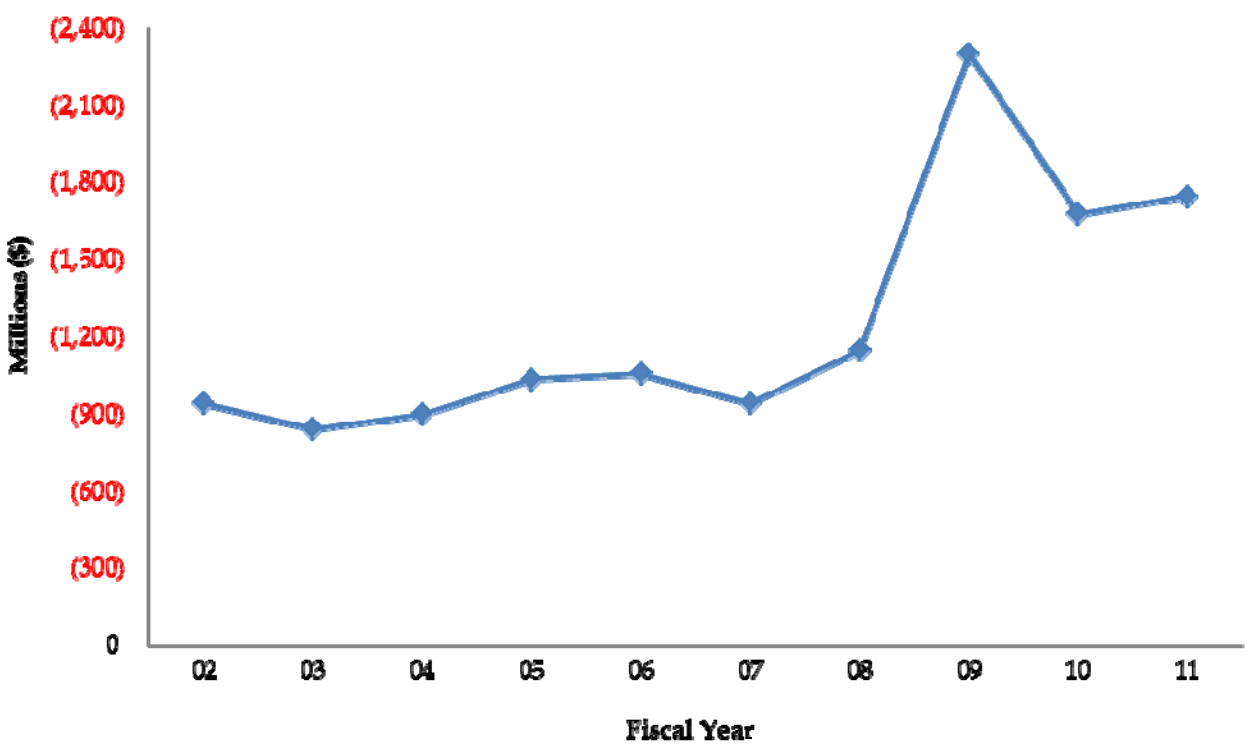
[5]Source: *2012 State of Connecticut Other Post-Employment Benefits Program Valuation* as of June 30, 2011.

rate, and (2) migration to an employer group waiver program for the plan's Medicare eligible retirees' and their dependents.

Teachers' Other Post Employment Benefits[6]: This figure is an actuarial estimate of retiree health insurance plan for retired members of the Connecticut State Teachers' Retirement System for which reserves have not been set aside. The 2012 valuation reported an unfunded liability of $3.0 billion which was a slight increase from $2.9 billion in 2010.

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 13 (up to $50 million) to prevent further increase in the accumulated 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 requires the state to reserve approximately $100 million per year, beginning in FY 14. The chart below presents the historical General Fund accumulated GAAP deficit.

How Big is the GAAP Deficit? (by fiscal year)



[6]Source: *Connecticut State Teachers' Retirement System, Retiree Health Insurance Plan, Actuarial Valuation* as of June 30, 2012.

