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 14 – FY 18 budget estimates and assumptions for appropriated funds,
2. FY 14 – FY 18 tax credit estimates and assumptions,
3. FY 14 deficiencies,
4. FY 14 – FY 18 projected balance of the Budget Reserve Fund,
5. FY 14 – FY 18 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 14 – FY 18 Budget Estimates and Assumptions for Appropriated Funds

General Fund

We are projecting a $117.1 million surplus for FY 14 (this amount represents about 0.7% of total estimated expenditures) and a surplus of $8.4 million in FY 15. However, based on a current services analysis, we are also projecting deficits ranging from $1,103.4 million to $1,436.5 million over the three fiscal years that will follow. Please see the table below for details.

Budget Outlook (in millions)

	FY 14 $	FY 15 $	FY 16 $	FY 17 $	FY 18$
Estimated Expenditures	17,132.5	17,524.3	18,790.6	19,633.4	20,631.6
Estimated Revenue	17,249.6	17,532.7	17,687.2	18,406.6	19,195.1
Surplus/(Deficit)	**117.1**	**8.4**	**(1,103.4)**	**(1,226.8)**	**(1,436.5)**
% of Estimated Expenditures	0.7%	0.0%	(5.9%)	(6.2%)	(7.0%)

Since PA 11-48, as modified by PA 13-239 and PA 13-247, required Connecticut to transition to a GAAP[1]-based budgeting method beginning in FY 14, the above projections are calculated under GAAP. A further explanation of GAAP can be found in Section 6 on page 34.

Special Transportation Fund (STF)

Projections for the STF indicate that the fund will experience a negative operating balance in FY 14 and FY 15, but will end FY 18 with a positive cumulative balance of $202.8 million. In FY 14, FY 17 and FY 18 expenditure growth is projected to outpace revenue growth. Major contributing factors to expenditure growth are:

- $60 million in Town Aid Road being bonded in FY 14 and FY 15 and then added back to the Department of Transportation's appropriation in the amount of $30.6 million in FY 16, and an additional $0.7 million in FY 17 and FY 18,
- An increase of $21.8 million in FY 15, $6.0 million in FY 16, $5.9 million in FY 17 and $6.0 million in FY 18 for the State Employee Retirement System (SERS) and
- An increase in $19.4 million in FY 15, $26.2 million in FY 16, $40.5 million in FY 17 and $40.9 million in FY 18 for Debt Service.

These expenditures are partially offset by the scheduled transfers from the General Fund to the STF by $2.1 million in FY 15, an additional $150.7 million in FY 16 and an additional $10.0 million in FY 17 through FY 18.

[1]Generally Accepted Accounting Principles.

STF Outlook (in millions)

STF	FY 14 $	FY 15 $	FY 16 $	FY 17 $	FY 18 $
Beginning Balance	164.6	156.8	155.0	234.1	253.7
Revenues	1,244.5	1,321.8	1,486.1	1,496.8	1,497.5
Expenditures	1,252.3	1,323.6	1,407.0	1,477.2	1,548.4
Surplus/Deficit	**(7.8)**	**(1.8)**	**79.1**	**19.6**	**(50.9)**
Ending Balance	156.8	155.0	234.1	253.7	202.8
Revenue Growth	1.0%	6.2%	12.4%	0.7%	0.1%
Expenditure Growth	3.2%	5.7%	6.3%	5.0%	4.8%

Other Appropriated Funds

In total, the eight Other Appropriated Funds are projected to run an operating deficit in FY 14 and FY 15 that is covered by available balances in the funds. Operating surpluses are projected in the out years. Fund balances are anticipated to improve in the out years due to the projected operating surpluses and the conclusion of scheduled transfers to the General Fund which were included in the 2014-2015 Biennial Budget. Please see page 17 for more details.

Other Appropriated Funds Outlook (in millions)

	FY 14 $	FY 15 $	FY 16 $	FY 17 $	FY 18 $
Beginning Balance	48.5	43.8	34.8	38.7	40.7
Revenue	169.9	171.4	249.9	252.0	256.5
Expenditures	(173.3)	(174.6)	(246.0)	(250.0)	(254.2)
Transfers	(8.7)	(5.7)	-	-	-
Ending Balance	36.3	34.8	38.7	40.7	43.1

Spending Cap

The state is under the spending cap in the current year, assuming no FY 14 deficiency appropriations are made. Calculations for FY 15 and beyond 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[1] (in millions)

Items	FY 14 $	FY 15 $	FY 16 $	FY 17 $	FY 18 $
Appropriations Allowed by Cap	18,615.9	19,010.7	19,960.8	20,812.9	21,778.9
Estimated Expenditures	18,606.5	19,022.5	20,443.5	21,360.6	22,434.1
Over/(Under) the Cap	(9.4)	11.9	482.8	547.7	655.2

[1]Totals may appear to not add up due to a rounding effect.

Expenditure Detail

FY 14
The calculation of the estimated surplus of $117.1 million for FY 14 includes the following:

- $56.5 million higher revenue than originally budgeted and
- $56.2 million lower expenditures than originally budgeted.

The table below compares the original budget plan with the projected FY 14 expenditures and revenues.

FY 14 General Fund Summary (in millions)

Summary	Budget Plan $	Increase/ (Decreases) $	Projected $
Expenditures	17,361.4	-	17,361.4
FY 14 Deficiency Requirements	-	24.6	24.6
Budgeted Lapses	(172.7)	(80.8)	(253.5)
Total Expenditures	**17,188.7**	**(56.2)**	**17,132.5**
Revenues			
Taxes	14,334.0	73.6	14,407.6
Other Revenue	1,153.7	(14.9)	1,138.8
Other Sources	1,705.4	(2.2)	1,703.2
Total Revenues	**17,193.1**	**56.5**	**17,249.6**
ESTIMATED SURPLUS/(DEFICIT)	**4.4**	**112.7**	**117.1**

The FY 14 General Fund Budget includes $172.7 million in lapses (less than 1% of the budget). The General Fund FY 14 estimated total lapses are $253.5 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).

The budgeted lapses (which include both the General Fund and the Transportation Fund) are identified in the table below with a brief explanation. Sections 11, 12 and 49 of PA 13-184 contain provisions that allow the Secretary of the Office of Policy and Management (OPM) to allocate specific lapses to state agencies in the three branches of government (these are typically called holdbacks). The following three lapses are allocated to state agencies via holdbacks by OPM in FY 14: (1) the General Lapse is $14,243,700, of which $14,106,164 is allocated to state agencies, (2) the General Other Expenses Lapse is $4,000,000, of which $3,999,999 is allocated to state agencies and (3) the Statewide Hiring Reduction Lapse is $6,796,754, of which $6,790,827 is allocated to state agencies. The $24.9 million in holdbacks are included in our estimated lapse of $253.5 million in FY 14.

Budgeted Lapses

Lapse	FY 14 $	FY 15 $	Explanation
General Fund Lapses			
GAAP Lapse	(5,500,000)	(7,500,000)	This reduction reflects an adjustment across GAAP Accrual accounts in agencies to reflect a re-estimate of GAAP increases over the biennium.
General Lapse[1]	(14,243,700)	(14,243,700)	This reduction reflects savings in a manner determined by OPM. All General Fund agency accounts could be subject to this reduction.
Unallocated Lapse[1]	(102,104,969)	(102,104,969)	This reduction reflects an adjustment to gross appropriations due to an anticipated level of under spending across all General Fund agencies and accounts.
Transfer GAAP Funding	(40,000,000)	-	This reduction reflects the utilization of $40 million from the Tobacco Master Settlement Agreement to help fulfill the requirements of GAAP.
Municipal Opportunities & Regional Efficiencies	-	(10,000,000)	Savings to be achieved in FY 15 with a reduction in municipal aid as a result of various municipal saving initiatives and efficiencies.
General Other Expenses[1]	(4,000,000)	(4,000,000)	This reduction reflects savings in a manner determined by OPM such as the curtailing and delaying of purchases and various other as yet undetermined reductions. All General Fund agency Other Expenses accounts could be subject to this reduction.
Statewide Hiring Reduction[1]	(6,796,754)	(20,688,736)	Savings anticipated to be achieved by hiring reductions and other savings initiatives in a manner determined by OPM. All General Fund agency Personal Services accounts could be subject to this reduction.
Total GF Lapse	**(172,645,423)**	**(158,537,405)**	
Transportation Fund Lapses			
Unallocated Lapse	(11,000,000)	(11,000,000)	This reduction reflects an adjustment to gross appropriations due to an anticipated level of under spending across all Transportation Fund agencies and accounts.
Total TF Lapse	**(11,000,000)**	**(11,000,000)**	
TOTAL	**(183,645,423)**	**(169,537,405)**	

[1]The amounts shown are totals by category, but the budget act contains a distribution of each by branch of government.

FY 16 - FY 18: Assumptions Used to Develop Expenditure Estimates

Our projections reflect a "current services" methodology. "Current services" reflect 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 2013 projections for national health expenditures,
- CMS 2012 Actuarial Report on the Financial Outlook for Medicaid,
- The CT Teachers' Retirement System June 30, 2012 Valuation,
- Average contract settlements and
- Average teacher contract settlements.

The following three tables 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 16 %	FY 17 %	FY 18 %	Source or Methodology
Base[1]	2.1	2.2	2.3	Congressional Budget Office
Personal Services/Salary	4.6	4.5	4.4	Average contract settlements
Electricity	1.9	2.5	2.6	Moody's Economy.com
Natural Gas	0.8	1.2	1.3	Moody's Economy.com
Motor Vehicle Fuel	2.0	1.7	1.7	Moody's Economy.com
Fuel Oil	1.0	1.1	1.1	Moody's Economy.com
Medical	6.2	6.2	5.4	National Health Expenditures, CMS Office of the Actuary, January 2013
Teachers' Pension Payroll Factor	4.0	4.0	4.0	6/30/12 Teachers' Retirement Board Valuation
Food	1.7	1.7	1.7	Moody's Economy.com
Education	2.9	2.9	2.9	Average teacher contract settlements

Type	FY 16 %	FY 17 %	FY 18 %	Source or Methodology
Workers' Compensation	5.4	5.3	4.9	National Health Expenditures, CMS Office of the Actuary, January 2012
Medicaid	4.5	3.8	3.1	Outlook for Medicaid, CMS Office of the Actuary, 2012

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

Inflationary Adjustments (all appropriated funds – in millions)

Type	FY 16 Inflation		FY 17 Inflation		FY 18 Inflation	
	Rate %	Amount $	Rate %	Amount $	Rate %	Amount $
Base	2.1	73.7	2.2	78.2	2.3	84.0
Electricity	1.9	0.9	2.5	1.2	2.6	1.2
Natural Gas	0.8	0.1	1.2	0.2	1.3	0.2
Motor Vehicle Fuel	2.0	0.4	1.7	0.4	1.7	0.4
Fuel Oil	1.0	0.1	1.1	0.1	1.1	0.1
Medical	6.2	17.1	6.2	17.1	5.4	16.1
Teachers' Pension Payroll Factor	4.0	39.3	4.0	41.0	4.0	42.7
Food	1.7	0.5	1.7	0.5	1.7	0.5
Education	2.9	71.1	2.9	74.2	2.9	76.8
Workers' Compensation	5.4	5.5	5.3	5.7	4.9	5.5
Medicaid	4.5	103.0	3.8	93.4	3.1	81.3
TOTAL	**-**	**311.7**	**-**	**311.9**	**-**	**308.9**

State Employee Salary & Benefit Growth (all appropriated funds – in millions)

Type	FY 16		FY 17		FY 18	
	Rate %	Amount $	Rate %	Amount $	Rate %	Amount $
Salary	4.6	162.1	4.5	165.6	4.4	168.5
Other Fringe Benefits	5.9	93.8	5.9	93.8	5.2	94.3
Pension Benefits	4.6	53.3	4.5	54.0	4.4	55.0
TOTAL	-	**309.1**	-	**313.4**	-	**317.7**

Explanation of categories:

1. **Salary**: Employee wages are increased based on collectively bargained increases on required dates. For non-union and unsettled contract employees, rates were calculated at 3% General Wage Increase (GWI) and 3% Annual Increment (AI). Wages were projected through FY 18 and an average rate per fiscal year was calculated.

2. **Pension Benefits**: Included in this figure are the following: State Employee's Retirement System (SERS), the Higher Education Alternative Retirement Program, and the Judges and Compensation Commissioners Retirement System (JRS). FY 16 - FY 18 were adjusted based on projected increases in personnel related costs and assumed the growth rate reflected in the table above. Please note the annual required contribution for FY 16 and FY 17 for the SERS and JRS will be calculated by the state's actuaries and will be presented in the individual valuations for the respective systems.

3. **Other Fringe Benefits**: Included in this figure are the following: Social Security, Unemployment Compensation, Active and Retired Employee Health, and Group Life. Group Life and Unemployment Compensation assumed base inflation, Social Security reflects projected increases in personnel related costs, and the health accounts were increased based on the projected rate of growth for the National Health Expenditure Accounts. Please note the health accounts were adjusted in FY 17 to reflect the end of the Transitional Reinsurance Fee required by the Patient Protection and Affordable Care Act.

Other Current Services

In addition to inflation, other adjustments are made to calculate Current Services requirements in FY 16 and beyond. The table provided below reflects the other Current Services adjustments in the out years.

Other Current Services Adjustments
(increases shown are above prior year base - all appropriated funds - in millions)

Adjustments	FY 16 $	FY 17 $	FY 18 $
Debt Service	371.5	130.5	168.8
Statutory Formula	221.2	11.3	11.8
Caseload	168.9	126.5	128.2
GAAP Accruals	44.5	4.6	6.5
Adjust Operating Expenses to Reflect Current Requirements	17.0	18.8	17.1
Contractual Obligations	-	-	114.5
Contractual Obligations - Wages	(22.8)	-	-
TOTAL	**800.2**	**291.8**	**446.9**

Explanation of categories:

1. **Debt Service**: Contractual commitment to pay the principal and interest on existing and projected future debt obligations.

2. **Statutory Formula Adjustments**: Resources needed to fund certain grants in accordance with current statutory formulas.

3. **Caseload**: Budgeted funding necessary to accommodate changes in caseload for entitlement, certain non-entitlement, or enrollment programs.

4. **GAAP Accruals**: PA 11-48, as modified by PA 13-239 and PA 13-247, required Connecticut to transition to a GAAP-based budgeting method beginning in FY 14. Most agencies have a new account, Nonfunctional Change to Accruals, to fund accrued costs incurred at the end of the fiscal year but paid after the new fiscal year begins. Major GAAP accrual expenditures include: (1) wages and salaries, (2) accounts payable for services under the Medicaid program and (3) fringe benefit (pension, health and life) costs.

5. **Adjust Operating Expenses to Reflect Current Requirements:** Adjustments necessary to support future, planned expansions in programs or operations required by current law.

6. **Contractual Obligations:** Future costs necessary to meet current contractual obligations. The FY 18 adjustment is due to the provision in the Revised 2011 SEBAC Agreement requiring the state to match employee contribution for retiree health insurance starting in FY 18.

7. **Contractual Obligations - Wages:** The 2009 SEBAC Agreement included a Retirement Incentive Program (RIP) which required accrual payments to be made in FY 13, FY 14 and FY 15. An adjustment of $22.8 million was made in FY 16 to remove the RIP accrual from Personal Services.

Revenue Detail

FY 14 - FY 18 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 forecast as of October 16, 2013 (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 14 %	FY 15 %	FY 16 %	FY 17 %	FY 18 %
Gross State Product	2.5	4.3	4.0	2.8	2.1
Real Personal Income	2.0	4.7	4.2	3.1	2.1
$ Average Annual Wages[1]	65.6	69.7	73.4	76.9	80.7
Nominal Personal Income: Wages and Salaries	3.7	8.2	7.5	6.3	5.5
Nonfarm Employment	1.2	1.9	2.1	1.4	0.5
Unemployment Rate	7.7	6.9	6.1	5.6	5.2
Total Retail Sales	4.7	5.6	3.7	3.1	3.2
Real Estate Prices	2.0	5.1	3.9	3.6	4.1
Existing Home Sales	9.4	9.5	3.3	-1.5	-0.1

[1]Dollars are in thousands.

General Fund

FY 14 and FY 15 Overview

The consensus revenue estimates, developed jointly with the Office of Policy and Management (OPM) in November, reflect a net revenue increase of $56.5 million in FY 14 and $32 million in FY 15.

