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 15 – FY 18 budget estimates and assumptions for appropriated funds,
2. FY 15 – FY 18 tax credit estimates and assumptions,
3. FY 15 deficiencies,
4. FY 15 – FY 18 projected balance of Budget Reserve Fund,
5. FY 15 – FY 19 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 15 – FY 18 Budget Estimates and Assumptions for Appropriated Funds

General Fund (GF)

We are projecting an $89.1 million deficit for FY 15 (this amount represents about 0.5% of total estimated expenditures). In addition, based on a current services analysis, we are also projecting deficits ranging from $1,321.4 million to $1,728.3 million over the three fiscal years that will follow. Please see the table below for details.

Budget Outlook (in millions)

	FY 15 $	FY 16 $	FY 17 $	FY 18 $
Estimated Expenditures	17,488.0	18,766.9	19,599.1	20,560.7
Estimated Revenue	17,398.9	17,445.5	18,160.0	18,832.4
Surplus/(Deficit)	**(89.1)**	**(1,321.4)**	**(1,439.1)**	**(1,728.3)**
% of Estimated Expenditures	(0.5%)	(7.0%)	(7.3%)	(8.4%)

Since PA 11-48, as modified by PA 13-239 and PA 13-247, requires 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 37.

Special Transportation Fund (STF)

Projections for the STF indicate that the fund will experience a positive operating balance in FY 15, but will end FY 18 with a negative operating balance of $40.4. However, in FY 18 the STF will end with a positive cumulative balance of $269.5 million.

STF Outlook (in millions)

STF	FY 15 $	FY 16 $	FY 17 $	FY 18 $
Beginning Balance	169.0	187.1	278.4	309.9
Revenues	1,335.4	1,502.3	1,512.6	1,512.7
Expenditures	1,317.3	1,411.0	1,481.1	1,553.1
Surplus/Deficit	**18.1**	**91.3**	**31.5**	**(40.4)**
Ending Balance	187.1	278.4	309.9	269.5
Revenue Growth	6.3%	12.5%	0.7%	0.0%
Expenditure Growth	4.0%	7.1%	5.0%	4.9%

[1]Generally Accepted Accounting Principles.

Major contributing factors to expenditure growth are:

- $60 million in Town Aid Road being bonded in FY 15 and $30 million added back to the Department of Transportation's appropriation in FY 16-FY 18;
- An increase of $6.2 million in each fiscal year for the State Employees' Retirement System (SERS); and
- An increase of $31.7 million in FY 16, $40.9 million in FY 17, and $42.2 million in FY 18 for Debt Service

These expenditures are partially supplemented by an increase in the General Fund transfer to the STF of $152.8 million in FY 16 and an additional $10 million in FY 17 through FY 18.

Other Appropriated Funds

In total, the seven Other Appropriated Funds are projected to run an operating surplus in FY 15 and in each of the out years, resulting in an increasing aggregate fund balance over time. The conclusion of scheduled transfers in the amount of $16.4 million from the Banking Fund to the General Fund, which were included in the 2014-2015 Biennial Budget, also helps to improve the aggregate fund balance in the out years. Lastly, termination of the Soldiers', Sailors' and Marines' Fund improves the aggregate fund balance because that fund carried a negative fund balance. (That negative fund balance is now included in the General Fund GAAP Deficit estimate.)

Other Appropriated Funds Outlook (in millions)

	Actual FY 13 $	Actual FY 14 $	Projected FY 15 $	Projected FY 16 $	Projected FY 17 $	Projected FY 18 $
Beginning Balance	54.6	48.4	52.1	46.0	49.1	54.7
Revenue	159.7	175.4	211.9	221.3	224.0	230.6
Expenditures	(163.4)	(170.6)	(211.7)	(218.1)	(218.3)	(225.4)
Surplus/Deficit	**(3.7)**	**4.8**	**0.2**	**3.2**	**5.7**	**5.2**
Transfers	(2.5)	(8.7)	(6.3)	(0.1)	(0.1)	(0.1)
Ending Balance	48.4	44.5	46.0	49.1	54.7	59.8

Spending Cap

The state is under the spending cap in the current year, assuming no FY 15 deficiency appropriations are made. Calculations for FY 16 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 15 $	FY 16 $	FY 17 $	FY 18 $
Appropriations Allowed by Cap	19,019.6	19,805.8	20,606.4	21,468.2
Estimated Expenditures	18,993.7	20,396.0	21,298.5	22,339.3
Over/(Under) the Cap	(25.9)	590.2	692.1	871.1

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

FY 15 Expenditure Detail

The calculation of the General Fund estimated deficit of $89.1 million in FY 15 includes the following:

- $59.1 million lower net revenue than originally budgeted; and
- $30.4 million higher net expenditures than originally budgeted.

The table below compares the original budget plan with the projected FY 15 expenditures and revenues.

FY 15 General Fund Summary[1] (in millions)

Summary	Budget Plan $	Increase/ (Decreases) $	Projected $
Expenditures			
Agency Appropriations	17,589.8	-	17,589.8
Deficiency Requirements	-	84.6	84.6
Lapses	(132.1)	(54.2)	(186.3)
Total Expenditures	**17,457.7**	**30.4**	**17,488.0**
Revenues			
Taxes	14,914.6	9.5	14,924.1
Other Revenue	1,109.3	(7.5)	1,101.8
Other Sources	1,434.1	(61.1)	1,373.0
Total Revenue	**17,458.0**	**(59.1)**	**17,398.9**
ESTIMATED SURPLUS/(DEFICIT)	**0.4**	**(89.5)**	**(89.1)**

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

The FY 15 General Fund Budget includes $132.1 million in lapses (less than 1% of the budget). The FY 15 estimated total lapses are $186.3 million; this exceeds the budgeted lapse by $54.2 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).

Sections 30 and 31 of PA 14-47 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 two lapses are allocated to state agencies via holdbacks by OPM in FY 15: (1) the General Lapse of $10 million and (2) the Statewide Hiring Reduction Lapse of $10 million. The $20 million in holdbacks are included in our estimated lapse of $186.3 million in FY 15. The budgeted lapses (which include both the General Fund and the Transportation Fund) are identified in the table below with a brief explanation.

FY 15 Budget Lapses

Lapse	Amount $	Explanation
General Fund Lapses		
Unallocated Lapse[1]	(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.
General Lapse[1]	(10,000,000)	This reduction reflects savings in a manner determined by OPM. All General Fund agency accounts could be subject to this reduction.
Municipal Opportunities & Regional Efficiencies Program	(10,000,000)	Savings to be achieved with a reduction in municipal aid as a result of various municipal savings initiatives and efficiencies.
Statewide Hiring Reduction[1]	(10,000,000)	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 Lapses	**(132,104,969)**	
Transportation Fund Lapses		
Unallocated Lapse	(11,000,000)	This reduction reflects an adjustment to gross appropriations due to an anticipated level of under spending across Transportation Fund agencies and accounts.
Total STF Lapses	**(11,000,000)**	
TOTAL LAPSES	**(143,104,969)**	

[1]The amounts shown are totals by category, 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" reflects 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 2014 forecast for electricity, natural gas, motor vehicle fuel, fuel oil, and food inflation;
- The Center for Medicare & Medicaid Service's (CMS) September 2014 projections for National Health Expenditures;
- 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]	1.9	1.9	2.0	Congressional Budget Office
Personal Services/Salary (GF)	4.7	4.7	4.5	Average contract settlements
Electricity	2.0	2.5	2.7	Moody's Economy.com
Natural Gas	2.1	2.6	3.1	Moody's Economy.com
Motor Vehicle Fuel	4.0	2.2	3.7	Moody's Economy.com
Fuel Oil	2.3	1.5	2.5	Moody's Economy.com
Medical	6.1	6.1	6.1	National Health Expenditures, CMS Office of the Actuary, September 2014
Food	2.3	2.4	2.4	Moody's Economy.com
Education	2.9	2.9	2.9	Average teacher contract settlements
Workers' Compensation (GF)	5.4	5.3	5.3	Weighted Average of Medical Inflation Rate (National Health Expenditures, CMS Office of the Actuary, September 2014) and Personal Services Inflation Rate (GF)
Workers' Compensation (STF)	5.4	5.3	5.2	Weighted Average of Medical Inflation Rate (National Health Expenditures, CMS Office of the Actuary, September 2014) and Personal Services Inflation Rate (STF)

[1]Standard inflation rate not included in the other categories listed.

Inflationary Adjustments (all appropriated funds – in millions)

Type	FY 16 Inflation		FY 17 Inflation		FY 18 Inflation	
	Rate %	Amount $	Rate %	Amount $	Rate %	Amount $
Base	1.9	75.0	1.9	79.1	2.0	82.7
Education	2.9	64.4	2.9	66.3	2.9	68.3
Electricity	2.0	0.8	2.5	1.0	2.7	1.1
Food	2.3	0.6	2.4	0.7	2.4	0.7
Fuel Oil	2.3	0.2	1.5	0.1	2.5	0.2
Medical	6.1	18.2	6.1	20.5	6.1	21.9
Motor Vehicle Fuel	4.0	0.9	2.2	0.5	3.7	0.8
Natural Gas	2.1	0.3	2.6	0.4	3.1	0.5
Workers' Compensation	5.4	5.5	5.3	5.8	5.3	6.0
Medicaid	6.1	141.5	6.1	150.1	6.1	167.9
TOTAL		**307.3**		**324.4**		**350.2**

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

Type	FY 16		FY 17		FY 18	
	Rate %	Amount $	Rate %	Amount $	Rate %	Amount $
Salary	4.7	166.0	4.7	170.9	4.5	175.4
Other Fringe Benefits	3.4	90.7	3.4	96.0	3.4	101.0
Pension Benefits	4.7	52.8	4.7	54.3	4.5	55.4
TOTAL		**309.5**		**321.2**		**331.8**

Explanation of categories:

1. **Salary:** The inflation rate in FY 16 – FY 18 was calculated based on "active" state employees as of October 1, 2014. Employee wages were increased based on settled collective bargain contracts, where applicable. For non-union and unsettled contracts, inflation rates were calculated based recently settled contracts. Separate inflation rates were produced for each appropriated fund. The salary inflation rate was generated based on the following employee classifications: full-time, part-time, temporary, contractual, student labor and graduate assistants.
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 (ACA). In addition, in FY 18 the health accounts were adjusted for the estimated impact of the Cadillac Tax implemented in the ACA.