Major Expenditure Growth Areas

The table below identifies the top ten accounts with significant increases in FY 14 through FY 16.

FY 14 - FY 16 Major Expenditure Growth Areas in the General Fund
(increases shown are above prior year base - in millions)

Agency/Account	FY 14 $	FY 15 $	FY 16 $
OSC - State Employees Retirement Contributions	207.3	80.7	87.7
TRB - Retirement Contributions	161.0	35.6	39.4
DSS - Medicaid - Nursing Home Facilities	151.5	104.7	113.3
DSS - Medicaid - Acute Care Services	106.0	231.8	136.9
GAAP Accrual	82.2	13.5	23.0
DSS - Medicaid - Professional Medical Care	76.8	81.4	39.4
SDE - Transportation of School Children	59.8	2.3	2.3
OSC - Retired State Employees Health Service Cost	44.8	37.1	43.3
DSS - Medicaid - Other Medical Services	41.5	61.6	47.2
OSC - State Employees Health Service Cost	39.8	32.9	38.4
TOTAL	**970.8**	**681.5**	**570.9**

Debt Burden

As the table below shows, in 2011 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.

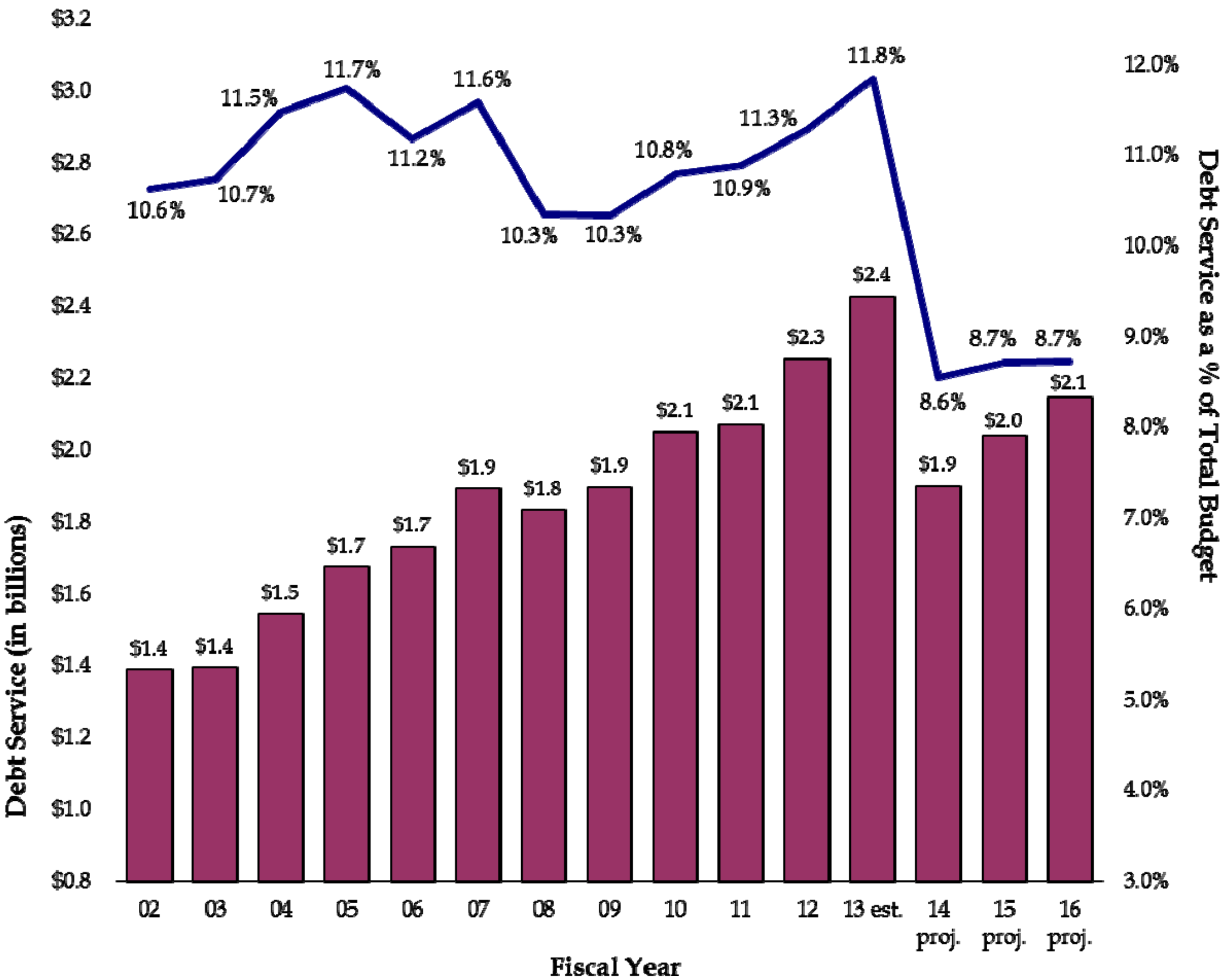
Ranked by Net Tax-Supported Debt Per Capita among the 50 States in 2011			
Rank	**State**	**Amount $**	**Moody's Bond Rating**
1	**Connecticut**	**5,096**	**Aa3**
2	Massachusetts	4,814	Aa1
3	New Jersey	3,964	Aa3
4	Hawaii	3,899	Aa2
5	New York	3,208	Aa2
6	Delaware	2,674	Aaa
7	Washington	2,588	Aa1
8	Illinois	2,564	A2
9	California	2,559	A1
10	Kentucky	2,035	Aa2
11	Oregon	2,015	Aa1
12	Rhode Island	1,997	Aa2
Mean		**1,408**	