General Fund Consensus Revenue Estimates for the Biennium[1] (in millions)

Fund/Revenue	Budget FY 14 $	Revisions $	Consensus FY 14 $	Budget FY 15 $	Revisions $	Consensus FY 15 $
Taxes						
Personal Income	8,808.8	-	8,808.8	9,399.8	-	9,399.8
Sales and Use	4,044.0	30.0	4,074.0	4,164.8	33.1	4,197.9
Corporations	723.5	30.0	753.5	749.3	14.1	763.4
Public Service Corporations	279.6	-	279.6	284.7	-	284.7
Inheritance and Estate	173.2	-	173.2	180.1	-	180.1
Insurance Companies	271.2	-	271.2	277.6	0.4	278.0
Cigarettes	390.4	-	390.4	379.5	(0.7)	378.8
Real Estate Conveyance	143.8	15.6	159.4	150.8	16.7	167.5
Oil Companies	36.8	-	36.8	35.5	1.1	36.6
Electric Generation	17.5	(2.0)	15.5	-	-	-
Alcoholic Beverages	59.8	-	59.8	60.2	-	60.2
Admissions, Dues and Cabaret	37.0	-	37.0	37.3	-	37.3
Health Provider Tax	512.0	-	512.0	514.5	-	514.5
Miscellaneous	19.9	-	19.9	20.2	-	20.2
Total Taxes	**15,517.5**	**73.6**	**15,591.1**	**16,254.3**	**64.7**	**16,319.0**
Less Refunds of Taxes	(1,073.5)	-	(1,073.5)	(1,115.6)	-	(1,115.6)
Less Earned Income Tax Credit	(104.5)	-	(104.5)	(121.0)	0.3	(120.7)
Less R & D Credit Exchange	(5.5)	-	(5.5)	(6.2)	-	(6.2)
Taxes Less Refunds	**14,334.0**	**73.6**	**14,407.6**	**15,011.5**	**65.0**	**15,076.5**
Other Revenue						
Transfer Special Revenue	313.9	-	313.9	338.4	0.1	338.5
Indian Gaming Payments	285.3	-	285.3	280.4	-	280.4
Licenses, Permits and Fees	301.2	1.5	302.7	274.4	-	274.4
Sales of Commodities and Services	38.2	-	38.2	39.4	-	39.4
Rentals, Fines and Escheats	114.6	-	114.6	116.6	-	116.6
Investment Income	1.3	(0.5)	0.8	1.6	(0.5)	1.1
Miscellaneous	169.1	(11.0)	158.1	170.9	(11.1)	159.8
Refunds of Payments	(69.8)	(5.0)	(74.8)	(71.3)	(5.1)	(76.4)
Total Other Revenue	**1,153.8**	**(14.9)**	**1,138.8**	**1,150.4**	**(16.6)**	**1,133.8**
Other Sources						
Federal Grants	1,312.7	(2.2)	1,310.5	1,227.9	(16.4)	1,211.5
Transfer from Tobacco Settlement Fund	107.0	-	107.0	106.0	-	106.0
Transfer (To) Other Funds	285.7	-	285.7	4.9	-	4.9
Total Other Sources	**1,705.4**	**(2.2)**	**1,703.2**	**1,338.8**	**(16.4)**	**1,322.4**
TOTAL	**17,193.2**	**56.5**	**17,249.6**	**17,500.7**	**32.0**	**17,532.7**

[1]Estimates may not appear to add up due to rounding in Rentals, Fines and Escheats.

The upward revisions in FY 14 estimated General Fund revenues are largely attributable to the following:

- **Sales & Use Tax —** an increase of $30.0 million. This change is attributable to: (1) actual FY 13 collections coming in higher than projected in the April Consensus and (2) a stronger year over year growth than anticipated in the first quarter of the fiscal year.
- **Corporation Business Tax —** a one-time increase of $30 million due to higher-than-budgeted revenue from the Tax Amnesty program, which runs through November 15.
- **Real Estate —** an increase of $15.6 million to reflect budgeted growth from a higher-than-estimated revenue base as FY 13 actual collections were higher than the April 2013 consensus estimate. Current year collections year-to-date also indicate continued strength in this revenue category.

These increases are partially offset by the following revenue reductions:

- **Miscellaneous Revenue —** a decrease of $11 million to reflect negative collections trends relative to targets through the first quarter of the fiscal year.
- **Refund of Payments —** an increase of $5 million to reflect refund payouts trending higher than budgeted levels.

Connecticut's overall economy is expected to grow by 2.5% in FY 14, which reflects the continuing slow economic recovery following the recent recession. Recovery in the labor market has seen major growth in retail and leisure sectors, but weakness in financial and defense/aerospace industries. Personal income is growing, tracking close to inflation, but has not regained losses from the recession.

On the positive side, the housing market shows signs of improvement with single-family housing prices and residential construction rising.

FY 16 - FY 18

The revenue estimates in the out years includes multiple adjustments, which are due to current revenue policies as well as other external factors.

- PA 13-184, the FY 14 and FY 15 Budget, re-establishes the **sales tax exemption for clothing** under $50 in June 2015. The FY 15 budget includes a revenue loss of $11.5 million in FY 15 resulting from this change. The annualized revenue loss is estimated to be up to $150 million in FY 16. This exemption previously culminated in $128.7 million in revenue foregone in FY 11, the last year in which the exemption was in statute, according the 2011 Department of Revenue Services Annual Report.

- The impact of **Urban & Industrial Site Reinvestment (URA) tax credits** is also projected to result in revenue losses in the out years. The credit, which is available for eligible investments in certain qualified projects, is taken in increasing increments over the course of ten years beginning four years from the date the qualifying investment is made. Based on data from the Department of Economic and Community Development, it is projected that this will result in significant revenue losses beginning in FY 14 and continuing through FY 18. The cumulative impact of the credits is estimated to be approximately $189 million. It should be noted that up to $40 million in bonding (at an estimated cost of $61 million including interest) was authorized in PA 13-184 to support the URA tax credit program in the FY 14 - FY 15 biennium, which lowers the cumulative General Fund revenue loss to $149 million through FY 18.
- Anticipated opening of **casinos in Massachusetts**. Based on the latest information reported, it is anticipated that a casino license will be issued in the Spring of 2014, with construction completed sometime in the second half of FY 16. This is projected to result in a cumulative loss of $68.2 million in Indian Gaming Payments beginning in FY 16 through FY 18.
- Due to the scheduled **expiration of various transfers** to the General Fund, revenue projections decrease by $568.1 million between FY 14 and FY 16. Major sources for these transfers included FY 13 General Fund surplus and the Special Transportation Fund. In addition, several other one-time transfers from non-appropriated funds used to balance the 2014-2015 Budget are set to expire and will be unavailable in the out years under current law.
- The Budget **temporarily extended certain business tax measures** which are also due to expire at the end of the 2014-2015 biennium, including a 20% corporation business tax surcharge and limitations on the use of certain tax credits. The expiration of these policies results in a cumulative revenue loss of $67.1 million beginning in FY 16.

Overall economic growth is expected to peak in FY 16 at approximately 4.0%, then decreases slightly to 2.1% by FY 18. However, unemployment is expected to remain above 6.0% through FY 16 then decrease to 5.2% in FY 18. Personal income growth is anticipated to peak in FY 15 at a rate of 4.7% and decrease to 2.1% in FY 18. Housing is anticipated to return to normal growth patterns in the out years.

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

Fund/Revenue	Projected FY 16 $	Projected FY 17 $	Projected FY 18 $
Taxes			
Personal Income	9,959.5	10,558.8	11,171.4
Sales and Use	4,236.1	4,408.7	4,581.4
Corporations	686.1	734.0	716.5
Public Service Corporations	288.3	296.0	303.9
Inheritance and Estate	185.5	191.1	196.9
Insurance Companies	238.7	242.2	246.5
Cigarettes	368.1	357.8	347.8
Real Estate Conveyance	174.5	179.8	185.3
Oil Companies	37.6	37.6	37.6
Electric Generation	-	-	-
Alcoholic Beverages	60.7	61.1	61.4
Admissions, Dues and Cabaret	37.8	38.2	38.6
Health Provider Tax	516.9	519.4	521.9
Miscellaneous	20.6	21.1	21.6
Subtotal Taxes	**16,810.4**	**17,645.8**	**18,430.8**
Less Refunds of Taxes	(1,163.8)	(1,212.0)	(1,262.4)
Less Earned Income Tax Credit	(138.4)	(144.9)	(151.7)
Less R & D Credit Exchange	(6.5)	(6.8)	(7.1)
Taxes Less Refunds	**15,501.7**	**16,282.1**	**17,009.6**
Other Revenue			
Transfer Special Revenue	344.1	354.8	365.7
Indian Gaming Payments	264.0	212.2	212.2
Licenses, Permits and Fees	311.9	283.4	320.4
Sales of Commodities and Services	40.7	42.2	43.7
Rentals, Fines and Escheats	118.4	121.0	123.7
Investment Income	1.4	1.7	2.4
Miscellaneous	161.5	163.6	165.8
Refunds of Payments	(77.7)	(78.6)	(79.4)
Total Other Revenue	**1,164.3**	**1,100.3**	**1,154.5**
Other Sources			
Federal Grants	1,207.9	1,224.4	1,252.5
Transfer from Tobacco Settlement Fund	95.7	92.2	70.9
Transfer (To) Other Funds	(282.4)	(292.4)	(292.4)
Total Other Sources	**1,021.2**	**1,024.2**	**1,031.0**
TOTAL	**17,687.2**	**18,406.6**	**19,195.1**

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)

	FY 15 %	FY 16 %	FY 17 %	FY 18 %
Tax Revenues				
Personal Income	6.8	5.9	6.0	5.8
Withholding	*5.5*	*5.3*	*6.3*	*5.5*
Estimates & Finals	*9.0*	*6.9*	*5.5*	*6.2*
Sales and Use	3.3	4.4	4.1	3.9
Corporations	4.4	2.5	4.2	3.5
Public Service Corporations	1.8	1.3	2.7	2.7
Inheritance and Estate	4.0	3.0	3.0	3.0
Insurance Companies	1.8	2.3	2.3	2.0
Cigarettes	(3.0)	(2.8)	(2.8)	(2.8)
Real Estate Conveyance	5.1	4.2	3.0	3.1
Oil Companies	(0.4)	(0.2)	-	-
Alcoholic Beverages	0.7	0.8	0.7	0.5
Admissions & Dues	0.8	1.3	1.1	1.0
Health Provider Tax	0.5	0.5	0.5	0.5
Miscellaneous Taxes	1.5	2.0	2.4	2.4
Other Revenues				
Transfers - Special Revenue	0.4	1.7	3.1	3.1
Indian Gaming Payments	(1.7)	(5.8)	(19.6)	-
Licenses, Permits and Fees	0.6	2.5	0.5	2.2
Sales of Commodities	3.1	3.3	3.7	3.6
Rents, Fines and Escheats	1.7	1.5	2.2	2.2
Investment Income	37.5	27.3	21.4	41.2
Miscellaneous	1.1	1.1	1.3	1.3
Refunds				
Earned Income Tax Credit	5.3	5.1	4.7	4.7

Special Transportation Fund (STF)
The consensus revenue projections for the STF indicate a net revenue increase of $0.8 million in FY 14 and a net revenue decrease of $0.9 million in FY 15. The net increase is a combination of:

- An increase of $1.1 million in Motor Fuels Tax in FY 14 from higher than anticipated revenue from the gasoline and diesel fuel taxes. Year to date collections have increased by approximately 3.8% compared to last year;
- An increase of $0.2 million in FY 14 and $0.1 million in FY 15 in revenue from interest income; and
- $0.5 million in FY 14 in sales tax collected by the Department of Motor Vehicles.

This is partially offset by a decrease of:

- $1 million in FY 14 - FY 18 in Federal Grants due to a 7.2% reduction from sequestration on interest payments from the Build for America Bonds (please see Appendix H for more information).

Special Transportation Fund Consensus Revenues Estimates for the Biennium (in millions)

Revenue Source	FY 14 $ Budget	Revisions $	FY 14 $ Consensus	FY 15 $ Budget	Revisions $	FY 15 $ Consensus
Taxes						
Motor Fuels Tax	502.9	1.1	504.0	499.1	-	499.1
Oil Companies Tax	380.7	-	380.7	379.1	-	379.1
Sales Tax-DMV	78.4	0.5	78.9	79.9	-	79.9
Refunds	(6.5)	-	(6.5)	(6.6)	-	(6.6)
Subtotal	**955.5**	**1.6**	**957.1**	**951.5**	**-**	**951.5**
Other Revenue						
Motor Vehicle Receipts	234.0	-	234.0	237.5	-	237.5
Licenses, Permits, Fees	138.5	-	138.5	139.1	-	139.1
Interest Income	3.8	0.2	4.0	4.1	0.1	4.2
Federal Grants	13.1	(1.0)	12.1	13.1	(1.0)	12.1
Transfer from/To Other Funds	(83.0)	-	(83.0)	(4.4)	-	(4.4)
Less: Refunds of Payments	(3.2)	-	(3.2)	(3.2)	-	(3.2)
Less: TSB Account	(15.0)	-	(15.0)	(15.0)	-	(15.0)
Subtotal	**288.2**	**(0.8)**	**287.4**	**371.2**	**(0.9)**	**370.3**
TOTAL	**1,243.7**	**0.8**	**1,244.5**	**1,322.7**	**(0.9)**	**1,321.8**

FY 16 - FY 18

The STF is expected to increase modestly by approximately 1% through the out-years. The motor fuels tax is anticipated to decline by 0.4% each year which is mainly attributed to an increase in fuel efficient vehicles among other factors. This declining growth in the motor fuels tax has led to an increasing reliance on other revenue sources to support the STF, including the transfer from the General Fund that increases in FY 16 by $150.7 million.

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

Fund/Revenue	Projected FY 16 $	Projected FY 17 $	Projected FY 18 $
Taxes			
Motor Fuels Tax	497.1	495.1	492.9
Oil Companies Tax	377.3	377.3	377.3
Sales Tax-DMV	81.1	82.1	83.1
Refunds	(6.9)	(7.1)	(7.4)
Subtotal	**948.6**	**947.4**	**945.9**
Other Revenue			
Motor Vehicle Receipts	238.1	238.7	239.3
Licenses, Permits, Fees	139.6	140.1	140.7
Interest Income	4.7	5.5	6.6
Federal Grants	12.1	12.1	12.1
Transfer from/To Other Funds	146.3	156.3	156.3
Less: Refunds of Payments	(3.3)	(3.3)	(3.4)
Less: TSB Account	-	-	-
Subtotal	537.5	549.4	551.6
TOTAL	**1,486.1**	**1,496.8**	**1,497.5**

Other Appropriated Funds Projected Revenues, Expenditures and Ending Balances

Fund	Actual FY 12 $	Actual FY 13 $	Estimated FY 14 $	Estimated FY 15 $	Estimated FY 16 $	Estimated FY 17 $	Estimated FY 18 $
Mashantucket Pequot and Mohegan Fund							
Beginning Balance	90,186	211,279	330,372	350,465	370,558	370,558	370,558
Revenue	61,800,000	61,800,000	61,800,000	61,800,000	135,000,000	135,000,000	135,000,000
Expenditures	(61,678,907)	(61,680,907)	(61,779,907)	(61,779,907)	(135,000,000)	(135,000,000)	(135,000,000)
Transfers	-	-	-	-	-	-	-
Ending Balance	**211,279**	**330,372**	**350,465**	**370,558**	**370,558**	**370,558**	**370,558**
Regional Market Operation Fund							
Beginning Balance	974,571	975,130	830,406	966,480	1,082,736	1,068,826	1,025,144
Revenue	889,963	798,861	1,000,000	1,000,000	898,640	898,640	898,640
Expenditures	(889,403)	(943,585)	(863,926)	(883,744)	(912,550)	(942,322)	(972,921)
Transfers	-	-	-	-	-	-	-
Ending Balance	**975,131**	**830,406**	**966,480**	**1,082,736**	**1,068,826**	**1,025,144**	**950,863**
Banking Fund							
Beginning Balance	19,112,660	26,657,245	27,350,239	16,012,128	4,889,999	8,293,987	10,407,916
Revenue	31,551,683	26,157,810	25,701,000	22,301,000	26,000,000	25,500,000	26,900,000
Expenditures	(24,007,098)	(24,264,816)	(26,339,111)	(27,723,129)	(22,596,012)	(23,386,071)	(24,199,538)
Transfers	-	(1,200,000)	(10,700,000)	(5,700,000)	-	-	-
Ending Balance	**26,657,245**	**27,350,239**	**16,012,128**	**4,889,999**	**8,293,987**	**10,407,916**	**13,108,378**
Insurance Fund							
Beginning Balance	9,748,552	10,124,701	7,670,584	7,670,910	7,670,457	6,742,098	5,789,111
Revenue	24,963,800	25,133,685	30,745,000	31,968,000	32,320,000	33,590,000	34,870,000
Expenditures	(24,587,651)	(27,087,802)	(30,744,674)	(31,968,453)	(33,248,359)	(34,542,987)	(35,855,072)
Transfers	-	(500,000)	-	-	-	-	-
Ending Balance	**10,124,701**	**7,670,584**	**7,670,910**	**7,670,457**	**6,742,098**	**5,789,111**	**4,804,039**
Consumer Counsel and Public Utility Control Fund							
Beginning Balance	5,841,002	5,589,473	6,777,645	7,124,589	7,421,159	7,550,763	7,539,516
Revenue	22,261,095	26,253,424	24,919,000	25,384,000	26,145,520	26,929,886	27,737,782
Expenditures	(22,512,624)	(22,765,252)	(24,572,056)	(25,087,430)	(26,015,916)	(26,941,133)	(27,877,566)
Transfers	-	(2,300,000)	-	-	-	-	-
Ending Balance	**5,589,473**	**6,777,645**	**7,124,589**	**7,421,159**	**7,550,763**	**7,539,516**	**7,399,732**
Workers' Compensation Fund							
Beginning Balance	9,054,146	14,958,793	10,410,700	10,163,663	11,368,398	12,233,749	12,708,979
Revenue	24,949,093	16,213,591	22,450,651	25,614,710	26,202,913	26,763,797	27,762,175
Expenditures	(19,044,446)	(20,311,684)	(22,697,688)	(24,409,975)	(25,337,562)	(26,288,567)	(27,273,454)
Transfers	-	(450,000)	-	-	-	-	-
Ending Balance	**14,958,793**	**10,410,700**	**10,163,663**	**11,368,398**	**12,233,749**	**12,708,979**	**13,197,700**

Fund	Actual FY 12 $	Actual FY 13 $	Estimated FY 14 $	Estimated FY 15 $	Estimated FY 16 $	Estimated FY 17 $	Estimated FY 18 $
Criminal Injuries Compensation Fund							
Beginning Balance	1,972,499	1,508,997	1,572,531	1,502,245	2,025,229	2,489,687	2,891,542
Revenue	2,930,948	3,355,484	3,310,000	3,310,000	3,310,000	3,310,000	3,310,000
Expenditures	(3,394,450)	(3,291,950)	(3,380,286)	(2,787,016)	(2,845,542)	(2,908,145)	(2,975,032)
Transfers	-	-	-	-	-	-	-
Ending Balance	**1,508,997**	**1,572,531**	**1,502,245**	**2,025,229**	**2,489,687**	**2,891,542**	**3,226,510**
Soldiers, Sailors and Marines' Fund							
Beginning Balance	(4,659,158)	(5,399,056)	(6,489,562)	-	-	-	-
Revenue	-	-	-	-	-	-	-
Expenditures	(3,034,941)	(3,017,605)	(2,961,684)	-	-	-	-
Transfers from the Trust Fund	2,295,043	1,927,099	2,004,183	-	-	-	-
Ending Balance	**(5,399,056)**	**(6,489,562)**	**(7,447,063)**	-	-	-	-
TOTAL							
Beginning Balance	42,134,458	54,626,562	48,452,915	43,790,480	34,828,536	38,749,668	40,732,766
Revenue	169,346,582	159,712,855	169,925,651	171,377,710	249,877,073	251,992,323	256,478,597
Expenditures	(159,149,520)	(163,363,601)	(173,339,332)	(174,639,654)	(245,955,941)	(250,009,225)	(254,153,583)
Transfers	2,295,043	(2,522,901)	(8,695,817)	(5,700,000)	-	-	-
Ending Balance	**54,626,563**	**48,452,915**	**36,343,417**	**34,828,536**	**38,749,668**	**40,732,766**	**43,057,780**

Explanation of categories:

1. **Mashantucket Pequot/Mohegan Fund:** The Mashantucket Pequot Mohegan Fund receives a portion of casino gaming revenue received by the State. The Pequot Fund appropriation reduces the amount of casino revenues that are otherwise deposited into the General Fund. The appropriation provides grants to towns. Funds are distributed to towns on the following basis:
   - $20 million is distributed such that each municipality receives one-third of the additional amount a municipality would have received as a State-Owned Property PILOT payment had that grant been funded at $85.3 million. No municipality may receive less than $1,677 under this provision.
   - $20.1 million, pro-rated based on each municipality's Colleges & Hospitals PILOT payment.
   - $35 million based on a statutory property tax relief formula.