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	349.6	188.3	175.1
Caseload	168.4	66.1	71.9
Statutory Formula	140.3	13.3	12.2
Adjust Expenses for Current Requirements	87.7	14.1	14.6
Federal Mandate	78.1	71.7	51.6
GAAP Accruals	69.0	(5.6)	2.4
Annualization	15.1	(1.2)	0.9
Contractual Obligations	-	-	118.6
Statutory Requirements	-	(6.0)	-
Teachers' Retirement Pension Obligation	(8.5)	36.6	38.0
Contractual Obligations - Wages (RIP)	(22.7)	-	-
Utilization	(114.8)	(120.5)	(126.5)
TOTAL	**762.1**	**256.9**	**358.8**

Explanation of categories:

1. **Debt Service**: Contractual commitment to pay the principal and interest on existing and projected future debt obligations.
2. **Caseload**: Funding necessary to accommodate changes in caseload for entitlement, certain non-entitlement or enrollment programs.
3. **Statutory Formula Adjustments**: Resources needed to fund certain grants in accordance with current statutory formulas.
4. **Adjust Operating Expenses to Reflect Current Requirements:** Adjustments necessary to support future obligations, planned expansions in programs or operations required by current law.
5. **Federal Mandate**: Service levels necessary to comply with federal law.
6. **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, life) costs.

7. **Annualization**: Full-year costs of programs or services in operation for only a portion of the prior year.
8. **Contractual Obligations**: Future costs necessary to meet current contractual obligations. The FY 18 adjustment is due to the state match of employee contributions for retiree health insurance starting in FY 18 pursuant to the 2011 SEBAC Agreement.
9. **Statutory Change:** Changes in funding due to changes in existing law.
10. **Pension Obligation (Teacher's Retirement):** Estimate of the state's required contribution to fund ongoing and past pension liabilities for public school teachers.
11. **Contractual Obligation - 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 $22.7 million was made in FY 16 to remove the RIP accrual from Personal Services.
12. **Utilization:** Funding necessary to accommodate changes in program use separate from changes in the caseload.

Revenue Detail

FY 15 - 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 15, 2014 (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 15 %	FY 16 %	FY 17 %	FY 18 %
Gross State Product	2.3	3.8	3.3	2.7
Real Personal Income	2.4	3.9	3.2	2.4
$ Average Annual Wages[1]	67.0	70.3	73.6	77.2
Nonfarm Employment	0.9	2.3	1.8	0.6
Unemployment Rate	6.4	6.0	5.8	5.5
Total Retail Sales	4.7	5.7	5.3	4.7
Real Estate Prices	1.1	1.9	3.5	5.1
Existing Home Sales	6.2	12.2	(10.2)	(9.8)

[1]Dollars are in thousands.

General Fund

FY 15 Overview

The consensus revenue estimates, developed jointly with OPM in November, reflect a net revenue decrease of $59.1 million in FY 15.

General Fund Consensus Revenue Estimates for FY 15[1] (in millions)

Fund/Revenue	Actual FY 12 $	Actual FY 13 $	Actual FY 14 $	FY 15 $ Budget	FY 15 $ November Revisions	FY 15 $ November Consensus
Taxes						
Personal Income	8,310.8	8,719.2	8,718.7	9,264.5	-	9,264.5
Sales and Use	3,830.1	3,897.0	4,100.6	4,167.4	48.8	4,216.2
Corporations	716.5	742.5	782.2	704.3	30.0	734.3
Public Service Corporations	250.4	266.6	293.3	295.6	-	295.6
Inheritance and Estate	191.7	439.5	168.1	173.0	-	173.0
Insurance Companies	237.6	260.9	240.7	256.2	-	256.2
Cigarettes	421.0	399.8	376.8	360.9	(1.5)	359.4
Real Estate Conveyance	107.5	113.8	180.5	186.9	-	186.9
Oil Companies	146.1	175.5	35.6	34.8	(10.0)	24.8
Electric Generation	69.5	66.8	15.3	-	-	-
Alcoholic Beverages	60.6	60.4	60.6	60.7	-	60.7
Admissions, Dues and Cabaret	34.4	36.5	39.9	38.3	-	38.3
Health Provider Tax	516.9	501.9	480.2	509.5	(28.2)	481.3
Miscellaneous	19.9	21.2	18.1	95.2	(29.7)	65.5
Total Taxes	**14,913.1**	**15,701.8**	**15,510.6**	**16,147.2**	**9.5**	**16,156.7**
Less Refunds of Taxes	(997.2)	(1,029.5)	(1,077.9)	(1,105.1)	-	(1,105.1)
Less Earned Income Tax Credit	(108.0)	(115.5)	(104.5)	(120.7)	-	(120.7)
Less R & D Credit Exchange	(3.6)	(4.1)	(5.1)	(6.8)	-	(6.8)
Taxes Less Refunds	**13,804.4**	**14,552.7**	**14,323.1**	**14,914.6**	**9.5**	**14,924.1**
Other Revenue						
Transfer Special Revenue	313.8	315.5	323.2	323.1	-	323.1
Indian Gaming Payments	344.6	296.4	279.9	278.5	(11.0)	267.5
Licenses, Permits and Fees	283.4	262.1	314.7	256.2	3.5	259.7
Sales of Commodities and Services	35.0	36.3	40.5	43.5	-	43.5
Rentals, Fines and Escheats	123.4	144.1	130.9	118.4	-	118.4
Investment Income	1.0	(0.8)	(0.3)	0.6	-	0.6
Miscellaneous	192.0	163.8	206.8	161.9	-	161.9
Refunds of Payments	(85.4)	(74.0)	(66.6)	(72.9)	-	(72.9)
Total Other Revenue	**1,207.8**	**1,143.4**	**1,229.0**	**1,109.3**	**(7.5)**	**1,101.8**
Other Sources						
Federal Grants	3,607.2	3,733.9	1,243.9	1,299.6	(61.2)	1,238.4
Transfer from Tobacco Settlement Fund	96.1	103.1	107.0	120.0	-	120.0

Fund/Revenue	Actual FY 12 $	Actual FY 13 $	Actual FY 14 $	FY 15 $		
				Budget	November Revisions	November Consensus
Transfer (To) Other Funds[2]	(153.8)	(128.0)	705.0	14.6	-	14.6
Total Other Sources	**3,549.5**	**3,709.0**	**2,055.9**	**1,434.1**	**(61.2)**	**1,373.0**
TOTAL	**18,561.6**	**19,405.0**	**17,608.1**	**17,458.0**	**(59.1)**	**17,398.9**

[1]Totals may not appear to add up due to a rounding effect.
[2]FY 14 Actuals include $598.5 million bond proceeds for GAAP Conversion.

The upward revisions in FY 15 estimated General Fund revenues are attributable to the following:

- **Sales & Use Tax** - an increase of $48.8 million as a result of year-to-date collections exceeding monthly targets. This may be attributable to stronger retail and automobile sales over last year, in particular during the summer months. Lower gas prices may also lift retail sales.
- **Corporation Business Tax** - an increase of $30 million to reflect revenue collected under the Department of Revenue Services' (DRS) recent Business Tax Initiative (BTI), which focused on transfer pricing arrangements and intercompany transactions for large, multi-national businesses paying the Corporation Business Tax.

  As of October 15, 2014, approximately 40 taxpayers chose to participate in the BTI, with associated revenue of approximately $30 million received in FY 15. Taxpayers choosing to participate receive certainty regarding tax treatment for multiple years going forward provided there is no material change in their facts and circumstances at the time of the agreement.

  It should be noted that this revenue represents a portion of the $75 million DRS Collection Initiative included in the FY 15 Revised Budget under Miscellaneous Taxes. As such, a corresponding technical reduction of $30 million has been made to the Miscellaneous Taxes line item to properly reflect the receipt of the revenue under the Corporation Business Tax line item.
- **Licenses, Permits, and Fees** – an increase of $3.5 million to reflect positive variance in 1st quarter collections relative to targeted levels.

These increases are more than offset by the following revenue reductions:

- **Federal Grants** - a decrease of $61.2 million as a result of a net Medicaid related decrease. There is a $25 million reduction to account for individuals who were originally included under the Medicaid Coverage for the Lowest Income Population (MCLIP), which were assumed to receive an enhanced 100% federal reimbursement. However, due to federal data and process requirements, these individuals will be reimbursed at the standard 50% rate, which will result in a revenue loss. In addition, Medicaid related revenue is reduced by approximately

$27 million associated with revenue maximization initiatives which have been delayed, including health homes and the ABI waiver.

Minor changes to SNAP and Title IV-E result in a net increase of $1.2 million. Various other changes, which are administrative in nature and are associated with the timing of claims and shifting funds among program categories, result in a net reduction of approximately $10.4 million.

- **Health Provider Tax -** a decrease of $28.2 million as a result of the anticipated utilization of Urban and Industrial Sites Reinvestment Tax Credits by hospitals.
- **Indian Gaming Payments** - a decrease of $11 million. This change is attributable to: (1) actual FY 14 collections coming in slightly lower than projected in the April consensus and (2) year-to-date growth of approximately -7.0%, which is significantly below the budgeted level of -0.5%.
- **Oil Companies Tax** - a decrease of $10 million to reflect the impact of a significant drop in oil prices that was not anticipated as part of the April consensus revenue figures.
- **Cigarettes Tax** - a decrease of $1.5 million to reflect year-to-date growth below budgeted levels, which is anticipated to continue for the remainder of the fiscal year.
- **Miscellaneous Taxes** - a net decrease of $29.8 million, resulting from: (1) a technical reduction of $30 million to reflect the impact of revenue received under the DRS Collection Initiative within the Corporation Business Tax line item, and (2) an increase of $250,000 to reflect above-target growth in this tax category.

Connecticut's overall economy is expected to grow by 2.3% in FY 15, which reflects the persistently slow, but steady, economic recovery experienced by the state since the Great Recession. Recent strength in the job market is expected to continue, resulting in the state regaining its prerecession employment peak by the end of 2015. While employment levels in the state continue to improve, the jobs recovery has been structurally uneven with gains concentrated largely in the retail, leisure, hospitality, and health care sectors. However, income growth has started to improve with both average weekly and average hourly earnings trending up in the current year.