Ranked by Net Tax-Supported Debt as a % of Personal Income (PI) in 2011		
Rank	**State**	**Debt/PI**
1	Hawaii	9.6%
2	Massachusetts	9.4%
3	**Connecticut**	**9.1%**
4	New Jersey	7.8%
5	Delaware	6.8%
6	New York	6.6%
7	Kentucky	6.1%
8	California	6.0%
9	Illinois	6.0%
10	Washington	6.0%
11	Mississippi	5.6%
12	Oregon	5.5%
Mean		**3.4%**

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 federal grant revenue in FY 13 through FY 16. Totals reflect consensus revenue estimates as of November 9, 2012.

November 2012 Consensus Revenue - Federal Grants (in millions)

Grant	FY 13 $	FY 14 $	FY 15 $	FY 16 $
Medicaid Related	3,271.9	3,620.3	4,167.9	4,417.9
Temporary Assistance to Needy Families (TANF)/ Child Care Development Block grant (CCBDG)	292.3	291.6	291.6	291.6
Title IV-E - Foster Care/Adoption	98.2	92.5	94.2	95.9
Child Support Enforcement	33.2	34.2	35.2	36.2
Build America Bonds	27.6	27.6	27.6	27.6
Workforce Investment Act (WIA)	29.2	29.2	29.2	29.2
Miscellaneous	10.5	10.5	10.5	10.5
TOTAL	**3,762.9**	**4,105.9**	**4,656.2**	**4,909.0**

Federal Health Care Reform Update

Health Insurance Exchange

PA 11-53 established the Connecticut Health Insurance Exchange as a quasi-public agency with the purpose of implementing the requirements of the federal Patient Protection and Affordable Care Act (PPACA). Governed by a fourteen member board, the exchange includes an online marketplace where individuals and small businesses can compare and purchase health insurance in 2014.

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. In addition, the state exchange has received the Level II grant for $107.4 million, which will fund the exchange through 2014. Level I and Level II funding will support the exchange's web-based and IT initiatives, the all payer claims database with the Office of Health Reform and Innovation, and other set-up functions necessary for it to begin providing coverage by January 2014. The total budget for FY 13 is $59.1 million.