   The following provisions also effect distribution of Pequot payments: (1) $5.5 million is distributed among the cities of Bridgeport, Hamden, Hartford, Meriden, New Britain, New Haven, New London, Norwalk, Norwich, Waterbury, and Windham, (2) "Host town" payments of $750,000 each are made to Ledyard, Montville, Norwich, North

Stonington and Preston, (3) $1.6 million is distributed evenly to towns in the Southeastern Connecticut Council of Governments and to any distressed municipality in the Northeastern Connecticut Council of Governments or the Windham Area Council of Governments and (4) 28 towns receive an additional amount set by statute.

FY 16 - FY 18 assume full funding of the grant at $135 million, pursuant to CGS Sec. 3-55i. For FY 14 - FY 15, the grant was pro-rated to match available appropriations.

2. **Regional Market Operation Fund:** The Regional Market Operation Fund is operated as a self-sustaining non-profit venture which is fully funded by fees generated from the operation of the Market. It is the largest food distribution terminal between New York & Boston and provides a central location for farmers and wholesalers to sell and distribute food and other agricultural products. The Market covers 32 acres and encompasses 230,386 square feet of warehouse space, an active railroad spur, and 144 stalls in the farmers' market.

   Revenue is anticipated to be slightly under $900,000 for FY 16 - FY 18 and is projected based on incoming rents from twenty-one (21) leases, in addition to revenue from outdoor advertising, farmers' market stalls, rail cars, and office rents. Contracts for these 21 leases are set through FY 15 and are anticipated to increase at a rate of 3% for FY 16 – FY 18.

   Expenditures are projected to increase by the standard rates of inflation described elsewhere in this report. However, it must be noted that deferred maintenance costs, such as the repair of a rail line for $153,000 in FY 12, cannot always be determined in advance. Balances at the end of each fiscal year are deposited into the Short-Term Investment Fund (STIF) account.[2]

3. **Banking Fund:** The Banking Fund is supported by assessments, fees and fines paid by depository institutions supervised by the Department of Banking. Funds are used primarily for the ongoing operation of the Department of Banking and also for programs in the Labor Department, Department of Housing and Judicial Department.

   Annual revenue reflects recent legislative changes that deposit penalties and securities registration fees to the General Fund rather the Banking Fund. Expenditures are projected to increase by the standard rates of inflation

[2]Short-term money market instrument managed by the Cash Management Division of the State Treasurer's Office. Created in 1972, STIF serves as an investment vehicle for the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the State.

described elsewhere in this report with the exception of the Judicial Department's Foreclosure Mediation program which sunsets in FY 15.

4. **Insurance Fund:** The Insurance Fund supports the operation of the Department of Insurance, the Office of the Healthcare Advocate, and a program in the Department of Social Services targeted at preventing falls among the elderly population. The Department assesses domestic insurance companies and entities to cover the cost of these agencies. The assessment is built around the total amount of premium taxes paid to the Department of Revenue Services by domestic insurance companies and entities for the preceding year. There is currently a cap on the assessment made to any one insurer. No one company may be charged more than 25 percent of the Insurance Fund's overall expenses; with the excess shared by all the other companies in the same proportion as the overall assessment.

   The insurance industry is primarily regulated by the states, rather than the federal government, and that oversight relies heavily on the regulatory entity in the state where companies are domiciled. Connecticut is one of 30 states that finance its insurance department through a dedicated insurance fund. Connecticut began its fund in 1980. Of the 30 states with a fund, 24 states, including Connecticut, completely support the fund with assessments on the regulated industry.

   The Department of Insurance annually assesses insurers by the amount necessary to meet appropriated budgeted levels. Expenditures are projected to increase by the standard rates of inflation described elsewhere in this report. The Insurance Fund annually carries a balance forward to support operations for the first months of the fiscal year until the new assessment can be established and collected.

5. **Consumer Counsel/ Department of Public Utility Control Fund:** The Consumer Counsel & Public Utility Control Fund supports the operations of the energy division of the Department of Energy and Environmental Protection and the Office of the Consumer Counsel. Each agency assesses the regulated public utility entities (electric, gas, water and cable) to cover the agencies' costs. Each regulated entity is responsible for their portion of the total needs of the agencies, based on their percentage of the public service companies' tax.

   FY 16 - FY 18 revenue assumes a 3% increase to reflect inflationary increases. Expenditures are projected to increase by the standard rates of inflation described elsewhere in this report.

6. **Workers' Compensation Fund:** The Workers' Compensation Fund supports the operation of the Workers Compensation Commission, the State Department of Rehabilitation Services, occupational health clinics administered by the Department of Labor and some services provided by the Division of Criminal Justice. The State Treasurer assesses private insurance companies and employers to cover the Fund's annual costs. The assessment is built around the proportion of the preceding year's expenses that the state bore on behalf of each self-insured employer or private insurance carrier.

   Revenue is based on the statutorily-defined assessment formula. In fiscal years following a fund sweep 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 has historically been approximately $10 to $11 million. Expenditures are projected to increase by the standard rates of inflation described elsewhere in this report.

7. **Criminal Injuries Compensation Fund:** The Criminal Injuries Compensation Fund is administered by the Office of Victim Services within the Judicial Department. The Office of Victim Services compensates eligible crime victims or their immediate families for actual and reasonable expenses, lost wages, and pecuniary and other losses resulting from injury or death. Maximum awards are $15,000 for personal injuries and $25,000 for death. The Criminal Injuries Compensation Fund receives funding from three major sources: (1) Costs imposed in criminal prosecutions and certain fines and fees, (2) federal funding and (3) money from the person directly responsible for a victim's criminal injuries or death.

   Expenditures in FY 15 reflect a decrease due to reduced appropriations to the fund. The reductions are offset by increases in General Fund expenditures in the Judicial Department. The changes are necessary to address expenditure growth that has outpaced revenue growth in recent years.

   Annual revenue from criminal fines, which are set by statute, are anticipated to remain flat at approximately $3.3 million. Expenditures, after decreases in FY 14 and FY 15, are projected to increase by the standard rates of inflation described elsewhere in this report.

8. **Soldiers' Sailors’ and Marines’ Fund:** The purpose of the Soldiers' Sailors' and Marines' Fund (SSMF) is to provide temporary financial assistance to help meet the health and maintenance needs of eligible veterans, their dependents and survivors. The SSMF exists as both an independent, appropriated agency and as

a Trust Fund which is administered by the Treasurer. The investment income is distributed from the Trust Fund to the Soldiers', Sailors' and Marines' Special Revenue Fund to support the operations of the agency.

The SSMF expends dollars that are allocated to the agency based on an appropriation level. Interest earned on the SSMF Trust Fund is transferred to the agency on a monthly basis to be utilized for expenditures. The SSMF Trust Fund value, as of June 30, 2012, was $66.6 million. Expenditures are projected to increase by the standard rates of inflation described elsewhere in this report.

As of July 1, 2014, the SSMF will no longer exist as a state fund. Sections 121-122 of PA 13-247, the general government implementer, transfers administration of this fund to the American Legion and repeal CGS 27-138, which requires the excess interest income earned that exceeds the expenditure level to reimburse the General Fund for appropriations made on or after July 1, 2002.

The General Fund has provided the SSMF with a cumulative subsidy over multiple years of approximately $7.6 million. This cumulative subsidy has been treated as a future receivable which would reduce the General Fund GAAP deficit. Repeal of CGS 27-138 eliminates this future receivable and therefore the General Fund GAAP deficit is estimated to be increased by $7.6 million in FY 15.

Section 2: FY 14 – FY 18 Tax Credit Estimates and Assumptions

Sources, Methodologies, and Assumptions
The Department of Revenue Services (DRS) is the primary source for data on tax expenditures. However, in the event that DRS does not have information available, other sources are utilized when viable. Such sources include federal agencies (such as the Census Bureau and the Energy Information Administration), other Connecticut state agencies outside of DRS, and state agencies from other U.S. states.

In order to provide estimates for the current fiscal year and out years, the data collected are analyzed and grown on an individual basis, holding constant all other tax provisions. Certain tax expenditures have no growth in the out years or follow a historical trending pattern. In other cases, a variety of sources are utilized when applicable. These include, but not limited to:

1. Growth rates, as calculated by Consensus,
2. Economic indicator projections provided by Moody's Analytics,
3. CPI growth rates reported by the Bureau of Labor Statistics and
4. Federal Open Market Committee statements.

Please note that pursuant to CGS 12-7b(e), OFA released a more detailed tax expenditure report in January 2012, which can be found on OFA's website.[3] An updated report will also be published in January 2014.

Tax Expenditures (Credits, Exemptions, and Deductions)
There are currently about $6.9 billion in tax expenditures resulting from tax credits, exemptions, and deductions offered by the state. This level is around 37.6% of the total projected FY 14 General Fund and Special Transportation Fund revenue. The majority of tax expenditures occur in the Sales and Use Tax and Motor Fuels Tax (approximately 53.9% and 26.1%, respectively).

Tax credits are estimated to be $694.6 million in FY 14, or 10% of all projected FY 14 tax expenditures. Of the $694.6 million in tax credits, Personal Income Tax credits comprise 47.7%, or $331.2 million, and Corporation Business Tax credits comprise 25%, or $173.3 million. The remaining $6.2 billion in FY 14 total tax expenditures includes all exemptions and deductions.

The table on the following page presents OFA's estimates of total tax credits, exemptions and deductions for FY 14 through FY 18.

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[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

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

Category	FY 14 $	FY 15 $	FY 16 $	FY 17 $	FY 18 $
Personal Income Tax	486.8	503.7	523.6	529.4	541.6
Sales and Use Tax	3,740.4	3,865.2	4,033.5	4,197.7	4,361.9
Petroleum Companies Gross Earnings Tax	376.1	371.0	370.7	371.1	371.1
Corporate Business Tax	348.5	369.0	378.7	387.4	402.9
Cigarette and Tobacco Products Tax	13.3	12.9	12.5	12.2	11.9
Public Service Companies Gross Earnings Tax	64.5	65.8	66.5	68.3	70.1
Insurance Premiums Tax	67.1	68.5	100.2	120.4	136.4
Admissions and Dues Tax	21.5	21.6	21.7	21.8	21.9
Health Provider Tax	5.7	5.7	5.7	5.7	5.7
Miscellaneous Tax	5.5	5.6	5.7	5.8	5.9
Electric Generation Tax	4.2	-	-	-	-
Real Estate Conveyance Tax	1.0	1.0	1.0	1.0	1.0
Motor Fuels and Motor Carrier Road Fuels Taxes	1,810.5	1,809.8	1,809.1	1,808.4	1,807.7
TOTAL	**6,945.1**	**7,099.8**	**7,328.9**	**7,529.1**	**7,738.1**

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

Section 3: FY 14 Deficiencies

Based on current data, state agencies will require $25.2 million in deficiency appropriations or transfers from other areas to fund projected FY 14 costs. This assumes that $9.1 million in allotment holdbacks in the associated agencies (as a result of budgeted lapses) are not released by OPM. The deficiency amounts represent 0.6% of agencies' total FY 14 available funding, assuming all holdbacks are not released.

Over the past ten years, General Fund agencies have required on average $106.1 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 14 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 14 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 Education	2,917,583,769	2,917,748,019	2,926,748,020	(9,000,001)	(8,065,928)
Department of Administrative Services	138,621,319	138,223,274	144,893,756	(6,670,481)	(5,879,171)
Public Defender Services Commission	61,371,589	61,384,748	64,463,924	(3,079,175)	(2,858,150)
Department of Emergency Services and Public Protection	173,324,812	173,919,376	176,968,240	(3,048,864)	(1,744,747)
Department of Correction	670,461,667	668,776,128	670,185,687	(1,409,558)	-
Judicial Department	515,680,696	515,204,879	516,063,194	(858,315)	-
State Comptroller - Adjudicated Claims	4,100,000	4,100,000	4,650,099	(550,099)	(550,099)
			Subtotal	**(24,616,493)**	**(19,098,096)**
Transportation Fund					
Workers' Compensation Claims - DAS	6,544,481	6,544,481	7,135,018	(590,537)	(590,537)
			Subtotal	**(590,537)**	**(590,537)**
TOTAL				**(25,207,030)**	**(19,688,633)**

[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.

Section 4: Projected Balance of the Budget Reserve Fund

The current balance in the Budget Reserve Fund (BRF) is $271.4 million.

Background

The BRF, also 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% of net General Fund appropriations and PA 03-2 increased it to the current 10%.

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).

Recent Activity

FY 13 ended with a surplus of $398.8 million. Section 58 of PA 13-184, the FY 14 and FY 15 Budget, allows $220.8 million of the FY 13 surplus to be reserved for future year General Fund budgetary needs ($190.8 million can be used as revenue in FY 14 and $30 million as FY 15 revenue). The remaining $178.0 million of the FY 13 surplus was deposited in the BRF, pursuant to CGS 4-30a. The table below displays activity and balances in the BRF from FY 00 – FY 13 and projected balances from FY 14 – FY 18.

Budget Reserve Fund Activity and Balance: FY 00 – FY 18 (in millions)[1]

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	-	93.5	**93.5**

Fiscal Year	Beginning Balance $	Deposits/ (Withdrawals) $	Ending Balance $
13	93.5	178.0	**271.4**
14 (Est.)	271.4	117.1	**388.5**
15 (Proj.)	388.5	8.4	**396.9**
16 (Proj.)	396.9	-	**396.9**
17 (Proj.)	396.9	-	**396.9**
18 (Proj.)	396.9	-	**396.9**

[1]CGS Sec. 4-30a(b) appropriates BRF funds to offset a General Fund FY 16 year-end deficit, currently estimated by OFA at $1.1 billion. The BRF balance could be released to mitigate the projected FY 16 deficit.

Section 5: FY 14 – FY 18 Projected Bonding and Debt Service

Summary
The table below presents OFA's projections for General Obligation (GO) and Special Tax Obligation (STO) bond authorizations, allocations, issuance and debt service for FY 14 through FY 18.

The FY 14 GO bond authorization and issuance figures show an increase that is the result of several economic development initiatives and GAAP deficit borrowing. Between FY 15 and FY 18, the trends for bond authorizations, allocations and issuance are anticipated to stabilize at a lower level.

GO debt service expenditures are expected to gradually increase due to: (1) the increase in bond authorized during the 2013 legislative session, (2) the issuance of GAAP conversion bonds and refinancing of the 2009 Economic Recovery Notes (ERNs – see Appendix G for more information on issuances), and (3) the assumption that the state will issue bonds at higher interest rates over this period. For example, the state issued tax exempt GO bonds in August 2013 at an interest rate of 3.2% while the assumptions used for the projections in the table below are 5.3% in FY 15 and between 5.5% and 5.8% between FY 16 and FY 18. 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 noticeable because fewer bonds are issued.

FY 14 – FY 18 Projections for General Obligation and Special Tax Obligation Bonds (in billions)

Projections	FY 14 $	FY 15 $	FY 16 $	FY 17 $	FY 18 $
General Obligation Bonds					
Bond Authorizations	2.7	2.0	1.9	1.9	1.9
Bond Allocations	1.9	2.0	1.8	1.8	1.7
Bond Issuance	2.4	1.8	1.7	1.7	1.7
Debt Service[1]	1.6	1.8	2.2	2.2	2.4
Special Tax Obligation Bonds					
Bond Authorizations[2]	0.7	0.6	0.5	0.5	0.5
Bond Allocations	0.7	0.6	0.5	0.5	0.5
Bond Issuance[3]	0.6	0.6	0.6	0.6	0.6
Debt Service[1]	0.5	0.5	0.5	0.6	0.6

[1]The FY 14 and FY 15 GO and STO debt service estimates are based on the budget enacted during the 2013 legislative session. The FY 16-FY 18 estimates are based on information provided by the Office of the State Treasurer. OFA reduced the GO debt service projections to reflect anticipated lapse for each year.
[2]The FY 14 and FY 15 STO authorization figures are based on authorizations made during the 2013 legislative session.
[3]The STO authorization figures are based on information provided by the Office of the State Treasurer.