FY 16 - FY 18

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

- While revenue from the Personal Income Tax is projected to grow steadily into the out years, the FY 15 Revised Budget included a partial **teachers' pension exemption** that phases in over the course of three years. It is projected that the exemption will result in an annualized revenue loss of approximately $28.8 million once the policy is fully phased-in.
- The impact of **Urban & Industrial Site Reinvestment (URA) tax credits** will result in significant revenue reductions 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 estimated that the cumulative revenue impact of the credits is approximately $159.8 million from FY 15 through FY 18.

- PA 13-184 re-establishes the **sales tax exemption for clothing under $50** which goes into effect July 1, 2015 per PA 14-47. The revenue loss is estimated to be up to $145 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.
- PA 14-47 re-establishes the **sales tax exemption for non-prescription drugs**, effective April 1, 2015. The revised FY 15 budget includes a revenue loss of $4.2 million in FY 15 resulting from this change. The annualized revenue loss is estimated to be up to $17.6 million in FY 16. This exemption previously culminated in $15.7 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 anticipated opening of **casinos in Massachusetts** in summer of 2017 is projected to result in a revenue loss of $63.5 million in FY 18. Prior revenue projections assumed casino construction would be completed in the second half in 2016, and thus included a revenue loss in FY 17. The revenue impact of the opening of Massachusetts casinos is now projected to occur no earlier than FY 18.
- Pursuant to PA 14-2, "AAC the Connecticut Aerospace Reinvestment Act," it is anticipated **Research & Development Expenditures (R&D) tax credit** utilization will increase by $20 million annually beginning in FY 16. The total revenue loss associated with R&D credits is estimated to be $82.8 million over the forecast period (FY 15-FY 18).
- Various **temporary business tax measures** are 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 $73.3 million beginning in FY 16.
- Due to the scheduled **expiration of various transfers** to the General Fund, revenue projections decrease by $74.4 million between FY 15 and FY 16. Major sources of these transfers included FY 13 General Fund surplus, other funds, and various non-appropriated accounts.
- Based on projections of motor vehicle fuel prices, the negative impact of the recent drop in oil prices on **Oil Companies Tax** revenue is anticipated to continue into FY 16. Prices are anticipated to resume an upward trajectory thereafter, showing modest growth in FY 17 and moderating to more recent historical levels over the course of FY 18.
- Based on economic data provided by Moody's Economy.com, in conjunction with historical collections figures, annual **out-year revenue growth** is estimated to increase from $628.9 million in FY 16 to $695.6 million in FY 18. Among the largest contributors to revenue growth in the out years are collections associated with the Personal Income Tax, Sales Tax, and Corporation Business Tax, which

are expected to grow by an annual average of $548.9 million, $167.6 million, and $21.6 million, respectively. These figures are partially offset by average annual growth in refunds of approximately $58.3 million, as well as negative growth forecast in other revenue categories.

Overall economic growth is expected to peak in FY 16 at approximately 3.8%, then decreases slightly to 2.7% by FY 18. However, unemployment is expected to remain at or above 6.0% through FY 16 then decrease to 5.5% in FY 18. Real personal income growth is anticipated to peak in FY 16 at a rate of 3.9% and decrease to 2.4% in FY 18. Housing is anticipated to expand significantly in FY 16, followed by a pull-back and moderation to historical growth patterns.

On the following page are the consensus revenue estimates for the out-years which were developed jointly with OPM in November.

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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 Tax	9,748.6	10,304.7	10,893.7
Sales and Use	4,220.2	4,390.1	4,557.8
Corporation	627.3	669.8	639.8
Public Service	300.9	309.2	317.6
Inheritance & Estate	177.4	182.7	188.5
Insurance Companies	237.2	239.7	243.9
Cigarettes	344.3	330.4	317.3
Real Estate Conveyance	194.7	200.8	207.8
Oil Companies	16.3	17.3	25.6
Alcoholic Beverages	61.2	61.6	61.9
Admissions and Dues	38.7	40.0	40.4
Health Provider Tax	483.1	485.0	486.8
Miscellaneous	20.9	21.4	21.9
Subtotal Taxes	**16,470.8**	**17,252.7**	**18,003.0**
Less Refund of Taxes	(1,154.8)	(1,204.0)	(1,255.5)
Less Earned Income Tax Credit	(138.4)	(144.9)	(151.7)
Less R & D Credit Exchange	(7.1)	(7.4)	(7.8)
Taxes Less Refunds	**15,170.5**	**15,896.4**	**16,588.0**
Other Revenue			
Transfers-Special Revenue	327.8	337.2	347.1
Indian Gaming Payments	260.7	254.3	190.8
Licenses, Permits, Fees	290.3	267.3	293.8
Sales of Commodities	44.6	45.8	47.1
Rents, Fines, Escheats	119.9	121.8	123.8
Investment Income	1.5	2.4	3.3
Miscellaneous	163.7	165.8	167.9
Refund of Payments	(74.2)	(75.1)	(75.9)
Total Other Revenue	**1,134.3**	**1,119.5**	**1,097.9**
Other Sources			
Federal Grants	1,267.3	1,283.8	1,307.4
Transfer From Tobacco Fund	86.1	83.0	61.8
Transfers From/(To) Other Funds	(212.7)	(222.7)	(222.7)
Total Other Sources	**1,140.7**	**1,144.1**	**1,146.5**
TOTAL	**17,445.5**	**18,160.0**	**18,832.4**

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

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

Tax Revenues	FY 15 %	FY 16 %	FY 17 %	FY 18 %
Personal Income	4.3	5.3	5.7	5.8
Withholding	1.1	4.4	5.3	5.5
Estimates & Finals	9.4	6.6	6.2	6.2
Sales and Use	5.1	4.1	4.0	3.8
Corporations	2.0	4.5	2.9	3.1
Public Service Corporations	0.5	1.8	2.8	2.7
Inheritance and Estate	4.1	2.5	3.0	3.2
Insurance Companies	5.6	2.2	2.0	2.1
Cigarettes	(4.6)	(4.2)	(4.0)	(4.0)
Real Estate Conveyance	3.5	4.2	3.1	3.5
Oil Companies	(3.0)	(2.6)	0.3	2.1
Alcoholic Beverages	0.1	0.8	0.7	0.5
Admissions & Dues	0.0	1.0	3.4	1.0
Health Provider Tax	0.2	0.5	0.5	0.5
Miscellaneous Taxes	3.8	2.0	2.4	2.3
Other Revenues				
Transfers - Special Revenue	0.0	1.5	2.9	2.9
Indian Gaming Payments	(4.4)	(2.5)	(2.5)	(25.0)
Licenses, Permits and Fees	2.8	0.4	2.7	(1.2)
Sales of Commodities	7.3	2.5	2.7	2.8
Rents, Fines and Escheats	(9.6)	1.3	1.6	1.6
Miscellaneous	(8.4)	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 $7.2 million in FY 15. The net increase is a combination of:

- $1.1 million in the Motor Fuels Tax from slightly higher than anticipated consumption from the low gasoline and diesel fuel prices. Year to date collections have increased by approximately 1%[2] compared to last year;
- $0.5 million in sales tax collected by the Department of Motor Vehicles;
- $4 million in higher than anticipated revenue from PA 13-271, AAC Distracted Driving and Revisions to the Motor Vehicle Statutes which increased fees for motor vehicle registrations and new operator licenses;
- $2.3 million in higher than anticipated revenue from interest income; and
- $0.2 million from increased collections from licenses, permits and fees.

Special Transportation Fund Consensus Revenues (in millions)

Revenue Source	FY 15 $ Budget	Consensus Revisions $	FY 15 $ Consensus
Taxes			
Motor Fuels	503.7	1.1	504.8
Oil Companies Tax	379.1	-	379.1
Sales Tax - DMV	82.6	0.5	83.1
Refunds of Taxes	(6.6)	(0.5)	(7.1)
Subtotal	**958.8**	**1.1**	**959.9**
Other Revenue			
Motor Vehicle Receipts	238.1	4.0	242.1
License, Permits, and Fees	138.9	0.2	139.1
Interest Income	5.0	2.3	7.3
Federal Grants	12.1	-	12.1
Transfer From/(To) Other Funds[1]	(6.5)	-	(6.5)
Less: Refunds of Payments	(3.2)	(0.4)	(3.6)
Less: Transfer to TSB Account	(15.0)	-	(15.0)
Subtotal	**369.4**	**6.1**	**375.5**
TOTAL	**1,328.2**	**7.2**	**1,335.4**

[1]This revenue stream consists of; (1) CGS 13b-61c , the statutory transfer between the General Fund and STF and (2) CGS 14-164m, the statutory transfer of $6.5 million to the Emissions Enterprise Fund.

[2]Year to date collections from the Department of Revenue Services.

FY 16 - FY 18

The STF is expected to increase modestly by approximately 0.7% in FY 17 and 0.01% in FY 18. The motor fuels tax is anticipated to decline by 0.4% in FY 16 and 1% in FY 17 - FY 18 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 streams to support the STF, including the statutory transfer from the General Fund that increases in FY 16 by $152.8 million.

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

Revenue Source	Projected FY 16 $	Projected FY 17 $	Projected FY 18 $
Taxes			
Motor Fuels Tax	502.8	500.1	497.3
Oil Companies Tax	377.3	377.3	377.3
Sales Tax-DMV	84.0	85.0	85.9
Refunds	(7.2)	(7.4)	(7.6)
Subtotal	**956.9**	**955.0**	**952.9**
Other Revenue			
Motor Vehicle Receipts	243.2	244.1	244.9
Licenses, Permits, Fees	139.4	139.9	140.5
Interest Income	8.1	9.0	9.9
Federal Grants	12.1	12.1	12.1
Transfer from/To Other Funds	146.3	156.3	156.3
Less: Refunds of Payments	(3.7)	(3.8)	(3.9)
Less: TSB Account	-	-	-
Subtotal	**545.4**	**557.6**	**559.8**
TOTAL	**1,502.3**	**1,512.6**	**1,512.7**

The following page outlines revenues, expenditures and balances for the other appropriated funds.