Medicaid Expansion

Effective April 1, 2010, Connecticut amended its Medicaid state plan to enroll clients of the formerly state funded program, State Administered General Assistance, in the new Medicaid eligibility category, Low Income Adults, as allowed under PPACA. Although income eligibility requirements remained unchanged, the state was able to receive

Medicaid reimbursement (50% match on state funding) for related expenditures.[10] Beginning in 2014, states are permitted to expand Medicaid eligibility to include individuals whose incomes are up to 133% of the federal poverty level (FPL). States will initially receive 100% reimbursement for Medicaid LIA related expenditures, with reimbursement decreasing to 95% in 2017, 94% in 2018, 93% in 2019, and 90% in 2020. Consensus revenue estimates include approximately $950 million in FY 14, $1,120 million in FY 15 and $1,260 million in FY 16 for the total Medicaid LIA population.

The Fiscal Cliff

Budget Control Act

The Budget Control Act (BCA) of 2011 included automatic spending reductions, commonly referred to as sequester. The BCA sequester is scheduled for January 2, 2013 and could result in cuts of approximately $984 billion over fiscal years 2013 to 2021 if fully implemented, unless Congress and the president reach a modification agreement.[11] Approximately $109 billion in spending reductions are anticipated in FFY 13, which would be applied equally between defense and non-defense programs. The final FFY 13 reduction amount is dependent on several factors including: (1) the funding base as of January 2, 2013, (2) the amount of covered and exempt grants, and (3) the Office of Management and Budget (OMB) implementation.

FFY 13 Continuing Resolution (CR)

In September 2012 Congress passed and the president signed a Continuing Resolution (CR) to extend federal funding from October 1, 2012 through March 27, 2013. The CR includes provisions for a 0.612% across-the-board funding increase for most programs, and extends funding for certain programs set to expire on September 30, 2012. Such programs include Supplemental Nutrition Assistance (SNAP), Temporary Assistance to Needy Families (TANF), and Low-Income Home Energy Assistance (LIHEAP).

What does this mean for Connecticut?

Federal Funds Information for States (FFIS) has compiled hypothetical reductions by state, based on the data contained in their grants database. According to FFIS estimates, approximately $969.8 billion in non-defense covered funding for Connecticut would be subject to a potential $85.1 million reduction, while $11.8 billion in defense funding would be subject to a potential $1.1 billion reduction. It should be noted that most health, income security and social services, and transportation related programs are exempt from sequestration. The tables on the following page identify estimated non-defense and defense reductions by budget function, respectively.

See page 12 for information on the tax provisions of the fiscal cliff.

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[10]While the income eligibility requirements were not changed, the asset test previously in place under SAGA was removed in the transfer to MLIA.

[11]The total required reduction is $1.2 trillion, $216 billion of which is specified for debt service savings.

Connecticut Non-Defense Sequester Scenario (in thousands)

Budget Function	FFY 12 $	FFY 13 Annualized CR $	Covered Under Sequester $	Sequester Reduction $	FY 13 % Change
Administration of Justice	10,406	10,439	9,613	(826)	-7.9%
Agriculture	5,804	5,837	5,361	(476)	-8.2%
Community	44,860	45,134	41,433	(3,701)	-8.2%
Education	365,960	368,815	338,705	(30,110)	-8.2%
Employment and Training	43,650	43,917	40,316	(3,601)	-8.2%
Energy	40,090	40,335	37,027	(3,308)	-8.2%
General Government	30	30	28	(2)	-6.7%
Health	106,359	110,179	102,168	(8,011)	-7.3%
Income Security	305,813	307,686	282,459	(25,227)	-8.2%
Natural Resources	9,333	9,507	8,765	(742)	-7.8%
Social Services	111,375	111,783	102,744	(9,039)	-8.1%
Transportation	1,285	1,319	1,219	(100)	-7.6%
TOTAL	**1,044,965**	**1,054,981**	**969,838**	**(85,143)**	**-8.1%**

Connecticut Defense Sequester Scenario (in thousands)

Category	FFY 10 DoD Outlays	FFY 13 Sequester Reduction	% Change
Procurement	11,113,554	1,044,674	9.4%
Wages[1]	622,135	10,755	1.7%
Grants	54,724	5,144	9.4%
TOTAL	**11,790,413**	**1,060,573**	**9.0%**

[1]Wages include active and inactive military and civilian outlays.