Methodology
The table provides additional information for the GO bond authorization, allocation and issuance estimates.

Detail for FY 14 – FY 18 Projections for General Obligation Bonds (in millions)

Projections	FY 14 $	FY 15 $	FY 16 $	FY 17 $	FY 18 $
Bond Authorizations					
Regular authorizations[1]	1,624.5	1,581.0	1,500.0	1,500.0	1,500.0
UConn 2000	204.4	315.5	312.1	266.4	269.5
CSUS 2020	95.0	95.0	95.0	95.0	95.0
Biosci. Collaboration (JAX)	59.7	19.7	21.4	21.1	15.8
Biosci. Innovation Fund	10.0	15.0	15.0	25.0	25.0
GAAP Conversion Bonds	750.0	-	-	-	-
TOTAL	**2,743.6**	**2,026.2**	**1,943.5**	**1,907.5**	**1,905.3**
Bond Allocations					
Regular allocations[2]	1,500.0	1,600.0	1,400.0	1,350.0	1,300.0
UConn 2000	204.4	315.5	312.1	266.4	269.5
CSUS 2020	95.0	95.0	95.0	95.0	95.0
Biosci. Collaboration (JAX)	59.7	19.7	21.4	21.1	15.8
Biosci Innovation Fund	10.0	15.0	15.0	25.0	25.0
TIF for Bass Pro retail store	22.0	-	-	-	-
TOTAL	**1,891.1**	**2,045.2**	**1,843.5**	**1,757.5**	**1,705.3**
Bond Issuance					
Tax exempt GO bonds[3]	1,400.0	1,400.0	1,400.0	1,400.0	1,400.0
Taxable GO bonds	100.0	100.0	100.0	100.0	100.0
UConn 2000	272.7	250.0	228.9	235.0	240.0
GAAP conversion bonds	560.4	-	-	-	-
TIF for Bass Pro retail store	22.0	-	-	-	-
TOTAL	**2,355.1**	**1,750.0**	**1,728.9**	**1,735.0**	**1,740.0**

[1]FY 14 and FY 15 figures are actual GO bonds authorized during the 2013 legislative session. FY 16-FY 18 projections are based on historic levels of bond authorizations.
[2]FY 14 and FY 15 estimates are based on FY 14 and FY 15 GO bonds authorizations. FY 16-FY 18 projections are based on historic levels of bond allocations.
[3]The figures are based on an historic average of $1.2 billion in GO bond issuance between FY 09 and FY 14.

Background/Definitions

General Obligation (GO) bonds
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), the Connecticut Biosience Collaboration program (Jackson Lab project), the Connecticut Bioscience Innovation Fund, Tax Incremental Financing (TIF) bonds issued by Connecticut Innovatins for the Bass Pro Shops retail store in Bridgeport, and the GAAP conversion (deficit financing) bonds issued in October 2013 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
STO bonds finance the state's portion of the cost of highway and bridge construction and maintenance. In addition to the ongoing state's transportation infrastructure renewal program, the figures in the table also include local transportation initiatives like the Local Transportation Capital Program and the Local Bridge Program. 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
Debt service is the amount of money paid by the state each year for interest and principal on outstanding debt and fees related to debt.

Section 6: Analysis of Revenue, Expenditure Trends and Major Cost Drivers, Areas of Concern and 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 $65.2 billion, an increase of 2% from last year's reported amount of $63.9 billion. The following table includes the unfunded liabilities for these four areas.

Long-Term Obligations (in billions)

Unfunded Liabilities	Amount $
Debt Outstanding	20.4
State Employee Retirement System (SERS)[4]	13.3
Teachers' Retirement System	11.1
State Post Employment Health and Life	16.3
Teachers' Post Employment Health	3.0
Generally Accepted Accounting Principles Deficit	1.1
TOTAL	**65.2**

Explanations of the unfunded liabilities are included below:

Debt Outstanding

The amount is as of August 31, 2013.[5] 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 does not include: (1) the $560.4 million in GAAP conversion bonds that were issued on October 4, 2013 or (2) the $314.3 million refunding for 2009 Economic Recovery Notes that was done on October 23, 2013.

[4]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 $144.8 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.

[5]Source: *Debt Statement*, Office of the State Treasurer (October 31, 2013).

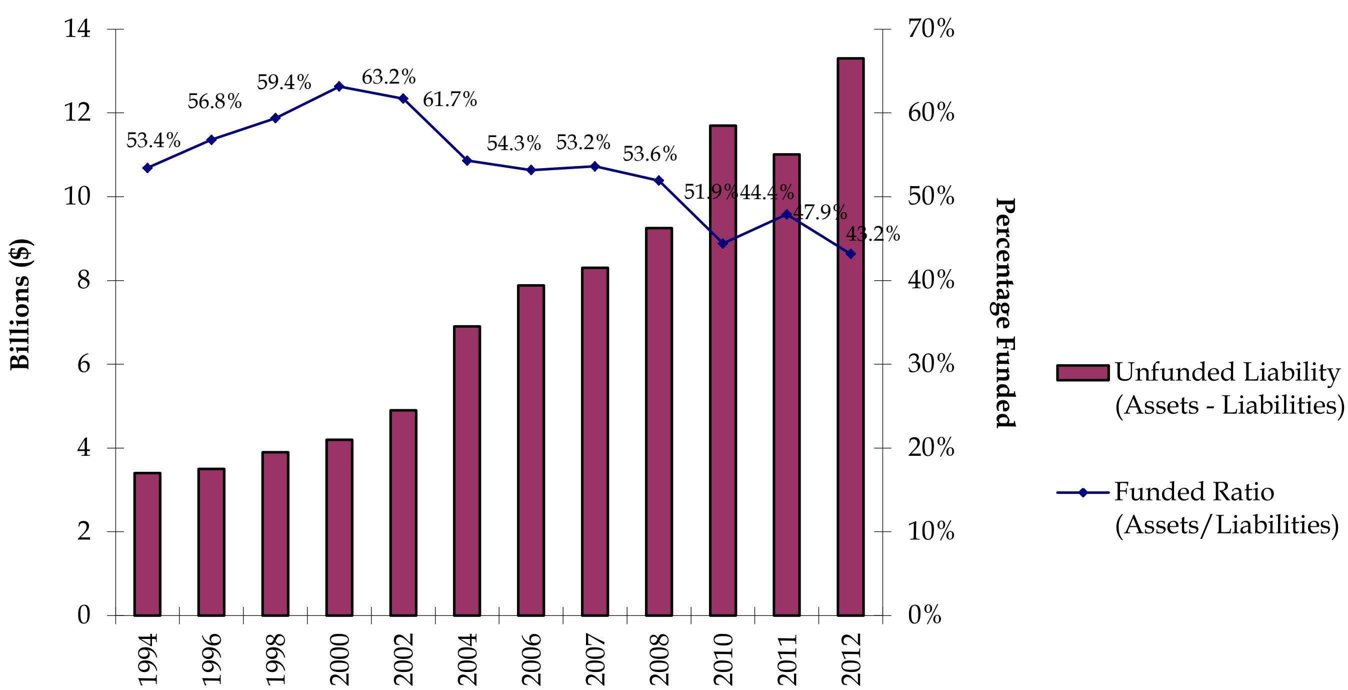
State Employee Retirement System (SERS)[6]

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 increased by $2.3 billion or 20.6% since June 30, 2011. As of June 30, 2012, SERS had a funding ratio (value of benefits to assets) of 42.3%, a decrease of 5.6% from June 30, 2011. The average funding ratio from 2007 to 2012 was approximately 48.2%.

The June 30, 2012 valuation made various changes to actuarial assumptions based on the Experience Investigation. The assumption changes are as follows: (1) decreased the investment return assumption from 8.3% to 8%, (2) decreased the price inflation assumption from 3% to 2.8% and (3) demographic changes to rates of withdrawal, disability, etc. These assumptions in addition to other actuarial considerations resulted in the increase in the unfunded liability mentioned above.

The chart below represents the historical SERS unfunded liabilities and funded ratio.

State Employees' Retirement Fund Unfunded Liability

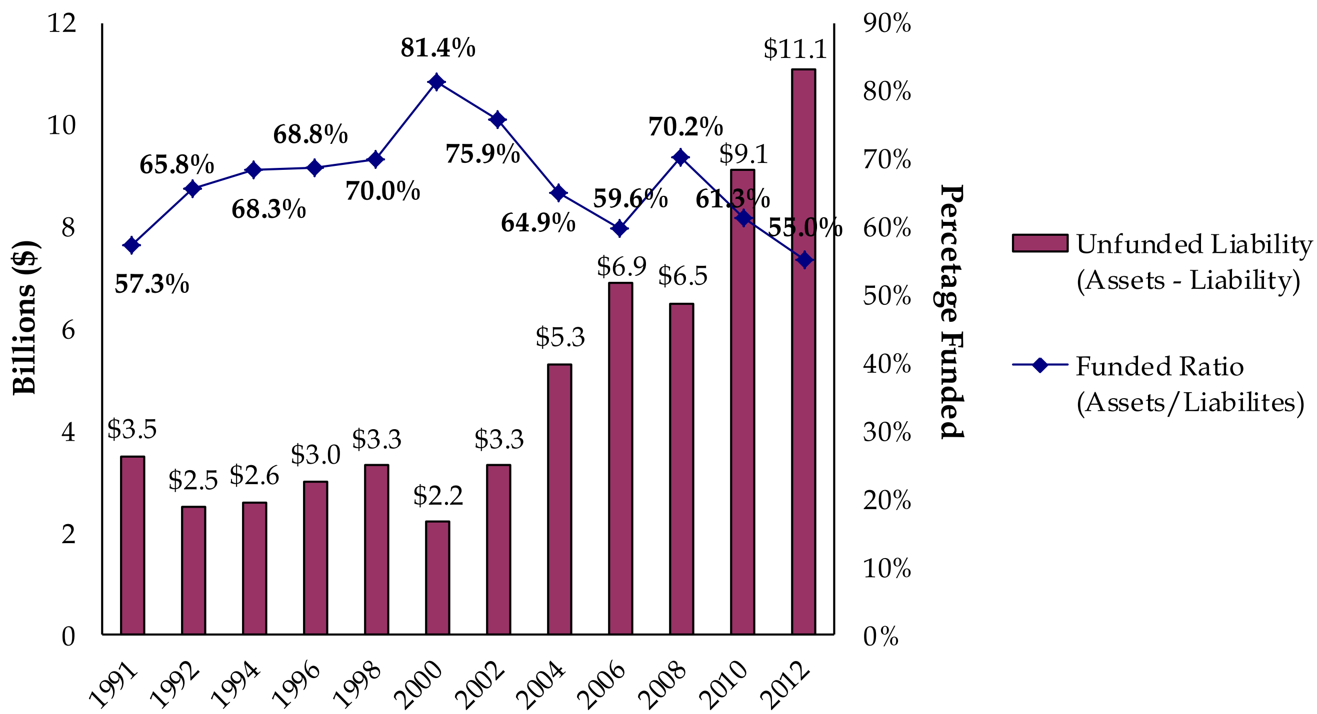


[6]Source: *State Employees' Retirement System Actuarial Valuation Report*, for fiscal year ending June 30, 2012.

Teachers' Retirement System (TRS)[7]

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 billion increase in the unfunded actuarial 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.

An update to the June 30, 2011 full valuation was issued in April of 2013 and reported an unfunded liability of $16.3 billion, a reduction of $1.7 billion (or 9 percent) from May's estimate.[8] The computation of the unfunded liability was updated to include the

[7]Source: *Connecticut State Teachers' Retirement System Actuarial Valuation*, as of June 30, 2012.

[8]Source: *State of Connecticut Other Post-Employment Benefits Program update* as of June 30, 2012 (April 12, 2013).

following: (1) actual retiree claims experience for July 1, 2010 thru July 1, 2012, (2) a reduction in health care cost trends based on more recent claims experience and (3) an 11% reduction in prescription drug costs for FY 14 from a new prescription drug contract effective in FY 14.

Teachers' Other Post Employment Benefits[9]
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 billion which was a slight increase from $2.9 billion in 2010.

Generally Accepted Accounting Principles (GAAP)

What is GAAP?
GAAP are the common set of accounting principles, standards and procedures that are used to compile financial statements. GAAP are a combination of authoritative standards[10] and simply the commonly accepted ways of recording and reporting account information. About 18 states budget according to GAAP standards.[11]

Historically, the State of Connecticut has not used GAAP standards to report budgetary information but instead has reported using a modified cash basis of accounting. This method most significantly differs from GAAP by recognizing expenditures when bills are paid rather than when expenditures are actually incurred – generally when the good or service is received. However, under Connecticut's modified cash basis, most revenue was recognized when earned, which more closely, but not completely, follows GAAP standards.

History of Converting To GAAP
PA 93-402 authorized the state comptroller and the Office of Policy and Management to use GAAP to prepare annual financial statements and annual budgets beginning July 1, 1995. However, the date to implement these measures was repeatedly delayed until the passage of PA 11-48 as modified by PA 13-239[12] and PA 13-247.

In Connecticut, converting to GAAP standards consists of two parts: 1) converting the annual budget from a modified cash basis to a GAAP-based method, and 2) paying off the negative unassigned fund balance often referred to as the State's "accumulative GAAP deficit" (see below).

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[9]Source: *Connecticut State Teachers' Retirement System, Retiree Health Insurance Plan, Actuarial Valuation* as of June 30, 2012.
[10]Set by policy boards such as the Financial Accounting Standards Board (FASB) and the Government Accounting Standards Board (GASB).
[11]National Association of State Budget Officers, 2008 Budget Process in the States.
[12]PA 13-239 repealed the requirement that up to $75 million in FY 12and up to $50 million in FY 13 surplus funds be first applied to any net increase in the unreserved fund balance (GAAP deficit).

Converting to GAAP-based Budgeting

Expenditures

PA 11-48, as modified by PA 13-239 and PA 13-247, required Connecticut to transition to a GAAP-based budgeting method by budgeting amounts sufficient to fund expenditures for each year on an accrual basis beginning in FY 14. This was implemented in the budget for FY 14 and F 15 by including:

- $15.9 million in FY 14 and $76.7 million in FY 15 across agency budgets through specific agency appropriations called "Change to Accruals" for accrued costs incurred at the end of the fiscal year;
- $40 million received pursuant to the settlement of litigation under the 1998 tobacco Master Settlement Agreement to augment the amount appropriated in each agency's "Changes to Accruals" account in FY 14 (which makes the total GAAP accrual in FY 14 $55.9 million).

Payments made between July 1st and August 15th will be charged against the "Change to Accruals" account to properly recognize expenses according to GAAP guidelines. These accounts are required because the state's financial system (CORE-CT) has not been modified to record transactions on a GAAP basis. The CORE system will have to undergo changes to allow agencies to enter the accounting date on vouchers to reflect when the expenditure should be posted, either to the prior fiscal year or new fiscal year. This will allow the system to properly capture the expenditures and encumbrances and eliminate many manual end of year procedures by agencies and the comptroller's office to reconcile transactions on a GAAP basis.

Revenues

Implementation of GAAP-based budgeting for revenue involves shifting the period during which revenues received are counted toward the prior year (i.e. accruals) in order to better reflect when the revenues were earned. Under the statutory method used prior to FY 14, the accrual period for revenues typically lasted until the first week of August. Beginning in FY 14 and thereafter, the accrual period will be shortened to approximately July 15th for the personal income withholding tax, which is the vast majority of tax revenue impacted.

The shift in accrual periods for revenue can affect the amount of revenue booked to any fiscal year because slightly different 12 month time periods are reflected. The impact may be positive or negative, and varies significantly according to factors such as the calendar in any particular year. See table on the following page for details.

Impact of GAAP Accounting on Total General Fund Revenue Accruals (in millions)

Fiscal Year	Amount $
10	(0.1)
11	(11.6)
12	11.7
13[1]	53.5

[1]Approximately $35 million of the $53.5 million FY 13 difference indicated above is attributable to the fact that the final day of the accrual period was coincidentally a high collection day (Wednesday) for withholding tax.

At present the state's CORE-CT is not configured to count revenue on an ongoing basis according to GAAP. Past practice has been to make a year-end adjustment using information from the Department of Revenue Services. It is uncertain how future practice will be altered to comply with GAAP. As a consequence of past practice, daily historical accrual adjustments are unavailable in CORE-CT.

Projecting the potential impact of the approximate three-weeks' shift in withholding revenue accrual timelines is unreliable: 1) given the current lack of data to support daily, GAAP-based projections; and 2) the volatile (+/-) nature of the impacts which precludes the use of simple averages. Further, the magnitude of these impacts has been generally small historically.

Cumulative GAAP Deficit

According to the State Comptroller, the State's cumulative GAAP deficit in the General Fund was $1.146 billion as of June 30, 2012. The accumulative GAAP deficit has occurred largely because under the modified cash basis of accounting certain revenues are accrued but expenses are not. This has created a mismatch between receipts and disbursements which has accumulated over time. The chart below shows the growth/change in the General Fund accumulated GAAP deficit since 1994.