Other Appropriated Funds Projected Revenues, Expenditures and Ending Balances

Fund	Actual FY 13 $	Actual FY 14 $	Estimated FY 15 $	Projected FY 16 $	Projected FY 17 $	Projected FY 18 $
Mashantucket Pequot and Mohegan Fund						
Beginning Balance	211,279	330,372	459,465	-	-	-
Revenue	61,800,000	61,800,000	61,780,000	61,780,000	61,780,000	61,780,000
Expenditures	(61,680,907)	(61,670,907)	(61,670,907)	(61,670,907)	(61,670,907)	(61,670,907)
Transfers	-	-	(568,558)	(109,093)	(109,093)	(109,093)
Ending Balance	**330,372**	**459,465**	**-**	**-**	**-**	**-**
Regional Market Operation Fund						
Beginning Balance	975,130	830,407	589,154	526,020	459,793	389,031
Revenue	798,862	891,450	918,194	945,739	974,111	1,003,335
Expenditures	(943,585)	(1,212,703)	(981,328)	(1,011,966)	(1,044,873)	(1,078,473)
Transfers	-	80,000	-	-	-	-
Ending Balance	**830,407**	**589,154**	**526,020**	**459,793**	**389,031**	**313,893**
Banking Fund						
Beginning Balance	26,657,245	27,350,239	20,423,112	15,058,754	14,384,327	18,053,141
Revenue	26,157,810	29,994,030	28,800,000	29,000,000	28,000,000	29,000,000
Expenditures	(24,264,816)	(26,221,157)	(28,464,358)	(29,674,427)	(24,331,186)	(25,639,026)
Transfers	(1,200,000)	(10,700,000)	(5,700,000)	-	-	-
Ending Balance	**27,350,239**	**20,423,112**	**15,058,754**	**14,384,327**	**18,053,141**	**21,414,115**
Insurance Fund						
Beginning Balance	10,121,447	7,667,388	8,958,269	9,060,580	9,060,580	9,060,580
Revenue	25,130,488	31,155,733	68,345,000	71,537,600	75,116,575	78,841,098
Expenditures	(27,087,802)	(29,884,039)	(68,242,689)	(71,537,600)	(75,116,575)	(78,841,098)
Transfers	(496,745)	19,187	-	-	-	-
Ending Balance	**7,667,388**	**8,958,269**	**9,060,580**	**9,060,580**	**9,060,580**	**9,060,580**
Consumer Counsel and Public Utility Control Fund						
Beginning Balance	5,589,473	6,777,645	7,102,995	8,458,541	9,624,478	10,647,637
Revenue	26,253,424	24,654,721	25,600,000	26,368,000	27,159,040	27,973,811
Expenditures	(22,765,252)	(24,329,371)	(24,244,454)	(25,202,063)	(26,135,881)	(27,088,803)
Transfers	(2,300,000)	-	-	-	-	-
Ending Balance	**6,777,645**	**7,102,995**	**8,458,541**	**9,624,478**	**10,647,637**	**11,532,645**
Workers' Compensation Fund						
Beginning Balance	14,950,206	10,403,827	12,742,699	10,562,585	12,651,274	13,067,481
Revenue	16,206,718	23,457,167	23,122,432	28,223,649	27,544,046	28,651,038
Expenditures	(20,311,684)	(21,125,168)	(25,302,546)	(26,134,960)	(27,127,839)	(28,154,598)
Transfers	(441,413)	6,873	-	-	-	-
Ending Balance	**10,403,827**	**12,742,699**	**10,562,585**	**12,651,274**	**13,067,481**	**13,563,921**

Fund	Actual FY 13 $	Actual FY 14 $	Estimated FY 15 $	Projected FY 16 $	Projected FY 17 $	Projected FY 18 $
Criminal Injuries Compensation Fund						
Beginning Balance	1,508,511	1,572,199	1,802,465	2,370,449	2,930,760	3,436,266
Revenue	3,355,152	3,432,077	3,355,000	3,400,000	3,400,000	3,400,000
Expenditures	(3,291,950)	(3,202,143)	(2,787,016)	(2,839,689)	(2,894,494)	(2,951,225)
Transfers	-	332	-	-	-	-
Ending Balance	**1,572,199**	**1,802,465**	**2,370,449**	**2,930,760**	**3,436,266**	**3,855,041**
Soldiers, Sailors and Marines' Fund						
Trust Fund Value was $68.0 million as of June 30, 2013						
Special Revenue Fund Balance - Beginning	(5,399,056)	(6,489,562)	-	-	-	-
Revenue	-	17,679	-	-	-	-
Expenditures	(3,017,605)	(2,964,547)	-	-	-	-
Transfers from the Trust Fund	1,927,099	1,876,788	-	-	-	-
Ending Balance	**(6,489,562)**	**(7,559,642)**	-	-	-	-
TOTAL						
Beginning Balance	54,614,235	48,442,515	52,078,159	46,036,928	49,111,212	54,654,136
Revenue	159,702,454	175,402,857	211,920,626	221,254,988	223,973,772	230,649,282
Expenditures	(163,363,601)	(170,610,035)	(211,693,298)	(218,071,612)	(218,321,755)	(225,424,130)
Transfers	(2,510,573)	(8,716,820)	(6,268,558)	(109,093)	(109,093)	(109,093)
ENDING BALANCE	**48,442,515**	**44,518,517**	**46,036,928**	**49,111,212**	**54,654,136**	**59,770,195**

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; and
   - $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 amount set by statute in lieu of an amount determined by formula.

FY 16 - FY 18 projections assume a General Fund transfer to the Pequot Fund of $61.8 million, which is equal to the FY 15 transfer. PA 14-217, the revised FY 15 budget implementer, requires a transfer to the Pequot fund equal to the amount appropriated for payments to municipalities.

The budget implementer also requires any funds retained from municipalities due to noncompliance with Land Use Recording Fee collection requirements to be transferred back to the General Fund. This results in a transfer to the General Fund of approximately $568,000 in FY 15 and $109,000 annually thereafter (the transfer is higher in FY 15 due to the retention of funds from previous years.)

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 approximately $1.0 million annually 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 installation of a fire suppression system for an on-site restaurant in FY 15, cannot always be determined in advance. Balances at the end of each fiscal year are deposited into the Short-Term Investment Fund (STIF) account.[3]

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

[3]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.

also for programs in the Labor Department, Department of Housing and Judicial Department.

Annual revenue reflects the sunset on October 1, 2014 of the Mortgage Recording Fees that were deposited to the Banking Fund in support of the Foreclosure Mediation Program per PA 13- 247. Expenditures are projected to increase by the standard rates of inflation described elsewhere in this report with the exception of the Judicial Department's Foreclosure Mediation program which now sunsets at the end of FY 16.

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. Beginning in FY 15, the Fund also now supports the Department of Public Health's appropriation for Immunization Services. 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. Funding for these services is provided from the SSMF Trust Fund, which has a value of $68.0 million as of June 30, 2013.

As of July 1, 2014, the SSMF no longer exists as a state agency but the state Treasurer is still in charge of the investment of the SSMF trust fund. PA 13-247, the general government implementer, transferred the administration of the fund to the American Legion. PA 14-47, The FY 15 Budget Bill, provided a General Fund appropriation of $635,000 through the Department of Veterans Affairs' budget to the American Legion for administrative costs related to providing eligible veterans with services from the SSMF.

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 15 – 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 are not limited to:

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

Please note that pursuant to CGS 12-7b(e), OFA released a more detailed tax expenditure report in January 2014, which can be found on OFA's website.[4]

Tax Expenditures (Credits, Exemptions, and Deductions)

There are currently $7.2 billion in tax expenditures resulting from tax credits, exemptions, and deductions offered by the state. This level is around 38.2% of the total projected FY 15 General Fund and Special Transportation Fund revenue. The majority of tax expenditures occur in the Sales and Use Tax and Motor Fuels Tax (approximately 54.1% and 25.3%, respectively).

Tax credits are estimated to be $711.7 million in FY 15, or 9.9% of all projected FY 15 tax expenditures. Of the $711.7 million in tax credits, Personal Income Tax credits comprise 48.6%, or $345.6 million, and Corporation Business Tax credits comprise 25.3%, or $180.2 million. The remaining $6.4 billion in FY 15 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 15 through FY 18.

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[4]Connecticut Tax Expenditure Report, Office of Fiscal Analysis, January 2014. http://www.cga.ct.gov/ofa/Documents/year/TER/2014TER-20140102_Tax%20Expenditure%20Report%20FY%2014.pdf

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

Category	FY 15 $	FY 16 $	FY 17 $	FY 18 $
Personal Income Tax	503.7	538.2	550.5	571.3
Sales and Use Tax	3,873.9	4,190.4	4,358.8	4,524.1
Petroleum Companies Gross Earnings Tax	406.3	396.0	396.9	405.2
Corporate Business Tax	363.0	376.8	383.3	396.7
Cigarette and Tobacco Products Tax	13.1	12.5	12.0	11.5
Public Service Companies Gross Earnings Tax	55.6	56.7	58.1	59.8
Insurance Premiums Tax	81.9	102.5	126.0	145.0
Admissions and Dues Tax	23.2	23.3	24.0	24.1
Health Provider Tax	15.3	15.3	15.3	15.3
Miscellaneous Tax	8.0	8.2	8.4	8.6
Electric Generation Tax	0.0	0.0	0.0	0.0
Real Estate Conveyance Tax	1.7	1.8	1.8	1.9
Motor Fuels and Motor Carrier Road Fuels Taxes	1,810.1	1,837.7	1,853.3	1,880.5
TOTAL	**7,155.8**	**7,559.4**	**7,788.4**	**8,043.9**

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

Section 3: FY 15 Deficiencies

Based on current data, state agencies will require $86.2 million in deficiency appropriations or transfers from other areas to fund projected FY 15 costs. This assumes that $3.2 million in allotment holdbacks in the associated agencies (as a result of budgeted lapses) are not released by OPM. The deficiency amounts represent 1.3% of these agencies' total FY 15 available funding, assuming all holdbacks are not released.

Over the past ten years, General Fund agencies have required on average $101.3 million per year in deficiency funding, less than 1% of the General Fund budget. The deficiencies have ranged from $26 million to $355 million over the same time period.