Section 7: Possible Uses of Surplus Funds

In FY 13 - FY 16, no surpluses are projected. Should the state experience a surplus in any fiscal year from FY 13 - FY 29, the surplus would be distributed as follows:

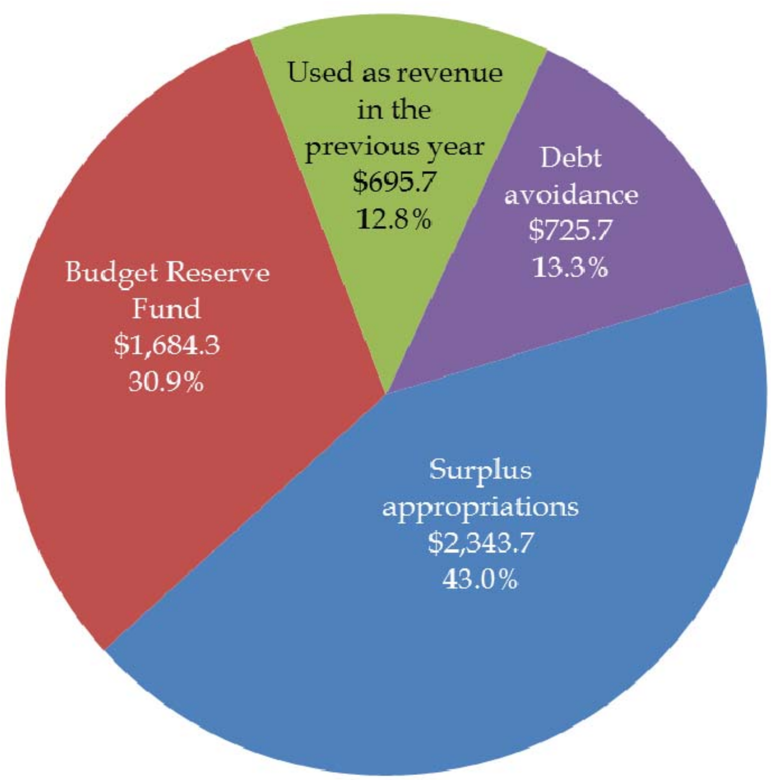
Possible Use of Surplus: FY 13 - FY 29

Fiscal Year(s)	Order of Use	Statutory Section
13	1. Up to $50 million to reduce GAAP deficit	CGS Sec. 4-30c(a)*
	2. Retire Economic Recovery Notes (ERNs)	CGS Sec. 4-30b**
	3. Budget Reserve Fund	CGS Sec. 4-30a
14 to 17	1. Amortize GAAP deficit	CGS Sec. 4-30c(b)*
	2. Retire ERNs	CGS Sec. 4-30b**
	3. Budget Reserve Fund	CGS Sec. 4-30a
18 to 28	1. Amortize GAAP deficit	CGS Sec. 4-30c(b)*
	2. Budget Reserve Fund	CGS Sec. 4-30a
29	Budget Reserve Fund	CGS Sec. 4-30a

*Pursuant to PA 11-46, Sec. 46

**Pursuant to PA 09-3, (JSS), Sec. 511

Historical Use of Surplus: FY 00 through FY 12 (in millions)
$5,449.4 Combined



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 the Total Net Deficiencies
$221.4 million

(The following assumes that holdbacks will not be released by OPM.)

Department of Social Services (DSS) - $190.9 million[1]

The agency's projected FY 13 budget shortfall is composed of:

- $62.5 million in Medicaid - Acute Care Services (This shortfall represents 4.6% of available account funds);
- $46.1 million in Medicaid - Professional Medical Care (5.7%);
- $25.9 million in Medicaid - Other Medical Services (3.9%);
- $13.0 million in Medicaid - Home and Community Based Services (2.7%);
- $39.6 million in Medicaid - Nursing Home Facilities (3.3%);
- $2.8 million in Medicaid - Other Long Term Care (1.6%); and
- $1.0 million in Medicaid - Administration and Adjustments (1.7%).