General Fund Accumulated GAAP Deficit

Fiscal Year	Accumulated GAAP Deficit $	Change From Previous Year %
1994	(465,776,000)	-
1995	(576,879,000)	23.9
1996	(639,917,000)	10.9
1997	(670,014,000)	4.7
1998	(694,308,000)	3.6
1999	(602,696,000)	(13.2)

Fiscal Year	Accumulated GAAP Deficit $	Change From Previous Year %
2000	(674,991,000)	12.0
2001	(781,846,000)	15.8
2002[1]	(944,022,000)	20.7
2003	(842,813,000)	(10.7)
2004	(900,171,000)	6.8
2005	(1,037,681,000)	15.3
2006	(1,058,714,000)	2.0
2007	(994,314,000)	(6.1)
2008	(1,149,231,000)	15.6
2009[1]	(2,303,429,000)	100.4
2010	(1,678,971,000)	(27.1)
2011	(1,748,946,000)	4.2
2012[2]	(1,146,053,000)	(34.5)

[1]In 2002 and 2009 the accumulated GAAP deficit increased in part due to the budget deficit that year, and decreased the following year by the issuance of economic recovery notes to finance budget deficit. The issuance of notes eliminated the budget deficit as an unassigned General Fund liability for purposes of calculating the accumulated GAAP deficit.

[2]In 2012 the State changed the way it reports escheated property as a liability. Previously the full amount of escheated property was recorded but GASB standards allow for the use of an average percentage of the historical payout of escheated property. This change had the effect of reducing the liability under GAAP.

PA 13-239 and PA 13-247 establish a plan to eliminate the accumulated GAAP deficit. The first part of the plan authorizes issuing bonds yielding proceeds of up to $750 million. The proceeds are to be deposited into the General Fund with the purpose of reducing the accumulated GAAP deficit. The second part of the plan obligates the state to appropriate sufficient funds to pay off the remaining outstanding accumulated GAAP deficit over a 13 year period with the first payment commencing in FY 16.

In October 2013, the state issued GAAP Conversion Bonds yielding $598.5 million in net proceeds (net of issuance costs and reserve for two years of capitalized interest costs). These proceeds were deposited into the General Fund to partially offset the accumulated GAAP deficit. The table on the following page shows how the deficit will be extinguished by FY 28.

Funding Accumulated GAAP Deficit

	Amount $
Deficit, as of June 30, 2012	1,146,053,000
GAAP Conversion Bond Proceeds	598,500,000
Remaining GAAP Deficit	547,553,000
Number of Years to Payoff	13
Annual Amount - FY 16 through FY 28	42,119,462

The State Comptroller is expected to update the accumulated GAAP deficit figure to include the results of FY 13 in December 2013. While the entirety of adjustments that the Comptroller will reflect and their net impact is uncertain at this time, the following adjustments may be included:

1. An increase of approximately $50 million in the GAAP deficit to reflect the continued imbalance of spending obligations through FY 13,
2. A one-time increase of approximately $309 million in the GAAP deficit to recognize the transition between counting withholding tax revenue on a statutory to GAAP basis and
3. A future increase of approximately $7.6 million in the FY 14 GAAP deficit once the Soldiers, Sailors and Marines Fund, which owes the General Fund this amount, has been moved off the State's books.

The change in accounting methods from a statutory to GAAP basis is anticipated to add to the GAAP deficit because the budget periods for each method overlap by approximately three weeks (July 15 through August 7th). On a statutory basis, this period was counted as FY 13 revenue and contributed to the FY 13 surplus calculation. On a GAAP budgeting basis, this period will be counted as revenue in FY 14 as well.

To the extent that the GAAP deficit increases or decreases as a result of the Comptroller's calculations, the future (beginning in FY 16) annual appropriations required to extinguish the remaining accumulated GAAP deficit would need to be adjusted.

Major Expenditure Growth Areas

The table on the following page identifies the top ten accounts with significant increases in FY 16 through FY 18.

FY 16 - FY 18 Major Expenditure Growth Areas in the General Fund (increases shown are above prior year base - in millions)

Agency/Account	FY 16 $	FY 17 $	FY 18 $
OTT - Debt Service	328.8	85.5	90.2
DSS - Medicaid	169.4	164.8	157.4
SDE - Education Equalization Grants	83.3	76.5	80.3
SDE - Transportation of School Children	67.2	3.1	3.2
SDE - Excess Cost - Student Based	46.2	7.7	8.1
OSC - State Employees Retirement Contributions	44.8	45.5	46.4
OSC - Amortize GAAP Deficit	42.1	-	-
OSC - State Employees Health Service Cost	40.9	40.5	40.1
TRB - Retirement Contributions	39.4	40.9	42.6
OSC - Retired State Employees Health Service Cost	38.4	37.5	37.5
TOTAL	**900.5**	**502.0**	**505.8**

Debt Burden

As the following table shows, in 2011 Connecticut ranked: (1) number five in state and local debt per capita, and (2) number 25 in state and local 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.

State and local debt comprises all interest-bearing short-term credit obligations and all long-term obligations incurred in the name of the government and all its dependent agencies, whether used for public or private purposes.

Please see Appendix C for alternative measures of debt burden.

Ranked by State and Local Debt Per Capita among the 50 States in 2011

Rank	State	Amount $	Moody's Bond Rating
1	New York	17,159	Aa2
2	Alaska	14,088	Aaa
3	Massachusetts	14,009	Aa1
4	New Jersey	11,575	Aa3
5	**Connecticut**	**11,568**	**Aa3**
6	Rhode Island	11,364	Aa2

Ranked by State and Local Debt as a % of Personal Income (PI) in 2011

Rank	State	Debt/PI
1	New York	33.1%
2	Alaska	28.8%
3	Kentucky	27.7%
4	Nevada	27.2%
5	Massachusetts	25.8%
6	South Carolina	25.5%

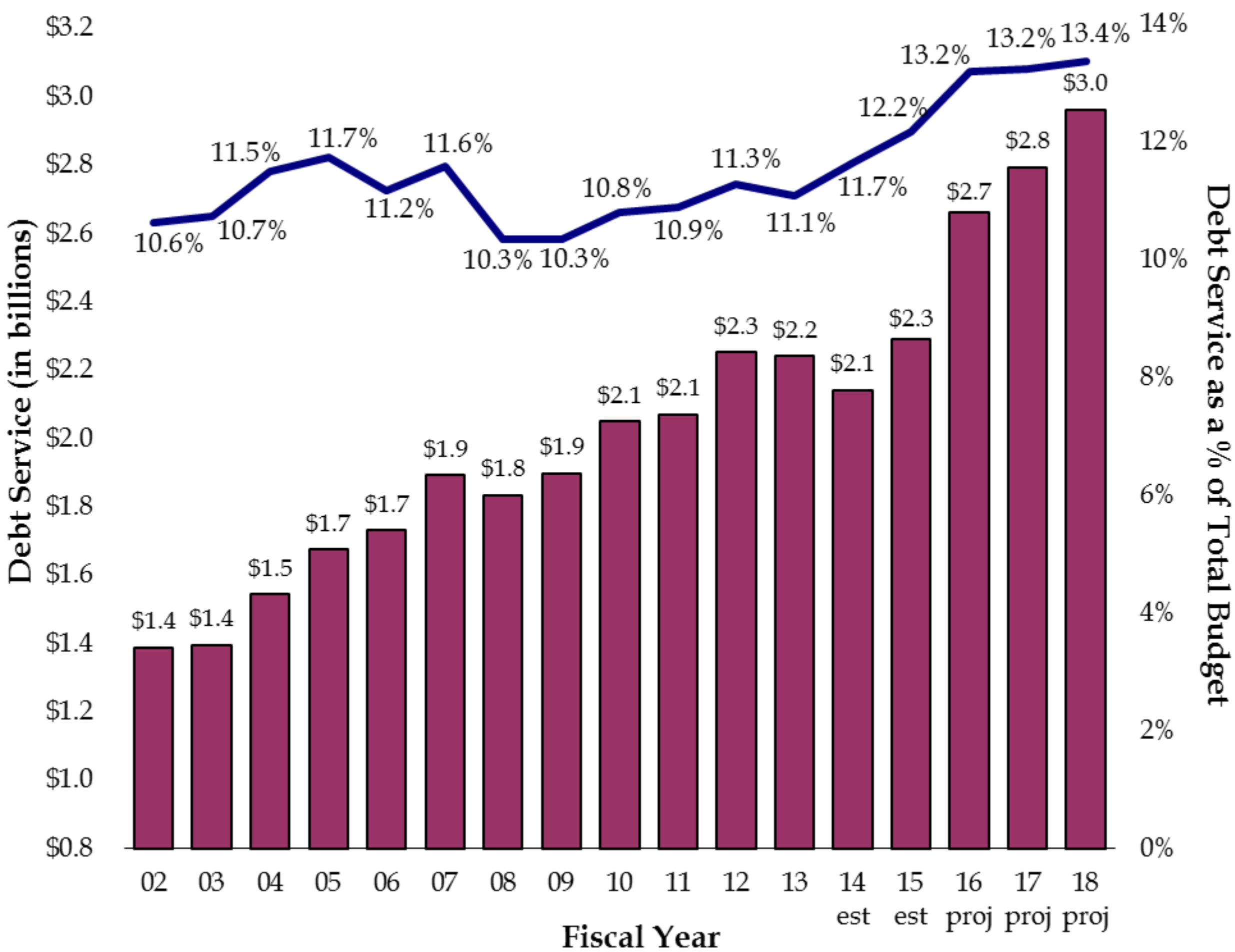
Ranked by State and Local Debt Per Capita among the 50 States in 2011			
7	Illinois	11,313	A2
8	California	11,114	A1
9	Washington	10,859	Aa1
10	Colorado	10,200	Aa1*
11	Nevada	10,187	Aa2
12	Texas	10,075	Aaa
MEAN		**8,330**	

Ranked by State and Local Debt as a % of Personal Income (PI) in 2011		
7	Rhode Island	25.4%
8	Illinois	25.4%
9	California	24.8%
10	Texas	24.2%
11	Washington	24.1%
24	**Connecticut**	**20.1%**
MEAN		**19.8%**

Source: U.S. Census Bureau, Economy.com and Moody's Investors Services

The figure below 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 18 Debt Service Expenditures – General & Transportation Funds



Federal Revenue

The table below identifies federal grant revenue in FY 14 through FY 18. Totals reflect consensus revenue estimates as of November 8, 2013.

November 2013 Consensus Revenue - Federal Grants (in millions)

Grant	FY 14 $	FY 15 $	FY 16 $	FY 17 $	FY 18 $
Medicaid Related	771.0	707.4	669.8	682.1	705.9
Temporary Assistance to Needy Families/ Child Care Development Block Grant	290.9	290.9	290.9	290.9	290.9
SNAP	37.9	39.0	40.2	41.4	42.6
Title IV-E - Foster Care/Adoption	109.6	101.3	103.2	105.1	107.0
Child Support Enforcement	36.7	37.8	39.0	40.1	41.3
Build America Bonds	25.0	25.4	25.4	25.4	25.4
Workforce Investment Act	27.5	27.5	27.5	27.5	27.5
Miscellaneous	11.9	11.9	11.9	11.9	11.9
TOTAL	**1,310.5**	**1,211.5**	**1,207.9**	**1,224.4**	**1,252.5**

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 began enrolling in health insurance plans as of October 1, 2013. As of November 2013, 4,065 individuals were enrolled in qualified health plans provided by three carriers (Anthem Blue Cross and Blue Shield, ConnectiCare Benefits, Inc., and HealthyCT, Inc.). While 55 small businesses, representing 306 employees were enrolled in plans through the small business exchange. The total budget for FY 14 is $74.9 million, with $34.9 million budgeted for operating expenses, $5 million to support the All-Payers Claims Database (PA 13-247) and the balance for continued technical and marketing investments. The majority of the revenue ($48.8 million) for FY 14 is from federal grant funding (Level II grant funds, supplemental funds, and a new Level I grant), the balance of $26.1 million is from assessments on insurers. The current assessment is 1.35% of earned premiums for insurance carriers.

Medicaid

Overview

The state participates in the Medicaid program afforded under Title XIX of the Social Security Act; the Department of Social Services (DSS) administers the program on the state's behalf. The FY 14 gross appropriation for the DSS Medicaid account is approximately $5.1 billion, a 3.4% increase from FY 13. The growth in the DSS' Medicaid account is primarily attributed to the Medicaid for Low Income Adults program (MLIA).

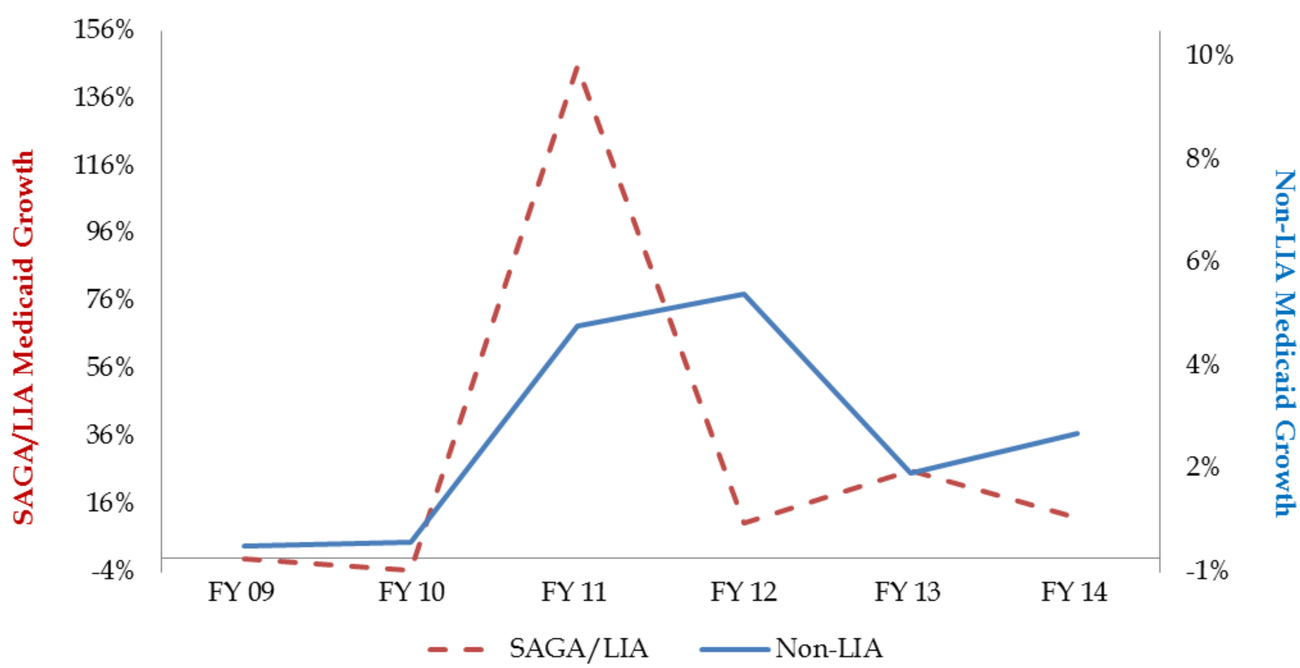
Medicaid Expansion
Effective April 1, 2010, Connecticut amended its Medicaid state plan to enroll clients of the formerly state funded program, State Administered General Assistance, in a new Medicaid eligibility category, MLIA, as allowed under PPACA. The table below shows DSS' gross Medicaid expenditures for the 5 year period (FY 09-FY 13) and the gross appropriation for FY 14.

DSS Medicaid Gross Expenditures (in millions)

	FY 09 $	FY 10 $	FY 11 $	FY 12 $	FY 13 $	Gross Appropriation FY 14 $
Non - LIA	3,851.7	3,855.1	4,020.4	4,217.4	4,277.3	4,371.4
SAGA / LIA	188.8	182.1	447.4	493.9	622.1	697.4
TOTAL Medicaid	**4,040.5**	**4,037.2**	**4,467.8**	**4,711.3**	**4,899.4**	**5,068.8**
Growth	-	-0.1%	10.7%	5.4%	4.0%	3.5%

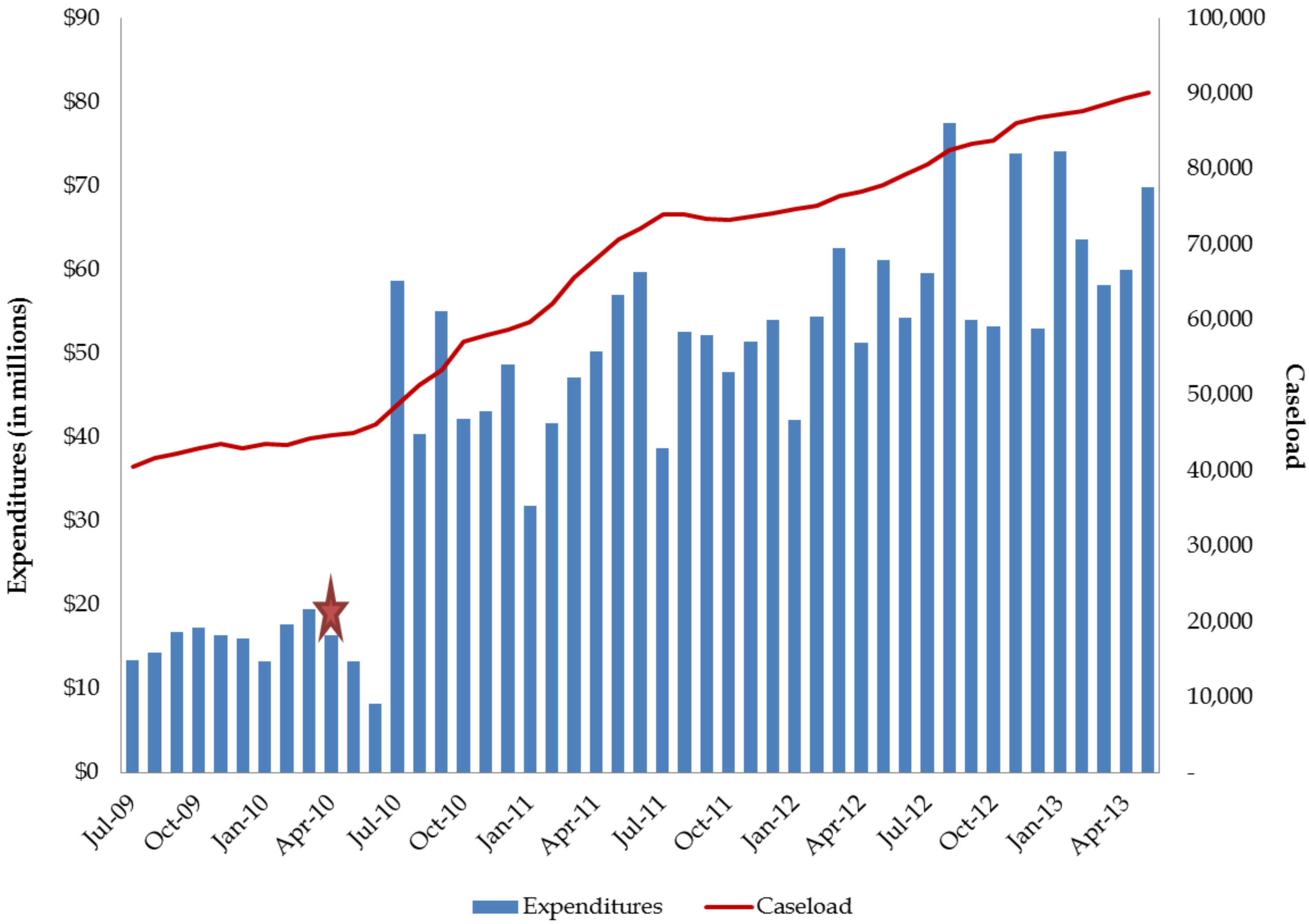
The following chart reflects the growth in MLIA expenditures and Non-MLIA expenditures for DSS since FY 09.