The following table includes the agency's FY 15 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 15 Estimated Agency Deficiency Needs

Fund/Agency	Budgeted Appropriation $	Available Appropriation[1] $	Estimated Expenditures $	Deficiency without release of holdbacks $	Deficiency with release of holdbacks $
General Fund					
Department of Social Services	2,994,518,834	2,993,978,521	3,033,978,521	(40,000,000)	(38,407,490)
State Comptroller - Fringe Benefits	2,465,679,610	2,462,552,110	2,488,147,183	(25,595,073)	(25,595,073)
Department of Correction	675,833,632	680,606,084	691,065,981	(10,459,897)	(9,366,439)
Public Defender Services Commission	63,616,706	63,645,624	68,345,624	(4,700,000)	(4,494,734)
Department of Emergency Services and Public Protection	170,416,519	182,747,673	185,202,437	(2,454,764)	(2,134,654)
State Comptroller - Adjudicated Claims	4,100,000	4,100,000	5,474,075	(1,374,075)	(1,374,075)
			Subtotal	**(84,583,809)**	**(81,372,465)**
Special Transportation Fund					
State Comptroller - Fringe Benefits	188,817,067	188,817,067	190,461,978	(1,644,911)	(1,644,911)
			Subtotal	**(1,644,911)**	**(1,644,911)**
TOTAL				**(86,228,720)**	**(83,017,376)**

[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 (Rainy Day Fund) is $519.2 million.

Recent Activity

FY 14 ended with a surplus of $248.5 million. The entire surplus will be deposited in the Budget Reserve Fund.

FY 13 ended with a surplus of $398 million. Section 58 of PA 13-184, the FY 14 and FY 15 Budget, allowed $220.8 million of the FY 13 surplus to be reserved for future year budgetary needs: $190.8 million was used as General Fund revenue in FY 14 and $30 million is reserved for FY 15 revenue. The remaining $177.2 million of the FY 13 surplus was deposited in the Budget Reserve Fund.

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).

The table on the following page displays activity and balances in the BRF from FY 00 – FY 14 and projected balances from FY 15 – FY 18.

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

Fiscal Year	Beginning Balance $	Deposits/ (Withdrawals) $	Ending Balance $
00	529.1	34.9	**564.0**
01	564.0	30.7	**594.7**
02	594.7	(594.7)	**-**
03	-	-	**-**
04	-	302.2	**302.2**
05	302.2	363.8	**666.0**
06	666.0	446.5	**1,112.5**
07	1,112.5	269.2	**1,381.7**
08	1,381.7	-	**1,381.7**
09	1,381.7	-	**1,381.7**
10	1,381.7	(1,278.5)	**103.2**
11	103.2	(103.2)	**-**
12	-	93.5	**93.5**
13	93.3	177.2	**270.7**
14	270.7	248.5	**519.2**
15 (Est.)[1]	519.2	(89.1)	**430.1**
16 (Proj.)	430.1	-	**430.1**
17 (Proj.)	430.1	-	**430.1**
18 (Proj.)	430.1	-	**430.1**

[1]CGS Sec. 4-30a(b) appropriates BRF funds to offset a General Fund year-end deficit. OFA is estimating a FY 15 deficit of $89.1 million. Thus, it is anticipated that the balance of the BRF would be released to mitigate the projected FY 15 deficit, pending any other action.

Section 5: FY 15 – FY 19 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 15 through FY 19. The FY 15 GO bond authorization and allocation figures show an increase that is the result of several economic development initiatives. Between FY 16 and FY 19, 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 bonds authorized during the 2014 legislative session, (2) the issuance of GAAP conversion bonds[5] and the second issuance of bonds to finish refinancing 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 2014 at an interest rate of 3.1% while the assumptions used for the projections in the table below are 4.5% in FY 15 and between 5.0% and 5.5% between FY 16 and FY 19. 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 15 – FY 19 Projections for General Obligation and Special Tax Obligation Bonds (in billions)

Projections	FY 15 $	FY 16 $	FY 17 $	FY 18 $	FY 19 $
General Obligation Bonds					
Bond Authorizations	2.8	2.0	1.9	1.9	1.8
Bond Allocations	2.1	1.9	1.8	1.7	1.6
Bond Issuance	1.8	1.8	1.8	1.9	1.9
Debt Service[1]	1.7	2.0	2.2	2.3	2.2
Special Tax Obligation Bonds					
Bond Authorizations[2]	0.6	0.6	0.6	0.6	0.6
Bond Allocations	0.6	0.5	0.5	0.5	0.5
Bond Issuance[3]	0.6	0.6	0.6	0.6	0.6
Debt Service[1]	0.5	0.5	0.5	0.6	0.6

[1]The FY 15 GO and STO debt service estimates are based on the budget enacted during the 2014 legislative session. The FY 16-FY 19 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 15 STO authorization figure is based on authorizations made during the 2014 legislative session.
[3]The STO authorization figures are based on information provided by the Office of the State Treasurer.

[5]The GAAP conversion bonds were issued in November 2013. The first debt service payment on the bonds will be made in FY 16.

Methodology

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

Detail for FY 15 – FY 19 Projections for General Obligation Bonds (in millions)

Projections	FY 15 $	FY 16 $	FY 17 $	FY 18 $	FY 19 $
Bond Authorizations					
Regular authorizations[1]	2,290.3	1,500.0	1,500.0	1,500.0	1,500.0
UConn 2000	315.5	312.1	266.4	269.5	251.0
CSUS 2020	175.0	118.5	95.0	95.0	0.0
Biosci. Collaboration (JAX)	19.7	21.4	21.1	15.8	12.5
Biosci. Innovation Fund	15.0	15.0	25.0	25.0	25.0
TOTAL	**2,815.5**	**1,967.0**	**1,907.5**	**1,905.3**	**1,788.5**
Bond Allocations					
Regular allocations[2]	1,600.0	1,400.0	1,350.0	1,300.0	1,300.0
UConn 2000	315.5	312.1	266.4	269.5	251.0
CSUS 2020	175.0	118.5	95.0	95.0	0.0
Biosci. Collaboration (JAX)	19.7	21.4	21.1	15.8	12.5
Biosci Innovation Fund	15.0	15.0	25.0	25.0	25.0
TOTAL	**2,125.2**	**1,867.0**	**1,757.5**	**1,705.3**	**1,588.5**
Bond Issuance					
Tax exempt GO bonds[3]	1,300.0	1,450.0	1,450.0	1,450.0	1,450.0
Taxable GO bonds	200.0	150.0	150.0	150.0	150.0
UConn 2000	250.0	200.0	225.0	250.0	250.0
TOTAL	**1,750.0**	**1,800.0**	**1,825.0**	**1,850.0**	**1,850.0**

[1]FY 15 figure is actual GO bonds authorized during the 2013 and 2014 legislative sessions. FY 16-FY 19 projections are based on historic levels of bond authorizations.

[2]FY 15 estimate is based on GO bonds authorizations. FY 16-FY 19 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 Next Generation), the Connecticut State Colleges and Universities infrastructure renewal program (CSCU 2020), the Connecticut Biosience Collaboration program (Jackson Lab project) and the Connecticut Bioscience Innovation Fund 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.

Bond authorizations

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.

Statutory Debt Cap Projections

As shown in the table below, the projected level for the statutory debt limitation on GO bonds for FY 15 is 86.3% and around 89% each year between FY 16 and FY 18. The projections use net tax revenues from the November 2014 consensus revenue estimates as the basis for calculating the statutory limit.

The base figure for net indebtedness is the debt certification for FY 15 issued by the Office of the State Treasurer on July 1, 2014. The annual increase between FY 16 and FY 18 is the average change in net indebtedness over the previous five years (between FY 11 and FY 15).

FY 15 – FY 18 Projections for the Statutory Debt Cap on General Obligation Bonds[1] (in thousands)

Projections	FY 15 $	FY 16 $	FY 17 $	FY 18 $
Net Tax Revenues	14,924,100	15,170,500	15,896,400	16,588,000
Multiplier	1.6	1.6	1.6	1.6
DEBT LIMIT	**23,878,560**	**24,272,800**	**25,434,240**	**26,540,800**
Calculation of Bonds Subject to Limit:				
Net Indebtedness	20,618,432	21,627,160	22,635,887	23,644,614
% Net Indebtedness	86.3%	89.1%	89.0%	89.1%
Margin to 100% of Debt Limit	**3,260,128**	**2,645,640**	**2,798,353**	**2,896,186**
90% Debt Limit Ceiling[2]	21,490,704	21,845,520	22,890,816	23,886,720
Margin to 90% Debt Limit Ceiling	**872,272**	**218,360**	**254,929**	**242,106**

[1]Based on November 2014 Consensus Revenue estimates.

[2]If the net indebtedness reaches 90% of the ceiling amount, the governor must review each bond act for which no obligations have yet been incurred and recommend to the General Assembly priorities for repealing these authorizations.

Background

CGS Section 3-21 imposes a ceiling on the amount of General Fund-supported debt the legislature may authorize. The limit is 1.6 times net General Fund tax receipts projected by the Finance, Revenue and Bonding Committee for the fiscal year in which the bonds are authorized. The statute prohibits the General Assembly from authorizing any additional General Fund-supported debt, except what is required to meet cash flow needs or emergencies resulting from natural disasters, when the aggregate amount of outstanding debt and authorized but unissued debt exceed this amount. Certain types of debt are excluded from the statutory debt limit calculation, including debts incurred for federally reimbursable public works projects, assets in debt retirement funds, and debt incurred in anticipation of revenue and some other purposes. (Examples of excluded debt are tax incremental financing bonds, Special Transportation GO bonds, Bradley Airport revenue bonds, Clean Water Fund revenue bonds, and Connecticut Unemployment revenue bonds).

The statute requires the Office of the State Treasurer to certify that any bill authorizing bonds does not violate the debt limit, before the General Assembly may vote on the bill. A similar certification is required before the state Bond Commission can authorize any new bonds to be issued. CGS Sec. 2-27b(b) requires the State Treasurer to compute the state's aggregate bonded indebtedness each January 1 and July 1 and certify this to the governor and General Assembly. If the amount reaches 90% of the ceiling amount, the governor must review each bond act for which no obligations have yet been incurred and recommend to the General Assembly priorities for repealing these authorizations.

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 $68.4 billion, an increase of 4.9% from last year's reported amount of $65.2 billion. The following table includes the unfunded liabilities for these four areas.

Long-Term Obligations (in billions)

Unfunded Liabilities	Amount $
Debt Outstanding	21.3
State Employee Retirement System (SERS)[6]	13.3
Teachers' Retirement System	10.8
State Post Employment Health and Life	19.5
Teachers' Post Employment Health	2.4
Generally Accepted Accounting Principles Deficit	1.1
Total	**68.4**

Explanations of the unfunded liabilities are included below:

Debt Outstanding

The amount is as of September 30, 2014 (source: Office of the State Treasurer). The figure includes debt that is backed by revenue derived from the General Fund, the Special Transportation Fund and a variety of other revenue sources such as the Clean Water Fund and Bradley International Airport. It also includes: (1) the $560.4 million in GAAP conversion bonds that were issued on October 4, 2013 and (2) the first refunding issuance of $314.3 million for 2009 Economic Recovery Notes (ERNs) that was done on

[6] 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.