The $190.9 million shortfall in the Medicaid accounts is primarily due to: (1) optimistic assumptions underlying the original appropriation, (2) continued growth in caseload, and (3) an updated estimate for a federally mandated physician rate increase. This deficiency represents 4% of the available Medicaid funding.

The adopted budget included several savings initiatives that have yet to be fully implemented. These initiatives included a waiver to reduce the Medicaid for Low Income Adults (LIA) enrollment ($37.5 million), general utilization management under the new Administrative Service Organization (ASO) structure ($47.0 million), enhancing Medicaid recoveries from third-party payers ($20.0 million), and medication administration changes ($15.4 million). These delays have resulted higher than projected expenditures.

Additionally, the LIA population has continued its strong caseload increase, adding an additional 4,000 clients since June (a 5.0% increase), for a total population of 83,269 in September. The cost of these 4,000 clients represents an additional $30.0 million in expenditures.

Federal health care reform included a Medicaid rate increase for primary care physicians. Recent federal guidance has indicated that more physicians than originally

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[1] Note that this figure is consistent with the federal revenue amounts contained in the November 9th, 2012 consensus revenue estimates agreed to by OPM and OFA.

anticipated may be impacted, resulting in an additional $12.7 million in FY 13 expenditures. This rate increase is 100% reimbursed by the federal government.

It should be noted that 50.0% of most Medicaid expenditures are reimbursed by the federal government. Therefore, the net budgetary impact of this deficiency is $89.1 million.

Department of Correction (DOC) - $20.0 million

The agency's projected FY 13 budget shortfall is composed of:

- $20.0 million in Personal Services.

The $20.0 million projected shortfall in the Personal Services account is primarily due to unachieved budgeted savings. This deficiency represents 5.2% of Personal Services appropriation. Based on current Personal Services spending, the agency will spend approximately 2.5% or $9.3 million less than the previous year (adjusted for an extra pay period in FY 12). In order to not exceed the appropriation, the agency would need to reduce spending by 7.3% or $30.6 million less than FY 12. Without a significant reduction in the current prison population, it is unlikely that the agency will meet the savings included in the budget.

Department of Emergency Services and Public Protection (DESPP) - $9.5 million

The agency's projected FY 13 budget shortfall is composed of:

- $9.5 million in Personal Services.

The $9.5 million projected shortfall in the Personal Services account is primarily driven by unachieved budget savings. This deficiency represents 8.2% of the original Personal Services appropriation. Based on the current Personal Services spending, the agency will spend approximately $1.4 million or 1.1% more than the FY 12 adjusted spending. In order to not exceed the appropriation, the agency would need to spend $10.6 million, or 8.4% less than the previous fiscal year.

Department of Transportation (DOT) - $939,000

The agency's project FY 13 budget shortfall is comprised of:

- $2.9 million in Other Expenses.

This shortfall is partially offset by lapsing funds of:

- $2.0 million in Rail 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 five year average, which is approximately $54.2 million, will be spent this year. It should be noted that over 40.0% of the funds spent in this account occur between January and March related to winter storm cleanup costs. Therefore, actual expenditures will be significantly contingent on the severity of the upcoming winter storm season. A ten year average estimates that Connecticut will experience nine storms after January 1st.

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

DOT – Other Expenses Account (in millions)

Fiscal Year	Budget $	Actual $
08	48.6	55.5
09	47.9	56.6
10	43.4	52.2
11	46.9	57.3
12	49.3	49.1

A projected lapse of $2.0 million in the Rail Operation account is the result of additional revenue from a 1.0% fare increase scheduled to take effect January 1, 2013. This is anticipated to result in a reduction in the rail subsidy needed to meet current operations. For FY 13, the budget includes $145.6 million to subsidize rail services.