MLIA and Non-MLIA Expenditures (FY 09 – FY 14)



As a condition of the conversion of SAGA to MLIA, the state was required to eliminate the asset test on this population which significantly impacted enrollment in the program. In addition, under the LIA program clients received the full Medicaid benefit package as opposed to a more limit set of benefits offered under the former SAGA program, as a result program enrollment and growth accelerated. The following chart reflects caseload and expenditure growth for the MLIA program since its inception.

MLIA Caseload and Expenditures Growth



Beginning January 1, 2014, the state will expand Medicaid eligibility to include individuals whose incomes are up to 138% of the federal poverty level (FPL), under a new program- Medicaid Coverage for the Lowest Income Population (MCLIP). The state will initially receive 100% reimbursement for MCLIP related expenditures, with reimbursement decreasing to 95% in 2017, 94% in 2018, 93% in 2019, and 90% in 2020.

The table below identifies our population estimates for the soon-to-be former MLIA population, as well as the costs included in the FY 14 and FY 15 Budget, for the Medicaid expansion (to 138% FPL) and the costs for the total population.

MLIA/MCLIP Population/Cost Estimates (in millions)

Fiscal Year	Existing Population	Expansion Population	Expansion Cost $	Total Population	Total Cost $
14	97,300	27,000	51.6	124,300	446.2
15	104,200	50,000	301	154,200	1,135.80

Net Appropriation

Lastly, the biennial budget appropriation for the DSS' Medicaid account reflects only the state's share of this joint state/federal program. For FY 13, the $4.7 billion gross appropriation for Medicaid included both the state's obligation as well as the reimbursable federal funds. Funding of $2.3 billion in FY 14 and $2.1 billion in FY 15 was removed from the Medicaid account to reflect the net appropriation of the account. The amount removed reflects the approximate amount of federal reimbursement for these expenditures previously reflected within the account.

Other Federal Issues Affecting Connecticut

Sequestration

Sequestration resulted in a reduction of about $58.6 million in grants to Connecticut in Federal FY 13, based on information provided by Federal Funds Information for the States (FFIS)[13]. Spending was reduced to approximately $6.41 billion.

The FFY 14 Continuing Resolution (CR) that passed on October 17, 2013 included funding for the Federal government through January 15, 2014. The CR provided funding for most discretionary programs at post-sequestration, FFY 13 levels. FFIS estimates an annualized FFY 14 discretionary spending level of $986.3 billion. The table below shows the estimated allocation of this amount among defense and non-defense spending and how those amounts compare to estimated FFY 14 post-sequestration spending caps.

[13]Federal Funds Information for States tracks approximately 90% of grant funding to states.

Comparison of Estimated FFY 14 Annualized Discretionary Defense and Nondefense Spending with FFY 14 Post-Sequestration Spending Caps (in millions)[14]

Type of Spending	FFY 14 Estimated Annualized Spending Levels $	FFY 14 Post-Sequestration Spending Caps $	Diff FFY 13 Post Sequestration - FFY 14 Spending Caps $
Defense	518,082	498,082	20,000
Nondefense	468,191	469,391	(1,200)
TOTAL	**986,273**	**967,473**	**18,800**

The chart illustrates that FFY 14 discretionary spending levels are approximately $18.8 billion above FFY 14 post-sequestration discretionary spending levels. However, non-defense spending is below its FFY 14 post-sequestration cap, while defense spending is above its cap.

Mandatory spending is set by statute, and is subject to a separate set of automatic reductions from statutory levels from FY 13 to FY 21. These reductions are to be calculated by the Office of Management and Budget each year. In FFY 14, the reduction is estimated to be 7.2%. State-by-state breakdowns of mandatory, current law spending levels for FFY 14 are not yet available.

Background

The Budget Control Act (BCA) of 2011 included measures intended to reduce the deficit by $2.1 trillion from FFY 12 to FFY 21. These measures: 1) imposed caps on discretionary spending over that time period, reducing the deficit by $917 billion; and 2) established the Joint Committee on Deficit Reduction, which was required to recommend further spending cuts and revenue increases designed to reduce the deficit by an additional $1.2 trillion.

As a result of the committee's inability to agree on recommendations, automatic mandatory and discretionary spending reductions (known as sequestration) of $1.2 trillion went into effect beginning in FFY 13. The first round of sequestration occurred on March 1, 2013, with approximately $85 billion in across-the-board spending cuts. An additional round of sequestration occurred on March 27 after it was determined that FFY 13 discretionary spending would exceed the imposed cap.

[14]The total estimated FFY 14 annualized spending figure is reported by FFIS as of 10/16/13. The breakdown of defense and non-defense spending levels is determined based on FFIS estimates of how defense and non-defense levels compare with their FFY 14 post-sequestration spending caps.

Final FFY 13 spending reductions include: (1) across-the-board reductions for all discretionary spending of approximately 5% for non-defense programs and 7.8% for defense programs, (2) additional discretionary spending reductions of 0.2% (0.032% for homeland security programs) due to FFY 13 spending exceeding caps imposed by the BCA, as amended by the American Taxpayers' Relief Act of 2012 and (3) reductions to mandatory spending programs of approximately 5.1% for nondefense programs, 7.9% for defense programs and 2% for Medicare.

Municipal Tax Exempt Bonds

Several proposals have been made in Congress and by President Obama to either eliminate the Federal income tax exemption on municipal bonds, or to cap the exemption. It is estimated that this exemption will preclude Federal income tax revenue of approximately $227.5 billion between Federal FYs 13 and 17.[15] Below is a chart showing the amount of revenue precluded by the tax exemption from FY 94 to FY 11.

Tax Expenditure of Exemption on Municipal Bonds (FY 94 to FY 11 - in billions)

Fiscal Year	Tax Expenditure[1]
2011	26.2
2010	30.4
2009	23.0
2008	24.6
2007	23.5
2006	23.0
2005	26.4
2004	26.2
2003	31.1
2002	29.9
2001	27.4
2000	26.8
1999	27.5
1998	24.6
1997	19.9
1996	24.9
1995	20.4
1994	19.6

[1]Congressional Research Service, via the Office of Management and Budget

[15]Congressional Research Service, *Tax Exempt Bonds: A Description of State and Local Government Debt:* June 19, 2012, via the Office of Management and Budget.

There is a cost to the state and municipalities associated with a proposal to cap or eliminate the tax exemption on municipal bonds. The tax exemption is one of the primary drivers of demand for municipal bonds, and so it is anticipated that investors would demand higher interest rates in lieu of a tax exemption. The cost to the state and municipalities would vary based on changes in bond buyer behavior.

The following analysis uses the tax-equivalent yield formula[16] to equate the interest rate on taxable bonds with the rate on nontaxable bonds using a bond buyer's highest marginal federal income tax rate. The analysis assumes that if nontaxable municipal bonds became taxable, the bond buyer may not buy them unless the interest rate was high enough to at least cover the income tax liability for the interest income earned on the bonds.

The chart below shows the tax-equivalent yield of three municipal bond interest rates, given the five highest marginal Federal income tax rates. The analysis shows that taxable bond rates should be at least 1.57 (for A rated bonds) to 2.72 (for AAA bonds) percentage points higher than the rate on nontaxable bonds for an investor to be willing to buy them.

Taxable Equivalent Yield Given Various Municipal Bond Interest Rates[1]

Income	Marginal Tax Rate	2.4% Interest	3.7% Interest	4.15% Interest
100,000	0.3	3.2	4.9	5.5
200,000	0.3	3.3	5.1	5.8
300,000	0.3	3.6	5.5	6.2
400,000	0.4	3.7	5.7	6.4
500,000	0.4	4.0	6.1	6.9

[1]These are the average national interest rates for municipal bonds rated AAA (2.4%), AA (3.7%) and A (4.5%), reported by fmsbonds, inc., as of 10/29/2013

Removal of the income tax exemption on $943.8 million in General Obligation bonds issued by the State of Connecticut in FY 13 would have increased interest costs on those bonds by $238.5 million over 20 years. This is based on the State's AA bond rating resulting in an increase in its average interest rate (on 20-year bonds) of as much as 2.4 percentage points (see table above).

Federal Debt and the Debt Ceiling

On October 16, 2013, Congress passed and the President approved a Continuing Resolution suspending the debt ceiling until February 7, 2014. This means that spending

[16]Formula from www.municipalbonds.com.

that occurs between October 16 and February 7 does not count toward the debt limit. It is unclear what actions Congress will take at that time.

Below are tables that show: (1) a breakdown of the Federal debt and the debt ceiling level at the end of each Federal fiscal year from FFY 93 to FFY 13 and (2) a history of debt ceiling increases.

Table 1: Federal Debt and the Debt Limit FFY 93 to FFY 13 (in billions)

Federal FY (FFY)	Debt Limit at End of FY	Debt Held by the Public	Debt Held by Governmental Accounts	Total Debt Subject to Debt Limit	Change in Debt Held by Public	Change in Debt Held by Govt Accounts	Change in Total Debt Subject to Debt Limit
1996	5,500	3,705	1,432	5,137	-	-	-
1997	5,950	3,746	1,582	5,328	1%	10%	4%
1998	5,950	3,697	1,741	5,439	-1%	10%	2%
1999	5,950	3,609	1,958	5,568	-2%	12%	2%
2000	5,950	3,388	2,204	5,592	-6%	13%	0%
2001	5,950	3,296	2,437	5,733	-3%	11%	2%
2002	6,400	3,517	2,644	6,161	7%	9%	7%
2003	7,384	3,891	2,847	6,738	11%	8%	9%
2004	7,384	4,277	3,057	7,333	10%	7%	8%
2005	8,184	4,570	3,301	7,871	7%	8%	7%
2006	8,965	4,810	3,610	8,420	5%	9%	7%
2007	9,815	5,018	3,904	8,921	4%	8%	6%
2008	10,615	5,780	4,180	9,960	15%	7%	10%
2009	12,104	7,552	4,358	11,910	31%	4%	16%
2010	14,294	9,023	4,586	13,609	19%	5%	12%
2011	15,194	10,127	4,663	14,790	12%	2%	8%
2012	16,394	11,270	4,797	16,066	11%	3%	8%
2013	16,699	Not Available[2]			N/A	N/A	N/A

[1]Congressional Research Service. Debt held by the public and by governmental accounts for FFYs 96-00 are approximated, as these numbers were not officially reported separately prior to FFY 01. Debt held by the public includes Federal debt held by private individuals, corporations, etc. Debt held by governmental accounts includes debt held by non-appropriated Federal funds, such as the Social Security Trust Fund.
[2]An official accounting of total debt at the end of FFY 2013, including a breakdown of public and governmental account debt, is not yet available.

Table 2: Debt Ceiling Increases 1993 to 2013 (in billions)

Date	New Debt Limit $	Change from Previous Debt Limit $	% Change from Previous Debt Limit
April 6, 1993	4,370	225	5
August 10, 1993	4,900	530	12
February 8, 1996	See below[1]	N/A	N/A
March 12, 1996	See below[1]	N/A	N/A
March 29, 1993	5,500	600	12
August 5, 1997	5,950	450	8
June 28, 2002	6,400	450	8
May 27, 2003	7,384	984	15
November 19, 2004	8,184	800	11
March 20, 2006	8,965	781	10
September 29, 2007	9,815	850	9
July 30, 2008	10,615	800	8
October 3, 2008	11,315	700	7
February 17, 2009	12,104	789	7
December 28, 2009	12,394	290	2
February 12, 2010	14,294	1,900	15
August 2, 2010	16,394	2,100	15
February 4, 2013 to May 19, 2013[2]	16,699	305	2
October 16, 2013 to February 7, 2014[2]	See below[2]	N/A	N/A

[1]Temporarily exempted from the debt limit an amount equal to monthly Social Security benefit payments.

[2]On February 4, 2013, the debt limit was suspended until May 19, 2013, then reinstated at $16,699. On October 16, 2013, the debt limit was again suspended until February 7, 2013. It is unclear what actions Congress will take on that date.

Reaching the Debt Ceiling

If the debt ceiling is ever surpassed, the Federal government would need to rely solely on incoming revenue to pay obligations as they occur. The Congressional Budget Office, in a May 2013 report, estimated FFY 14 revenues of approximately $3.042 trillion and FFY 14 expenditures of approximately $3.602 trillion (including interest payments on the debt). This means that, on an annual basis, anticipated incoming revenue can cover approximately 84% of estimated expenditures. However, differing patterns of revenue inflows and the incurrence of obligations could result in cash flow problems that could prevent the Federal government from paying significant expenses.

That FFY 14 revenue, on an annual basis, would cover 84% of expenditures, represents significant improvement from FFY 12, when actual revenue as reported by CBO covered only 69% of expenditures. This is likely due to several factors, including: (1) increases in revenue as a result of changes included in the American Taxpayer Relief Act (ATRA) of 2012, (2) increases in revenue resulting from economic factors unrelated to the ATRA and (3) increased payments to the Treasury by Fannie Mae and Freddie Mac.

Debt Ceiling Background

The debt ceiling was raised to its current level of $16.699 trillion on May 19, 2013; since that time, the Treasury Department has enacted a series of cash management measures designed to avoid reaching the debt limit. It was anticipated that, regardless of these measures, the debt limit would again be reached on October 17, 2013. On October 16, Congress suspended the debt limit until February 7, 2014.

There are two components to the debt limit – debt owned by the public, and debt owned by governmental accounts. Debt owned by the public occurs when budget deficits cause the Federal Treasury Department to sell bonds and notes to private investors. Debt owned by governmental accounts occurs when a surplus in a government trust fund, such as Social Security or Medicaid, is used to purchase Treasury securities.

The Second Liberty Bond Act of 1917 included an aggregate limit on Federal debt and limits on certain specific types of debt. In 1939, a general limit was placed on Federal debt (the first public debt limit was $45 billion). By 1945, the debt limit had increased to $300 billion due to World War II spending. Between 1945 and 1962, the debt limit was reduced three times and increased seven times. Since then, Congress has enacted 77 separate measures altering the debt limit.

Federal Spending in Connecticut

In FFY 10 the Federal government spent approximately $56 billion in Connecticut.[17] This includes funding via the American Recovery and Reinvestment Act of 2009. Below is: 1) a breakdown of spending by category; and 2) a further breakdown of spending to or on behalf of individuals by category.

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[17]The "Total" figure, in addition to the figures for Contracts and Payments to or on Behalf of Individuals, are from the 2010 Consolidated Federal Funds Report (CFFR) from the Census Bureau. This was generally considered the most reliable and complete source for information regarding Federal spending to states, but was eliminated after FFY 10. Payments to State and Municipal governments, and grants to private entities, are estimated using CFFR data and data from usaspending.gov, the Web site created to replace the information provided by the CFFR.

Federal Spending in Connecticut, by category (in millions)

Type of Spending	Amount $
Grants to CT State Government	7,289
Grants to Municipal Government	384
Grants to Private Entities	626
Contracts	11,957
Payments to or on Behalf of Individuals	35,723
TOTAL	**55,979**

"Grants to CT State Government" and "Grants to Municipal Government" include grants (both formula grants and project grants) and reimbursements paid by the Federal government to all state and local government agencies in FFY 10. This includes grants to all state agencies, municipal governments, and boards of education. This includes Medicaid, Child Nutrition, Special Education, and Education- Title I grants, Temporary Aid for Needy Families (TANF) block grants, highway and transportation grants, and Workforce Investment Act grants. This also includes reimbursement of the administrative costs of certain programs and funds, such as Unemployment Insurance and Supplemental Nutrition Assistance Program administration.