October 23, 2013. It does not include the second ERN refunding issuance of $310.9 million, which is planned for December 2014.

State Employee Retirement System (SERS)[7]

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 funded ratio (value of benefits to assets) of 42.3%, a decrease of 5.6% from June 30, 2011. The average funded ratio from 2007 to 2012 was approximately 48.2%. An actuarial valuation of the SERS, as of June 30, 2013, is due this Fall.

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

State Employees' Retirement Fund Unfunded Liability

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

Teachers' Retirement System (TRS)[8]

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 $325 million decrease in the unfunded actuarial accrued liability from $11.1 billion in the 2012 valuation to $10.8 billion in the 2014 valuation is primarily the result of the recognition of investment gains in 2013 and 2014. As of June 30, 2014, TRS had a funded ratio (assets to liabilities) of 59%, which represents an increase from the 55% funded ratio in the June 30, 2012 valuation. The chart below represents the historical TRS unfunded liabilities and funded ratio (actuarial value of assets/liabilities).

Teachers' Retirement Fund Unfunded Liability

[8]Source: *Connecticut State Teachers' Retirement System Actuarial Valuation*, as of June 30, 2014.

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. Pursuant to the 2009 and 2011 SEBAC agreements retiree health benefits for current employees will be funded partially through employee contributions. The state will begin matching employee contributions into OPEB starting in FY 18.

The most recent valuation, as of June 30, 2013, reported an unfunded liability of $19.5 billion, an increase of $1.6 billion (or 9.1%) from the prior valuation and an increase of $3.3 billion (or 20%) from the April 2013 update.[9] The net unfunded liability was expected to increase by approximately $21.5 million due to normal plan operations. The difference between the actual unfunded liability of $19.5 billion and the expected unfunded liability is the net effect of the following factors: (1) a decrease of $24.0 million due to actual plan experience being different than what was assumed (including, investment fund performance, plan demographics, contributions, and benefit payments), (2) an increase of $1.8 billion due to changes in actuarial assumptions (including, per capita health care costs, medical trends, and demographics), and (3) a decrease of $162.6 million from SEBAC 2009 and 2011 plan design changes.

Teachers' Other Post-Employment Benefits[10]

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 2014 valuation reported an unfunded liability of $2.4 billion which was a decrease from $3 billion in 2012 primarily due to decreasing costs in the TRB Medicare Supplement Health Plan.

Generally Accepted Accounting Principles (GAAP)

What is GAAP?

Generally Accepted Accounting Principles (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[11] and simply the commonly accepted ways of recording and reporting account information.

Historically, the state 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

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[9]Source: *State of Connecticut Other Post-Employment Benefits Program as* of June 30, 2013.

[10]Source: *Connecticut State Teachers' Retirement System, Retiree Health Insurance Plan, Actuarial Valuation* as of June 30, 2014.

[11]National Association of State Budget Officers, 2008 Budget Process in the States.

received. However, under Connecticut's modified cash basis, most revenue was recognized when earned, which more closely, but not completely, follows GAAP standards. About 18 states budget according to GAAP standards.[1]

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 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).

Cumulative GAAP Deficit

According to the State Comptroller, the State's cumulative GAAP deficit in the General Fund was $1.217 billion as of June 30, 2013. 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 Ended June 30,	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)
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

Fiscal Year Ended June 30,	Accumulated GAAP Deficit $	Change From Previous Year %
2010	(1,678,971,000)	(27.1)
2011	(1,748,946,000)	4.2
2012[2]	(1,146,053,000)	(34.5)
2013	(1,217,051,000)	6.2

[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 following table shows how the deficit will be extinguished by FY 28.

Funding Accumulated GAAP Deficit

Fiscal Year	Amount $
Deficit, as of June 30, 2013	1,217,051,000
GAAP Conversion Bond Proceeds	598,500,000
Remaining GAAP Deficit	618,551,000
Number of Years to Payoff	13
Annual Amount - FY 16 through FY 28	47,580,846

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	303.5	146.8	97.3
DSS – Medicaid	187.5	93.0	79.0
SDE - Education Equalization Grants	77.3	73.8	68.4
SDE - Transportation of School Children	66.1	3.0	2.6
SDE - Excess Cost - Student Based	51.2	8.0	8.0
OSC - Amortize GAAP Deficit	47.6	-	-
SDE – Magnet Schools	45.9	3.4	10.3
OSC - State Employees Retirement Contributions	45.7	47.3	48.3
OSC - State Employees Health Service Cost	39.8	39.2	47.2
OSC - Retired State Employees Health Service Cost	36.5	35.5	40.9
TOTAL	**901.1**	**450.0**	**401.9**

Debt Burden

As the table below 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.

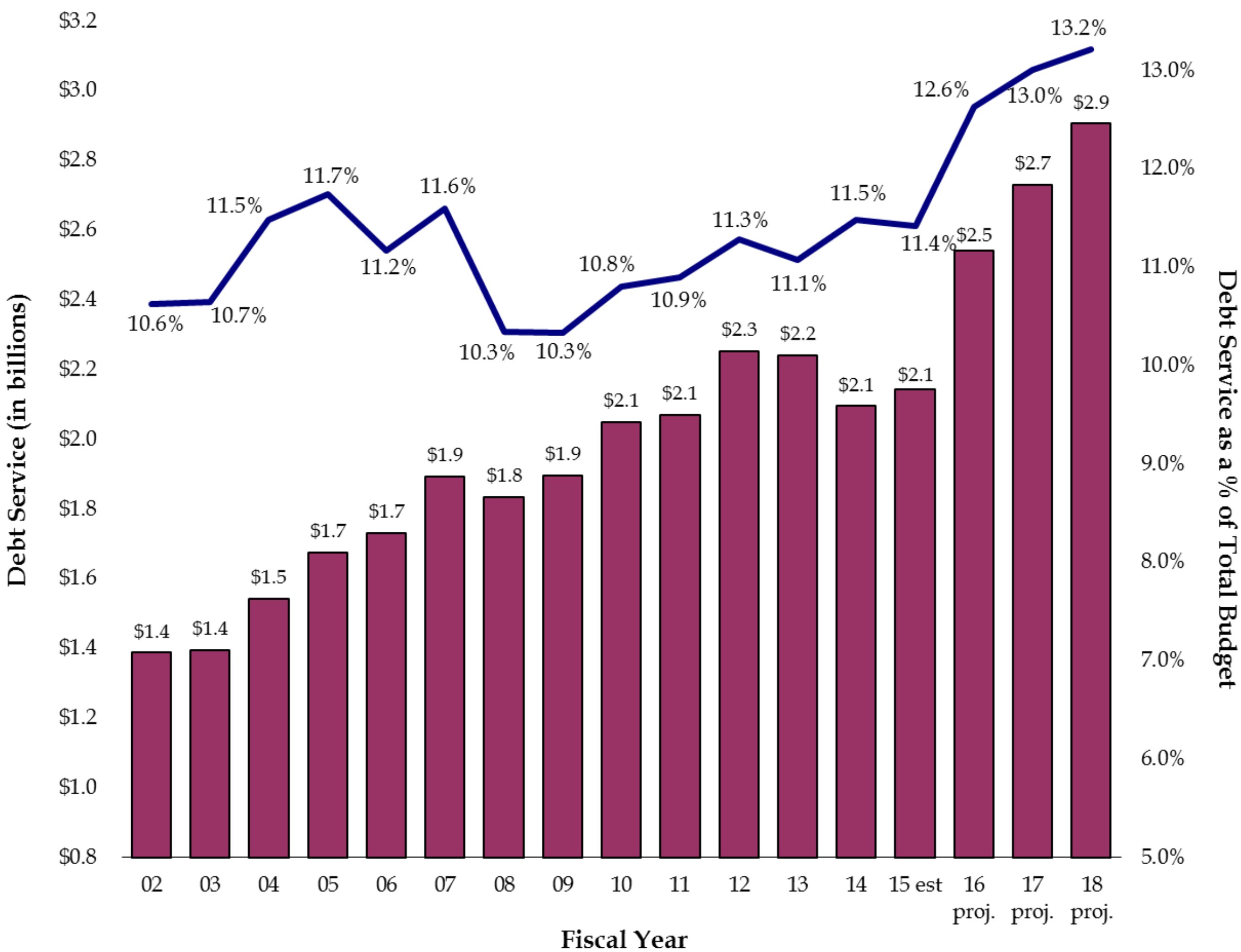
State and local debt comprises all interest-bearing short-term credit obligations and all long-term obligations incurred in the name of the government and all its dependent agencies, whether used for public or private purposes.

Ranked by State and Local Debt Per Capita among the 50 States in 2011					Ranked by State and Local Debt as a % of Personal Income (PI) in 2011		
Rank	State	Amount $	Moody's Bond Rating		Rank	State	Debt/PI %
1	New York	17,159	Aa2		1	New York	33.1
2	Alaska	14,088	Aaa		2	Alaska	28.8
3	Massachusetts	14,009	Aa1		3	Kentucky	27.7
4	New Jersey	11,575	Aa3		4	Nevada	27.2
5	**Connecticut**	**11,568**	**Aa3**		5	Massachusetts	25.8
6	Rhode Island	11,364	Aa2		6	South Carolina	25.5
7	Illinois	11,313	A2		7	Rhode Island	25.4
8	California	11,114	A1		8	Illinois	25.4
9	Washington	10,859	Aa1		9	California	24.8
10	Colorado	10,200	Aa1*		10	Texas	24.2

Ranked by State and Local Debt Per Capita among the 50 States in 2011					Ranked by State and Local Debt as a % of Personal Income (PI) in 2011		
Rank	**State**	**Amount $**	**Moody's Bond Rating**		**Rank**	**State**	**Debt/PI %**
11	Nevada	10,187	Aa2		11	Washington	24.1
12	Texas	10,075	Aaa		**24**	**Connecticut**	**20.1**
Mean		**8,330**			**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 15 through FY 18. Totals reflect consensus revenue estimates as of November 10, 2014.