"Grants to private entities" include grants paid directly from the Federal government to nonprofits, philanthropic foundations, private universities and hospitals, or other private institutions. This number represents obligations incurred by the Federal government to these entities, rather than actual payments.

"Contracts" includes all procurement with public and private entities in Connecticut. This includes any contractual obligation incurred by any Federal agency with any private business, nonprofit organization, private university, Connecticut state agency, or municipality. Based on an analysis of procurement data available at usaspending.gov, it is estimated that the vast majority of this (99%) goes to private businesses, such as Sikorsky and Pratt & Whitney.

Please see the table below for a breakdown in payments to or on behalf of individuals. This represents actual payments made in FFY 10, rather than obligations incurred.

FFY 10 Direct Payments to Individuals and Other Entities (in millions)

Payment	Amount $
Medicare Benefits	20,603
Social Security- Retirement	6,101
Wages & Salaries of Federal Employees	1,903

Payment	Amount $
Social Security- Survivors' Benefits	1,520
Federal Unemployment Compensation Payments	1,335
Social Security- Disability	1,207
Retirement & Disability benefits for Federal employees	604
SNAP Payments	570
Social Security- Supplemental Security Income	365
Earned Income Tax Credits	350
Student Financial Assistance	262
Housing Assistance	230
Veterans' Benefits	229
Federal Employee Life & Health Insurance	164
Agriculture Assistance	33
Other	247
TOTAL	**35,723**

In addition to $56 billion in spending described above, the Federal government: (1) made $795 million in direct loans made in FFY 10 to public and private organizations and individuals in Connecticut (such as Federal Direct student loans), (2) guaranteed $4.9 billion in loans from third-party lenders to public and private organizations and individuals in Connecticut and (3) provided $8.8 billion in insurance coverage in FFY 10 to public and private organizations, and individuals in Connecticut (this does not include Medicaid and Medicare).

Section 7: Possible Uses of Surplus Funds

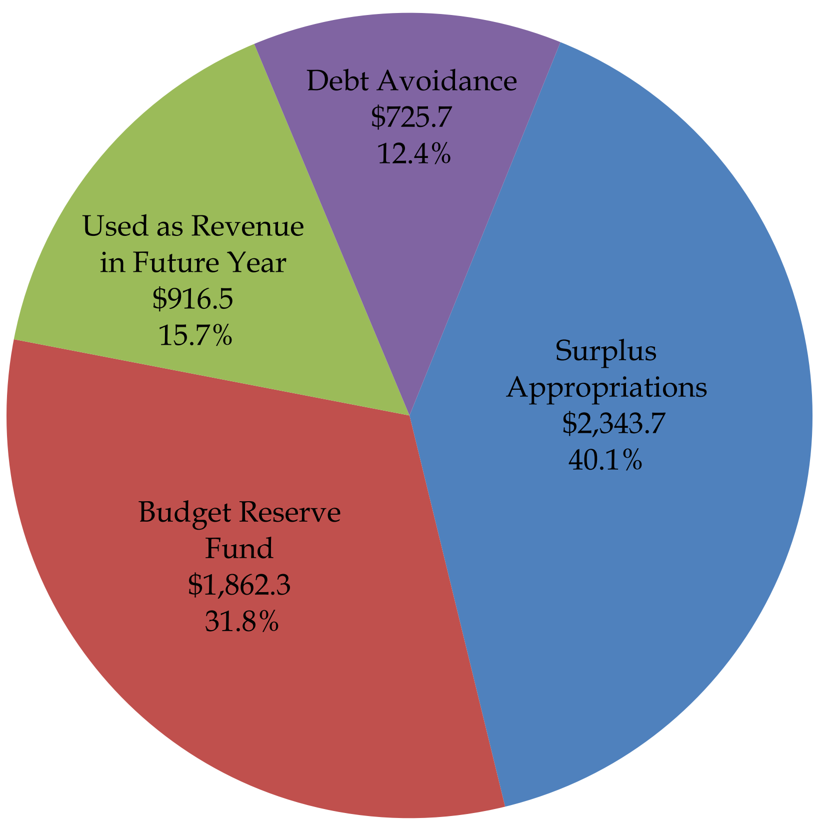
It is estimated that the projected FY 14 surplus ($117.1 million) and FY 15 surplus ($8.4 million) will be deposited into the Budget Reserve Fund.

No budget surpluses are projected in FY 16 – FY 18.

Article 28 of the amendments to the state constitution (adopted 1992) requires that any unappropriated surplus be used for a Budget Reserve Fund (BRF) or for the reduction of bonded indebtedness, or for any other purpose authorized by three-fifths passage of each house of the General Assembly.

In addition, CGS 4-30a provides that any unappropriated General Fund surplus is first transferred to the BRF, up to 10% of net General Fund appropriations for the year in progress. Any additional surplus is transferred to the State Employee Retirement Fund in an amount not exceeding 5% of the unfunded past service liability.

Historical Use of Surplus: FY 00 - FY 13 (in millions)
$5,848.2 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 $25.2 million

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

State Department of Education - $9 million

The agency's projected FY 14 budget shortfall is composed of:

- $9 million in Magnet Schools.

The $9 million shortfall represents 3.3% of the FY 14 appropriation of $265.5 million. The Magnet School account appropriation has increased by approximately $23 million from FY 13 to FY 14, this represents a growth of approximately 8.6%. The projected shortfall in the Magnet School account is due to the following two factors: (1) Sections 123-126 of PA 13-247, which shifts the responsibility of magnet school tuition for preschoolers to SDE (approximately $4 million) and (2) supplemental transportation costs for Sheff schools (approximately $5 million.) It is anticipated that there will be an additional 2,200 students requiring transportation in FY 14 than in FY 13, which increased the cost of supplemental transportation.

The shortfall represents 0.3% of agency’s total FY 14 appropriations.

Department of Administrative Services - $6.7 million

The agency's projected FY 14 budget shortfall is composed of:

- $7.8 million in Personal Services.

This shortfall is partially offset by $1.1 million lapsing funds from the following accounts:

- $141,500 in Management Services;
- $9,800 in Loss Control Risk Management;
- $2,200 in Employees’ Review Board;
- $3,500 in Surety Bonds for State Officials and Employees;
- $4,700 in Refunds of Collections;
- $183,000 in Rents and Moving; and
- $783,700 in IT Services.

The projected shortfall of $7.8 million in the Personal Services account (15.9% of appropriation) is due to the November 7, 2013 FAC approval of transferring $8 million from Personal Services to the State Insurance and Risk Management Operations account. Funding was needed in the State Insurance and Risk Management Operations account as the state settled and paid two large automobile claims earlier this fiscal year. One claim involved a State Trooper who hit a pedestrian in Shelton on May 29, 2010. This claimant was awarded $9 million. In the second claim, there was a fatal traffic accident involving a UConn student and a student operated campus shuttle bus on March 22, 2011. This claim settled for $6 million. The state is responsible for paying a $4 million deductible on each claim. The $7 million balance on these two claims will be covered by the state's insurance carrier.

Public Defenders - $3.1 million

The agency's projected FY 14 budget shortfall is composed of:

- $3.5 million in Assigned Council – Criminal; and
- $254,000 in Assigned Council – Child Protection.

This shortfall is partially offset by lapsing funds of:

- $660,000 in Personal Services; and
- $45,000 in Expert Witnesses.

The projected shortfall in the Assigned Council accounts is due to a project to address a backlog of habeas cases and the implementation of a new billing system. The agency hired law firms with experience in addressing habeas cases in order to address a 400 case backlog, which in some instances had cases over a year old. The program successfully addressed the backlog, and now all habeas cases are assigned as they are received by the agency. Additionally, a new payment and billing system has accelerated payments made to attorneys, causing an increase in the volume of payments.

The projected shortfall is partially offset by projected lapses in Personal Services and Expert Witnesses that total $705,000. The Personal Services lapse is due to delayed and canceled hiring of vacant positions.

Department of Emergency Services and Public Protection - $3 million

The agency's projected FY 14 budget shortfall is composed of:

- $3.2 million in Personal Services.

This shortfall is partially offset by lapsing funds of $0.2 million in the following accounts:

- $23,400 in Stress Reduction;
- $53,600 in Workers Compensation Claims; and
- $108,500 in Other Expenses.

The $3.2 million projected shortfall in Personal Services (2% of the appropriation) arises primarily from lower assessments on each casino for law enforcement services. PA 13-170 enabled the transition of law enforcement duties at each casino from DESPP to tribal police forces. While the timing of the transition of such duties is uncertain, the state has recently negotiated assessments with each tribe setting law enforcement reimbursements at $1.2 million ($600,000 per tribe) for FY 14. Tribal reimbursements totaled $4.2 million in FY 13, $4.7 million in FY 12, and $7.2 million in FY 11. Given that DESPP staffing levels will not be correspondingly reduced, the lower assessment is anticipated to create a shortfall in Personal Services of approximately $3 million. The remainder of the overall Personal Services shortfall ($200,000) is attributable to anticipated overtime.

Department of Correction - $1.4 million

The agency's projected FY 14 budget shortfall is composed of:

- $1.4 million in Personal Services.

The $1.4 million projected shortfall in the Personal Services (PS) account is primarily due to higher than expected utilization of overtime and unachieved budgeted savings. Based on current expenditure trends, the agency will spend approximately $77.9 million on overtime in FY 14. Total PS expenditures for FY 14 are anticipated to be $429.1 million, compared to the available funding in PS of $427.7 million. The FY 14 budget included a Personal Services reduction of $2.8 million associated with reduced overtime spending due to better management of sick time usage. So far this fiscal year, sick time usage has not declined over the previous year, resulting in unachieved savings.

Judicial Department - $860,000

The agency's projected FY 14 budget shortfall is composed of:

- $860,000 in Other Expenses.

The $860,000 projected shortfall in Other Expenses (OE) represents 1.3% of the appropriation for the account. The shortfall is primarily due to unachieved savings in the FY 14 budget. The FY 14 budget included approximately $2.6 million in general

Other Expense reductions to the agency. Based on current expenditures the agency will achieve 70% of the Other Expenses reductions included in the budget.

Office of the State Comptroller – Adjudicated Claims - $0.6 million

The agency's projected FY 14 budget shortfall is composed of:

- $0.6 million in Adjudicated Claims.

The projected shortfall in the Adjudicated Claims account is due to higher than anticipated claims costs. The projected shortfall represents 12% of total FY 14 projected expenditures. It should be noted FY 12 was the first year the Adjudicated Claims account received an appropriation. Claims were previously funded out of the resources of the General Fund. Since FY 03, annual claims range from $3.9 million to $15.7 million, with a median annual claims cost of $7.6 million.

DAS - Workers' Compensation Claims - $0.6 million

The agency's projected FY 14 budget shortfall is composed of:

- $0.6 million in Workers' Compensation Claims.

The projected shortfall in the Workers' Compensation Claims account within the Transportation Fund (this account supports the Departments of Motor Vehicles and Transportation), is due predominately to higher than anticipated medical claims cost this fiscal year. Total medical expenditures for FY 14, for the three month period July through September, are 52% higher than the same period in FY 13. The FY 14 shortfall represents 8.3% of total projected FY 14 expenditures. The FY 14 appropriation reflects a 2% increase over FY 13 expenditures.

Appendix C

State Government Debt Burden

The concept of state debt burden addresses two basic issues: (1) the affordabillity of a state's debt for its residents and (2) the level of a state's debt relative to its ability to repay (i.e., the default risk of a state's bonds). As illustrated in the table below, states have chosen a number of measures to quantify debt levels and to allow comparison of their debt burden to that of other states.

Metrics used by States to Quantify Government Debt Burden

Metric	States employing metric as limit or guideline
Debt service to revenue	AL, DE, FL, GA, HI, LA, ME, MD, MA, NH, NY, NC, OH, OR, RI, SC, TX, VT, VA, WA, WV
Debt service to expenditure	IL, MA
Debt to revenue	CT, FL, MS, PA, VA
Debt per capita	GA, VT
Debt to personal income	GA, MD, MN, NC, RI, VT
Debt to assessed value of property	NV, NM, UT, WI, WY

Debt Burden Ratios

Debt burden ratios use one of two measures as the ratio's numerator: *debt service expenditures* or *total debt*. The difference between the two is that: (1) debt service expenditures (principal and interest payments) are an indicator of the near-term affordability of state debt that reflect current costs and policies, while (2) total debt reflects the long-term nature of most bonded debt commitments. One issue with using debt service expenditures is that it can paint a misleading picture of a state's debt burden in cases where the principal payments are back-loaded, or if there is a high likelihood that a state will be able refinance its debt at a later date to achieve a lower interest cost through the issuance of refunding bonds.

1. **Debt service to revenue** – This ratio shows the percentage of revenue needed to pay debt service. As noted in the table above, some version of this metric is used by 21 states. The ratio shows the amount of revenue available to cover other purposes such as operating expenses. States may find that as their reliance on debt increases, their ability to fund priorities such as social and education programs is crowded out by debt service costs.

Connecticut uses the debt service to revenue ratio in its bond covenant for Special Tax Obligation (STO) bonds.

2. **Debt service to expenditure** – This ratio compares the amount of cash needed to pay debt service compared to total expenditures for the same period. This metric is an alternative to the *debt service to revenue* ratio. It is used by two states, as well as by ratings agencies Fitch and Standard & Poor's.

3. **Debt to revenue ratio –** When this metric is calculated using "total tax-supported debt" as the numerator and "total tax revenue" as the denominator, it measures the amount of tax revenue that it would take to retire all of the state's outstanding tax-supported debt. This measure may be the most suitable for gauging the affordability of state debt and doing cross-state comparisons because it includes liabilities that are paid from general tax dollars but are not issued as General Obligation (GO) bonds. This measure is used by five states and Moody's Investors Service, in the estimates of net tax-supported debt for the fifty U.S. states that it presents each year.

   Connecticut uses the debt to revenue ratio in the calculation of the statutory debt limit on General Obligation (GO) bonds.

4. **Debt per capita** - This is a measurement of the value of a government's debt expressed in terms of the amount attributable to each citizen under the government's jurisdiction. Because most municipal bonds are guaranteed in some way by the municipality's tax revenue, the number of taxpayers in that municipality is important in determining its ability to repay the bonds. As a result, credit ratings agencies use per capita debt in rating municipal bonds. As noted in the table above, this measure is also used by two states in assessing debt burden.

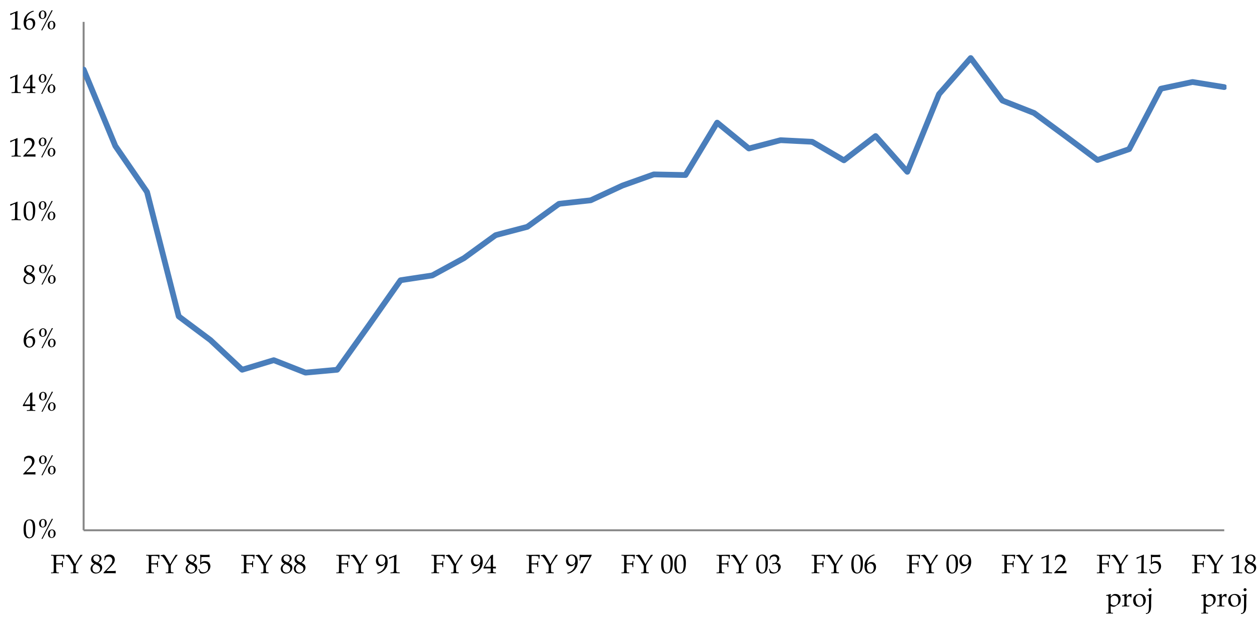
5. **Debt to personal income -** The ratio shows the percentage of the total income earned by all the state's residents it would take to pay the state's debts. Personal income represents income received by individuals in a state, regardless of where the income is generated. Unlike revenues, it is not directly dependent on current policy choices, but rather is the ultimate base from which most taxes and fees will be generated. Six states uses this measure to assess debt burden.

6. **Debt to assessed property value** – This ratio compares state debt to the assessed value of taxable property. Property values serve as a proxy for the existing wealth in a jurisdiction, but are likely a less useful gauge of ability to pay than personal income as they do not reflect liquid resources. This measure is most commonly used in measuring the debt burden of state or local governments that rely heavily on property taxes as a source of revenue. It is used by five states to calculate debt burden.

Connecticut's Debt Burden

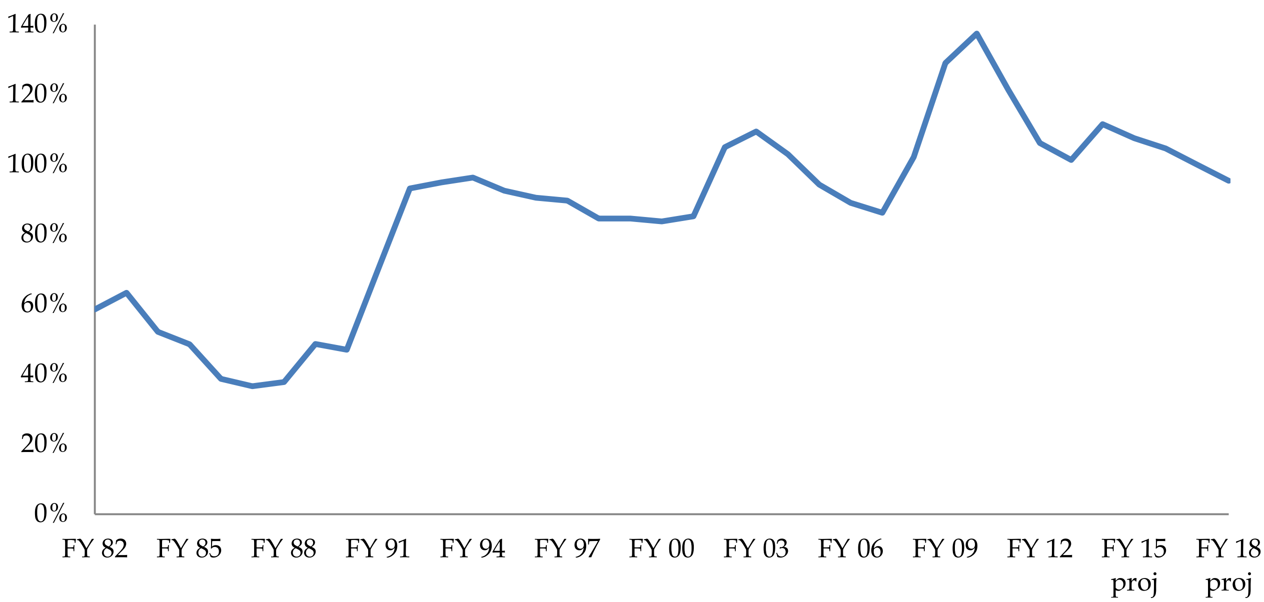
Debt service to revenue - The chart below shows the ratio of General Fund debt service to General Fund tax revenue, including historical data from FY 82 to FY 13 and projections from FY 14 to FY 18.

Ratio of General Fund Debt Service to General Fund Tax Revenue



Total debt to revenue - The chart below shows the ratio of total General Fund debt to General Fund tax revenue, including historical data from FY 82 to FY 13 and projections from FY 14 to FY 18.

Ratio of General Fund Debt to General Fund Tax Revenue



Appendix D

The American Taxpayers' Relief Act of 2012

The American Taxpayers' Relief Act (ATRA) of 2012 precluded revenue increases of approximately $3.6 trillion and spending decreases of approximately $330 billion from FFY 2013 – FFY 2022 by extending several revenue and spending provisions that had been set to expire on December 31, 2012. ATRA, however, is anticipated to reduce the deficit over that 10-year-period. This is because: 1) extending revenue and spending provisions currently in affect has no impact, as it maintains current policy; and 2) the act did allow some provisions to expire, and made other changes that are anticipated to reduce the deficit.

The Congressional Budget Office reports that FFY 13 ended with a deficit of $680 billion, which is about $409 billion less than the FFY 12 deficit. CBO estimates that partially contributing to the reduced deficit was: (1) an additional $85 billion in income tax withholdings resulting from higher wages and salaries and an increase in the top marginal tax rates (see below) and (2) an additional $112 billion in payroll taxes resulting from the expiration of the two percentage point reduction (ATRA did not address this tax, allowing it to expire on January 1, 2013).

Below is a summary of the changes in ATRA:

General Tax Changes

- Permanently extended most of the cuts to marginal income tax rates established by the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (aka, "The Bush tax cuts"). The Act established a tax bracket above $450,000 (for a married couple filing jointly), and applied the "pre-Bush tax cuts" top marginal tax rate to that bracket. A summary follows:

Comparison of Tax Rates prior to Bush Era, during Bush Era, and Under ATRA (for a married couple filing jointly)

2012 Income Tax Brackets (Married Filing Jointly) $	Tax Rate Prior to Bush tax cuts %	Tax Rate enacted by Bush Tax cuts %	Tax Rate permanently extended by ATRA %
0 - 17,400	15	10	10
17,401 - 59,000	15	15	15
59,001 - 70,700	28	15	15
70,701 - 142,700	28	25	25
142,701 - 217,450	31	28	28

2012 Income Tax Brackets (Married Filing Jointly) $	Tax Rate Prior to Bush tax cuts %	Tax Rate enacted by Bush Tax cuts %	Tax Rate permanently extended by ATRA %
217,451 - 240,800	36	33	33
240,801 - 388,350	36	33	33
388,351 - 449,999	39.6	35	35
450,000+	39.6	35	39.6

Source: Congressional Research Service

- Increased the top tax rate on long term capital gains and dividends from 15% to 20%
- Reinstated limitations for personal exemptions and itemized deductions for taxpayers with an adjusted gross income of over $250,000 and allowed the limitations to expire for taxpayers below that threshold.
- Made permanent the expansion of the Earned Income Tax Credit, the child tax credit, the adoption tax credit, the dependent care tax credit, and certain education-related tax incentives.
- Made permanent a reduction to the marriage tax penalty.
- Permanently extended certain provisions regarding the estate tax, and increased the top estate tax rate from 35% to 40%.
- Permanently adjusts the Alternative Minimum Tax (a tax paid by high-income earners who otherwise would pay little to no income taxes due to various exemptions and deductions) to inflation.
- Temporarily extends four tax provisions established by the American Recovery and Reinvestment Act (ARRA): (1) expansion of the refundability of the child tax credit, (2) further reduced the marriage penalty of the Earned Income Tax Credit, (3) increased the Earned Income Tax Credit for families with three or more children and (4) enacted a new higher education tax credit.

Changes to the Budget Control Act of 2011

- Reduced FFY 13 across-the-board spending cuts under the BCA from $109 billion to $85 billion, and extended the effective date of the cuts to March 1, 2013. The cost of these reduced and postponed spending cuts is offset by: (1) reducing spending caps in FFY 13 and FFY 14 and (2) allowing certain retirement accounts to be transferred to Roth accounts, shifting tax revenue generated by future retirement account withdrawals to current retirement account contributions.

Unemployment Compensation

- Extends to December 31, 2013: (1) 100% Federal funding of Extended Unemployment Benefits and (2) the funding of Emergency Unemployment Compensation Benefits established in the American Recovery and Reinvestment Act.

Health and Affordable Care Act provisions

- Keeps Medicare physician payments at current levels through 2013. This precludes a reduction in such payments provided for in the Affordable Care Act

Provisions That Went into Effect on 1/1/13 due to ATRA not Addressing Them:

- The Affordable Care Act implements a hospital insurance tax on taxpayers earning more than $200,000 annually ($250,000 for joint filers) of 0.9%, effective January 1, 2013.
- The ACA also implements a tax on net investment income of 3.8% of the lesser of: (1) net investment income or (2) the excess of modified adjusted gross income over $200,000 for a single filer or $250,000 for joint filers. This tax is also effective January 1, 2013.
- In December of 2010, Congress reduced the Social Security payroll tax by two percentage points (from 6.2% to 4.2% for employees and from 12.2% to 10.2% for self-employed workers). This provision was set to expire on December 31, 2012. ATRA did not extend it.

Tax Extenders

ATRA extended 55 separate tax provisions, collectively known as tax extenders through December 31, 2013. The cost of the extension is estimated at approximately $73.6 billion over a 10-year period. The three most costly are: (1) the research and experimentation expense credit ($14.3 billion), (2) the wind production tax credit ($12.2 billion) and (3) the active financing income credit ($11.2 billion).

Appendix E

Federal Revenue, Expenditures, and Deficit[1] (FFY 90 to FFY 19 – in billions)

Federal FY	Revenue $	Expenditures $	Deficit/ Surplus $
1990	1,032	1,253	(221)
1991	1,055	1,324	(269)
1992	1,091	1,382	(290)
1993	1,154	1,409	(255)
1994	1,259	1,462	(203)
1995	1,352	1,516	(164)
1996	1,453	1,560	(107)
1997	1,579	1,601	(22)
1998	1,722	1,652	69
1999	1,827	1,702	126
2000	2,025	1,789	236
2001	1,991	1,863	128
2002	1,853	2,011	(158)
2003	1,782	2,160	(378)
2004	1,880	2,293	(413)
2005	2,154	2,472	(318)
2006	2,407	2,655	(248)
2007	2,568	2,729	(161)
2008	2,524	2,983	(459)
2009	2,105	3,518	(1,413)
2010	2,163	3,456	(1,293)
2011	2,302	3,598	(1,296)
2012	2,450	3,537	(1,087)
2013	2,774	3,454	(680)
2014 (est.)	3,042	3,602	(560)
2015 (est.)	3,399	3,777	(378)
2016 (est.)	3,606	4,038	(432)
2017 (est.)	3,779	4,261	(482)
2018 (est.)	3,943	4,485	(542)
2019 (est.)	4,103	4,752	(649)

[1]Congressional Budget Office. "Total Govt Debt" reflects total debt held by the public. It does not include debt held by trust funds operated by the Federal government, such as the Social Security or Medicare trust funds.

Appendix F

Federal Government Shutdowns from FFY 77 to FFY 13[1]

Federal Fiscal Year	Final Date of Budget Authority	Full Day(s) of Gap	Date Gap Terminated
1977	9/30/1976	10	10/11/1976
1978	9/30/1977	12	10/13/1977
	10/31/1977	8	11/9/1977
	11/30/1977	8	12/9/1977
1979	9/30/1978	17	10/18/1978
1980	9/30/1979	11	10/12/1979
1981	None		
1982	11/20/1981	2	11/23/1981
1983	9/30/1982	1	10/2/1982
	12/17/1982	3	12/21/1982
1984	11/10/1983	3	11/14/1983
1985	9/30/1984	2	10/3/1984
	10/3/1983	1	10/5/1984
1986	None		
1987	10/16/1986	1	10/18/1986
1988	12/18/1987	1	12/20/1987
1989	None		
1990	None		
1991	10/5/1990	3	10/9/1990
1992	None		
1993	None		
1994	None		
1995	None		
1996	11/13/1995	5	11/19/1995
	12/15/1995	21	1/6/1996
1997	None		
1998	None		
1999	None		
2000	None		
2001	None		
2002	None		

Federal Fiscal Year	Final Date of Budget Authority	Full Day(s) of Gap	Date Gap Terminated
2003	None		
2004	None		
2005	None		
2006	None		
2007	None		
2008	None		
2009	None		
2010	None		
2011	None		
2012	None		
2013	None		
2014	9/30/2013	16	10/16/2013

[1]Congressional Research Service

Appendix G

Update on GAAP Conversion Bond Issuance and ERN Refinancing

GAAP Conversion Bond Issuance

The Office of the State Treasurer issued the GAAP conversion bonds on October 4, 2013 and received a total of $640.4 million from: (1) $560.4 million in bond principal and (2) $80 million in bond premium. As shown in the table below, the amount deposited into the General Fund was $598.5 million comprised of $560.4 million in bond principal and $38.1 million in premium. These funds will be used to help eliminate the accumulated General Fund GAAP deficit of approximately $1.1 Billion.

Bond Funds Deposited into the General Fund to Reduce the GAAP Deficit (in millions)

Funds	Deposit $
Bond principal	560.4
Bond premium	38.1
TOTAL	**598.5**

The table below summarizes the results of the GAAP conversion bond issuance:

GAAP Conversion Bond Issuance (in millions)

Sources and Uses of Funds	Amount $
Bond principal – deposited into General Fund	**560.4**
Bond premium	
Deposited into General Fund	38.1
FY 14 and FY 15 capitalized interest	38.7
Issuance costs	3.2
Total Bond Premium	**80.0**
Total from GAAP Conversion Bond Issuance	**640.4**

The table on the following page compares the estimated fiscal impact for the GAAP conversion bonds that appeared in the fiscal note on PA 13-239, the bond act, and the actual issuance.

Comparison of Actual GAAP Conversion Bond Issuance with Estimate (in millions)

Description	Estimate $	Actual $	Difference $
Principal	750.0	560.4	(189.6)
Interest	186.0	198.4	12.4
Premium	0.0	80.0	80.0
TOTAL	**936.0**	**838.8**	**(97.2)**
Interest rate	3.00%	3.01%	0.01%

The true interest cost on the $640.4 million (principal plus premium) received from the GAAP conversion bond issuance was 3%. The interest rate on the $560.4 million in GAAP bonds (without taking into account the $80 million in premium) was 4.6%.

Economic Recovery Note Refinancing

The Economic Recovery Notes (ERNs), which were issued to finance the 2009 General Fund deficit, are being refinanced in two separate issuances in order to minimize the call premium on the refinanced notes.[18] The initial $314.3 million issuance was completed on October 23, 2013 and the second issuance of $310.9 million will be done later in FY 14.

Under prior law, the ERNs were scheduled to be paid off between FY 14 and FY 16 with $208 million principal and interest payments in each fiscal year. PA 13-184, the budget act, extended the repayment schedule by two years (FY 17 and FY 18). The notes were issued at an initial interest rate of 0.6% but this may change over time because the interest rate is variable. There was no issuance premium. The table below summarizes the results of the first refinancing issuance.

First ERN Refinancing Issuance (in millions)

Fiscal Year	Principal $	Estimated Interest $	Estimated Total $
14	-	-	-
15	-	1.9	1.9
16	2.9	1.6	4.4
17	154.9	1.4	156.3
18	156.5	0.6	157.1
TOTAL	**314.3**	**5.4**	**319.7**

[18]The refunding was done through the issuance of variable rate remarketed obligations (VROs). VROs are variable rate notes that allow the State the flexibility to call the bonds and repay the debt early, if the state's finances permit.

Appendix H

Status of Build America Bonds

The State issued approximately $1.9 billion in Build America Bonds (BABs) before the federal program ended on January 1, 2011.

Build America Bond Issuances (in thousands)

Issuance Date	General Obligation Bonds	Special Tax Obligation Bonds - Transportation	Final Maturity
28-Oct-09	-	304,030	1-Dec-29
15-Dec-09	450,000	-	1-Dec-29
20-Apr-10	184,250	-	1-Apr-26
19-Oct-10	294,395	-	1-Oct-30
19-Oct-10	203,400	-	1-Oct-29
19-Oct-10	22,205	-	1-Oct-30
10-Nov-10	-	400,430	1-Nov-30
TOTAL	**1,154,250**	**704,460**	

The program provides a federal subsidy of 35% on interest payments made over the term of the borrowing to service taxable BAB debt that any state or municipality issues. The subsidy is reflected in the Federal Grants category of the General and Transportation Fund revenue schedules. Due to federal sequestration, the subsidy on interest payments has been reduced. See the table below for an illustration of that reduction. It is anticipated that this reduction will continue until sequestration ends.

The Effect of Sequestration on Build America Bond Interest Subsidies for the General Fund and the Special Transportation Fund (in millions)

Fiscal Year	General Fund $				Special Transportation Fund $			
	Interest Subsidy	Seques-tration[1]	(Offsets)[2]	Net Subsidy	Interest Subsidy	Seques-tration[1]	(Offsets)/ Refunds[3]	Net Subsidy
10	-	-	-	-	3.0	-	-	3.0
11	22.3	-	-	22.3	9.3	-	0.1	9.4
12	27.6	-	-	27.5	13.1	-	(0.2)	12.9
13	27.6	(0.4)	(0.1)	27.1	13.1	(0.6)	(0.1)	12.4
14	27.6	(2.1)	(0.5)	25.0	13.1	(0.9)	-	12.1

[1]The figures reflect a reduction of 8.7% for federal fiscal year 13 and 7.2% for fiscal year 14.

[2]The Treasury Offset Program collects debts owed to the federal government. The state's BAB subsidy payments are reduced by the amount due to the federal government, usually for the federal employment taxes that are paid by the Office of the State Comptroller. The net effect of the offset on the state's financial position is zero.

[3] The state refunds federal offsets taken against BAB subsidy payments to the Special Transportation Fund (STF) because the STF does not have any federal liability.

Background
BABs are taxable municipal bonds that carry a special federal subsidy for 35% of the interest paid on the bonds, which is paid to the bond issuer. BABs were created by the American Recovery and Reinvestment Act of 2009. The purpose of BABs was to reduce the cost of borrowing[19] for state and local government issuers and the program was open to new issue capital expenditure bonds (not refunded bonds) issued before January 1, 2011. The program was not renewed by Congress.

Due to the federal budget sequestration of 2013[20], interest subsidy payments to issuers of BABs were reduced by 8.7% in federal fiscal year 13 and 7.2% in federal fiscal year 14. Connecticut issued BABs under both the General Obligation and Special Tax Obligation bond programs, as noted in the table above.

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[19]According to the United States Department of the Treasury, the savings for a 10 year bond are estimated to be 31 basis points and the savings for a 30 year bond are estimated to be 112 basis points versus traditional tax-exempt financing.
[20]The federal budget sequestration of 2013 refers to automatic spending cuts to United States federal government spending in particular categories of outlays that began on March 1, 2013. The reductions in spending authority are approximately $85.4 billion during fiscal year 2013, with similar cuts for federal fiscal years 2014 through 2021.