November 2014 Consensus Revenue - Federal Grants (in millions)

Grant	FY 15 $	FY 16 $	FY 17 $	FY 18 $
Medicaid Related	671.8	691.3	705.8	725.3
Temporary Assistance to Needy Families (TANF)/ Child Care Development Block grant (CCBDG)	291.7	291.6	291.6	291.6
SNAP	48.9	51.3	53.5	54.6
Title IV-E - Foster Care/Adoption	115.5	119.8	115.7	117.7
Child Support Enforcement	41.3	44.1	48.0	49.0
Build America Bonds	25.4	25.4	25.4	25.4
Workforce Investment Act (WIA)	31.3	31.3	31.3	31.3
Miscellaneous	12.5	12.5	12.5	12.5
TOTAL	**1,238.4**	**1,267.3**	**1,283.8**	**1,307.4**

Medicaid Coverage for Autism

In July, 2014, the federal Centers for Medicare and Medicaid Services (CMS) issued a bulletin indicating that state Medicaid programs must cover treatment for Autism Spectrum Disorder (ASD) for individuals under the age of 21. The Departments of Social Services (DSS) and Developmental Services (DDS) presented their proposal to cover ASD treatments to the state Autism Advisory Council on October 22, 2014. The departments propose covering autism services that are medically necessary based on individualized comprehensive diagnostic evaluation behavior assessment and an individualized plan of care. The target date to implement ASD evaluation, assessments and treatments is January 1, 2015.

Due to the timing of the federal bulletin, the FY 15 Medicaid budget did not include funding for ASD evaluations and treatments. As the provider network and the Medicaid fee schedule have yet to be established, the potential additional cost to the Medicaid program in the current fiscal year is not known. However, based on national data, 1 in 68 children have some form of ASD, with annual treatment costs of up to $50,000 per child. Based on these figures, the annualized Medicaid cost for this new coverage could approach $250,000,000, with the state responsible for half the cost. The amount incurred in the current fiscal year will depend upon how quickly providers are enrolled and when eligible children are identified and referred for service.

Other Federal Issues Affecting Connecticut

Sequestration

The Bipartisan Budget Act (BBA) of 2013 reset Federal FY 14 (FFY 14) and FFY 15 post-sequestration discretionary spending levels originally set in the Budget Control Act of 2011. FFY 14 discretionary spending levels were set at $1.012 trillion, which was about $44.8 billion above the original post-sequestration spending cap. As a result of the change in the cap, no sequestration of discretionary spending occurred in FFY 14.

On September 19, 2014, the President signed a Continuing Resolution (CR) funding the federal government until December 11, 2014. Discretionary spending levels in this CR are set at FFY 14 levels, which is approximately $1.4 billion less than what the BBA allows for in FFY 15. However, non-defense discretionary spending is approximately $2 billion above its spending cap imposed by the BBA. If this pattern of spending continued, a sequestration of non-defense discretionary spending would be necessary in FFY 15. The table below summarizes the Continuing Resolution.

FFY 15 Annualized Spending Levels in Continuing Resolution vs. Levels Imposed by Bipartisan Budget Act of 2013 (in millions)

	Defense $	Non-Defense $	Total $
FFY 15 Cap Imposed by BBA	521,272	492,356	1,013,628
FFY 15 Annualized Spending Level Set by CR	517,689	494,547	1,012,236
Annualized CR Spending Above/Below BBA Cap	(3,583)	2,191	(1,392)

Mandatory spending is set by statute, and is subject to a separate set of automatic reductions from statutory levels from FFY 13 to FFY 23. These reductions are to be calculated by the Office of Management and Budget at the beginning of each fiscal year. The chart below shows the mandatory sequestration that has taken place so far, from FFY 13 to FFY 15. The Budget Control Act called for sequestration of mandatory spending to continue until FFY 21, but the BBA continued mandatory sequestration through FFY 23.

Mandatory Sequestration from FFY 13 to FFY 15

Federal Fiscal Year (FFY)	Nondefense %	Defense %
2013	(5.1)	(7.9)
2014	(7.2)	(9.8)
2015	(7.3)	(9.5)

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.

Highway Trust Fund

According to the Congressional Budget Office (CBO), Highway Trust Fund revenue has not kept pace with outlays since 2001. In FFY 13 and early in FFY 14, Congress approved transfers from other funds to the HTF totaling $21.2 billion.

Over the summer, the Federal Department of Transportation announced that the highway account within the HTF would be insolvent by the end of August, and that the mass transit account would be insolvent at some point in the Fall. On July 31, Congress responded by ordering an additional $10.8 billion transfer, mostly from the General Fund, to the HTF. Federal Funds Information for States (FFIS) anticipates that this transfer will keep the fund solvent until May of 2015.

If the HTF was insolvent, the Federal DOT would need to delay or reduce reimbursements to states for road and mass transit projects.

CBO Report on Highway Trust Fund Cash Inflow, Outflow, and Fund Balance, FFY 15 to FFY 19 (in billions)[1]

Highway Account	FFY 15 $	FFY 16 $	FFY 17 $	FFY 18 $	FFY 19 $
Start-of-Year Balance	11	(1)	(12)	(23)	(34)
Revenue and Interest	33	34	34	34	34
Intragovernmental Transfers	-	-	-	-	-
Expenditures	45	45	45	45	45
End-of-Year Balance	**(1)**	**(12)**	**(23)**	**(34)**	**(45)**
Transit Account					
Start-of-Year Balance	3	-	(3)	(6)	(9)
Revenue and Interest	5	5	5	5	5
Intragovernmental Transfers	-	-	-	-	-
Expenditures	8	8	8	9	9
End-of-Year Balance	**-**	**(3)**	**(6)**	**(9)**	**(12)**
Trust Fund Total					
Start-of-Year Balance	14	(1)	(15)	(29)	(43)
Revenue and Interest	38	39	39	39	39
Intragovernmental Transfers	-	-	-	-	-
Expenditures	53	53	53	54	54
End-of-Year Balance	**(1)**	**(15)**	**(29)**	**(43)**	**(57)**

[1]The Highway Trust Fund cannot incur negative balances. The above projections are for illustrative purposes, and reflect current revenue estimates and the assumption that spending from the fund continues at FFY 14 levels.

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 $213.8 billion between FFYs 15 and 19.[12] Below is a chart showing the amount of revenue precluded by the tax exemption from FFY 94 to FFY 14.

[12]Office of Management and Budget, *Analytic Perspectives, Budget of the United States Government, FY 2015*

Tax Expenditure of Exemption on Municipal Bonds (FFY 94 to FFY 14 (in billions)

Federal Fiscal Year	Tax Expenditure[1] $
2014	31.5
2013	28.4
2012	26.0
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]FFY 94-FFY 11 figures are from the Congressional Research Service, via the Office of Management and Budget (OMB). FFY 12-FFY 14 figures are from OMB.

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[13] 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.

[13]Formula from www.municipalbonds.com.

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 0.87 (for AAA bonds) to 1.15 (for A rated bonds) percentage points higher than the rate on nontaxable bonds for an investor with an income of $100,000 to be willing to buy them.

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

Income $	2.6% Interest (AAA-Rated Bonds)	3.05% Interest (AA-Rated Bonds)	3.45% Interest (A-Rated Bonds)
100,000	3.47	4.07	4.60
200,000	3.61	4.24	4.79
300,000	3.88	4.55	5.15
400,000	4.00	4.69	5.31
500,000	4.30	5.05	5.71

[1]These are the average national interest rates for municipal bonds rated AAA (2.6%), AA (3.05%) and A (4.45%), reported by fmsbonds, inc., as of 10/27/2014.

It is estimated that removal of the income tax exemption on $1,680.2[14] million in General Obligation bonds issued by the State of Connecticut in FY 14 would have increased interest costs on those bonds by up to $352.8 million over 20 years. The figure is based on the assumption that removing the exemption would result in a 2 percentage point increase in the interest rate the state pays on fixed-rate General Obligation (GO) bonds (see table above).

Federal Debt and the Debt Ceiling

On February 15, 2014, the President signed a bill suspending the debt ceiling through March of 2015. This means that there is currently no debt ceiling. In March of 2015, the debt ceiling will be reset at its previous limit, plus all obligations incurred during the suspension period. This follows the previous suspension of the debt ceiling from October 16, 2013 to February 7, 2014 (between February 7, 2014 and February 15, 2014, the Treasury was able to use various cash management techniques to avoid breaching the debt ceiling that was reset on February 7, 2014).

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 14 and (2) a history of debt ceiling increases.

[14]Includes GAAP Conversion Bonds

Table 1: Federal Debt and the Debt Limit FFY 93 to FFY 14 (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 $	Total Debt as % of GDP	Change in Debt Held by Public %	Change in Debt Held by Gov't Accounts %	Change in Total Debt Subject to Debt Limit %
1996	5,500	3,705	1,432	5,137	63	-	-	-
1997	5,950	3,746	1,582	5,328	61	1	10	4
1998	5,950	3,697	1,741	5,439	60	(1)	10	2
1999	5,950	3,609	1,958	5,568	57	(2)	12	2
2000	5,950	3,388	2,204	5,592	54	(6)	13	0
2001	5,950	3,296	2,437	5,733	54	(3)	11	2
2002	6,400	3,517	2,644	6,161	56	7	9	7
2003	7,384	3,891	2,847	6,738	58	11	8	9
2004	7,384	4,277	3,057	7,333	59	10	7	8
2005	8,184	4,570	3,301	7,871	60	7	8	7
2006	8,965	4,810	3,610	8,420	61	5	9	7
2007	9,815	5,018	3,904	8,921	61	4	8	6
2008	10,615	5,780	4,180	9,960	67	15	7	10
2009	12,104	7,528	4,325	11,853	82	30	3	16
2010	14,294	9,001	4,510	13,511	90	20	4	12
2011	15,194	10,107	4,639	14,746	95	12	3	8
2012	16,394	11,251	4,776	16,027	99	11	3	8
2013	16,699	11,959	4,741	16,700	98	6	(1)	4
2014	N/A	12,769	5,012	17,781	N/A	7	6	6

[1]Data from FY 96 to FY 08 is from the 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. Data from FY 09 to FY 14 is from the Treasury Department's Monthly Statement of Public Debt, as of September of each year. GDP data is from the Bureau of Economic Analysis' most recent estimates. Estimates for the third quarter of each calendar year were used. Data from the third quarter of 2014 is not yet available.

Table 2: Debt Ceiling Increases 1993 to 2015 (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]	17,200[2]	501	3
February 15, 2014 to March of 2015[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 trillion. On October 16, 2013, the debt limit was again suspended until February 7, 2014, at which point it was reset at $17.2 trillion. On February 15, 2014, the debt ceiling was suspended until March of 2015.

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 an August 2014 report, estimated FFY 15 revenues of approximately $3.281 trillion and FFY 15 expenditures of approximately $3.750 trillion (including interest payments on the debt). This means that, on an annual basis, anticipated incoming revenue can cover approximately 87% 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.

Debt Ceiling Background

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 78 separate measures altering the debt limit.

Federal Spending in Connecticut

In FFY 10 the Federal government spent approximately $56 billion in Connecticut.[15] 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.

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

[15]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.

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
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).

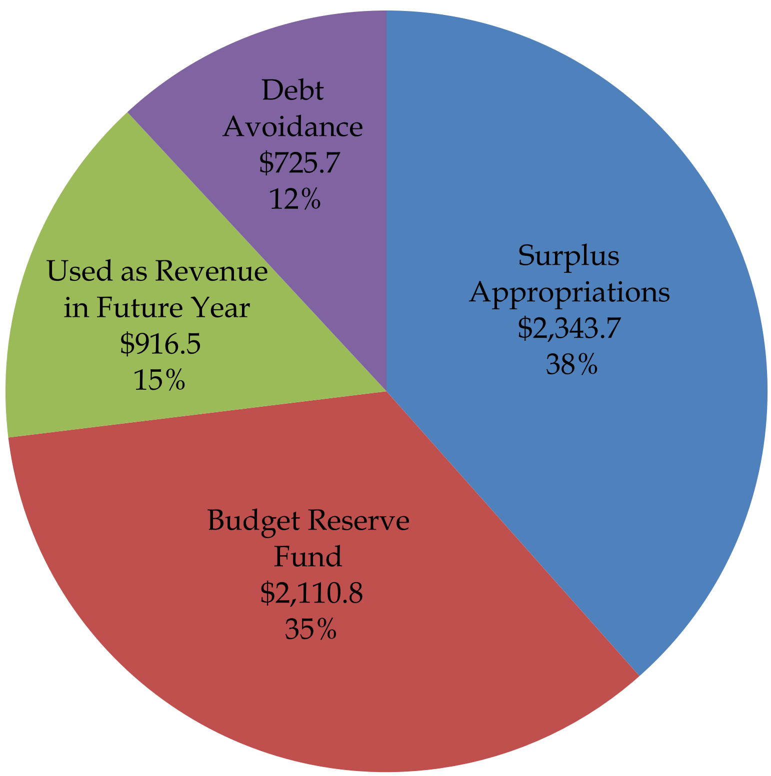
Section 7: Possible Uses of Surplus Funds

In FY 15 - FY 18, no surpluses are projected.

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 14 (in millions)
$6,096.7 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 $86.2 million
(The following assumes that holdbacks will not be released by OPM.)

Department of Social Services - $40 million

The agency's projected FY 15 budget shortfall is composed of:

- $40 million in Medicaid.

The $40 million shortfall represents 1.8% of the FY 15 Medicaid appropriation of $2.3 billion. The shortfall is primarily in two areas of expenditures. First, pharmacy expenditures in the first three months of the year are running 11% in excess of levels assumed in the budget. This spending is being driven in part by several newly released, high cost drugs. Gross Medicaid spending on one such drug used to treat Hepatitis C, Solvadi, has totaled $55 million since January 1, 2014. Assuming these levels of expenditures continue, a $30 million deficiency will result.

Second, the federal government recently required states to cover treatments for children with Autism Spectrum Disorder (ASD). The department is currently developing a Medicaid state plan amendment to address the federal requirements, with coverage anticipated to begin January 1, 2015. While it will take time for the provider network to be credentialed and eligible children placed in treatment, it is anticipated that at least $10 million in unbudgeted services will be provided in FY 15.

This projection assumes that all budgeted savings initiatives will be fully implemented, including $52 million in anti-fraud efforts. Should these savings be unachievable, further deficiencies may result.

State Comptroller - Fringe Benefits - General Fund $25.6 million

The agency's projected FY 15 budget shortfall is composed of:

- $1.5 million in State Employees Health Services; and
- $31.8 million in Retired Employee Health Services.

This shortfall is partially offset by $7.8 million lapsing funds from the following accounts:

- $1.0 million in Group Life Insurance;
- $3.2 million in the Alternate Retirement Program; and
- $3.6 million in Unemployment Compensation.

The projected shortfall of $1.5 million in the State Employees Health Services Cost account (0.2% of FY 15 appropriation) and $31.8 million in the Retired Employees' Health Services account (5.6% of FY 15 appropriation) is due to various factors. First, a combined increase of 12.2% (15.8% for active employees, 9.8% for retirees under 65, and 5% for Medicare eligible retirees) in prescription drug costs over what was assumed in the FY 15 budget, including coverage for a new Hepatitis C treatment approved by the FDA this year (estimated cost per 12-week regimen is approximately $94,500). In addition to the new Hepatitis C treatment, compound drugs and costly brand name specialty drugs (for which there is not a generic alternative) are also driving the increase in prescription costs. Secondly, the shortfall in the Retired Employees' Health Services account is also being driven by an increase of approximately 3,000 retirees over what was assumed in the FY 14 – FY 15 budget. The FY 15 budget was not adjusted for the increase in the retiree population experienced in FY 14. Lastly, a reduction in the federal subsidy rates for participating in the Employer Group Waiver Program (which offset Medicare retiree state health costs) resulted in a reduction in FY 15 of approximately $5 million over FY 14 and what was assumed in the budget.

The projected shortfall is partially offset by projected lapses in the Group Life Insurance account, the Alternate Retirement Program (ARP) account and Unemployment Compensation account that total $7.8 million. The lapse in Group Life Insurance is due to premiums being less than what were anticipated. The lapse in the ARP is predominately due to the distribution of General Fund funded employees and expenditures being less than was anticipated, likely due to a shift to funding SERS higher education employees versus ARP employees out of the General Fund. Lastly, the lapse in Unemployment Compensation is due to average monthly benefit payments being less than anticipated; average monthly benefits to date are 15.4% less than they were in FY 14.

Department of Correction - $10.5 million

The agency's projected FY 15 budget shortfall is composed of:

- $8.0 million in Personal Services; and
- $2.5 million in Other Expenses.

The $8 million projected shortfall in the Personal Services account is due to the FY 14 deficiency remaining unfunded. In FY 14, the deficiency was a result of higher than budgeted use of overtime due to an 80% increase in hazardous duty retirements from the previous year. In addition, the original biennial budget included an FY 14 Personal Services reduction of $2.8 million based on reducing sick time usage. Sick time use increased by 3.2% over the previous year and no savings were realized as a result. So far this fiscal year there are approximately 530 fewer inmates incarcerated than last fiscal year.

The $2.5 million projected shortfall in Other Expenses is primarily related to inflationary pressures on food and rising maintenance costs. Since FY 11, maintenance costs have risen approximately 40% and food costs have increased 10%. In that same period, adjusted appropriations have fallen by 2%.

Public Defender Services Commission - $4.7 million

The agency's projected FY 15 budget shortfall is composed of:

- $3.7 million in Assigned Counsel - Criminal; and
- $1.0 million in Expert Witnesses.

The projected shortfall in the Assigned Counsel and Expert Witnesses accounts are due to legislation that passed in PA 12-115, *An Act Concerning Habeas Reform*, which created a five year post appellate review period in which habeas petitions must be made. Prior to this legislation there was no time limit to habeas petitions. This has caused an influx of petitions received by the Public Defender Services Commission. In previous years, PDS received approximately 33 habeas petitions monthly (or about $262,000 per month for legal counsel and expert witnesses). Since January 2014, the agency has averaged approximately 70 petitions per month (approximately $560,000/month). On average each habeas case results in legal fees in the Assigned Counsel account of approximately $8,000 and an additional $1,000-$10,000 in expert witness fees, depending on the complexity of the case.

In addition, the Expert Witnesses account is projected to be in deficiency due to two changes that affect the PDS. The CT Supreme Court ruled in June 2014 that PDS must now pay for reasonable necessary expert witnesses when requested by pro-se indigent defendants in criminal cases. It is anticipated, based on cases in previous years, that 240 such cases will require expert witness payments of $500 each at a total cost of $120,000.

Another change that will affect the Expert Witness account is that the agency must now provide interpreter services for non-English speaking clients. In the past the Judicial Department allowed their interpreters to accompany public defender staff or assignment counsel. It is anticipated that the cost of the translation service will be $125,000, which is comparable to what the Judicial Department pays for the same services.

Department of Emergency Services and Public Protection - $2.5 million

The agency's projected FY 15 budget shortfall is composed of:

- $2.5 million in Personal Services.

The $2.5 million projected shortfall in Personal Services is driven by overtime usage within the Division of State Police. The FY 15 budget included a $4 million reduction (15%) to budgeted overtime. Through the first 8 pay periods of the current fiscal year, non-reimbursable DESPP overtime is averaging approximately $904,000, exceeding budget targets of $734,000 per pay period. This projected deficiency will increase further if overtime reimbursements fall short of agency projections.

Office of the State Comptroller - Adjudicated Claims - $1.4 million

The agency's projected FY 15 budget shortfall is composed of:

- $1.4 million in Adjudicated Claims.

The projected shortfall in the Adjudicated Claims account is predominately due to higher than anticipated claims costs, including the FY 15 payment (approximately $750,000) for the settlement between the US Department of Education and the State Department of Education from 2013. The projected shortfall represents 25% of total FY 15 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. Average claims costs for the past 10 years has been $8.7 million annually.

State Comptroller - Fringe Benefits - Special Transportation Fund $1.6 million

The agency's projected FY 15 budget shortfall is composed of:

- $1.6 million in State Employees Health Services.

Similar to the General Fund State Employee's Health Services account, the projected shortfall of $1.6 million (3.9% of FY 15 appropriation) in the State Employees' Health Services account is primarily due to an increase in prescription drug costs over what was assumed in the FY 15 budget, including coverage for a new Hepatitis C treatment approved by the FDA this year (estimated cost per 12-week regimen is approximately $94,500). In addition to the new Hepatitis C treatment, compound drugs and costly brand name specialty drugs (for which there is not a generic alternative) are also driving the 15.8% increase in prescription costs compared to the trend assumed in the budget.

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.

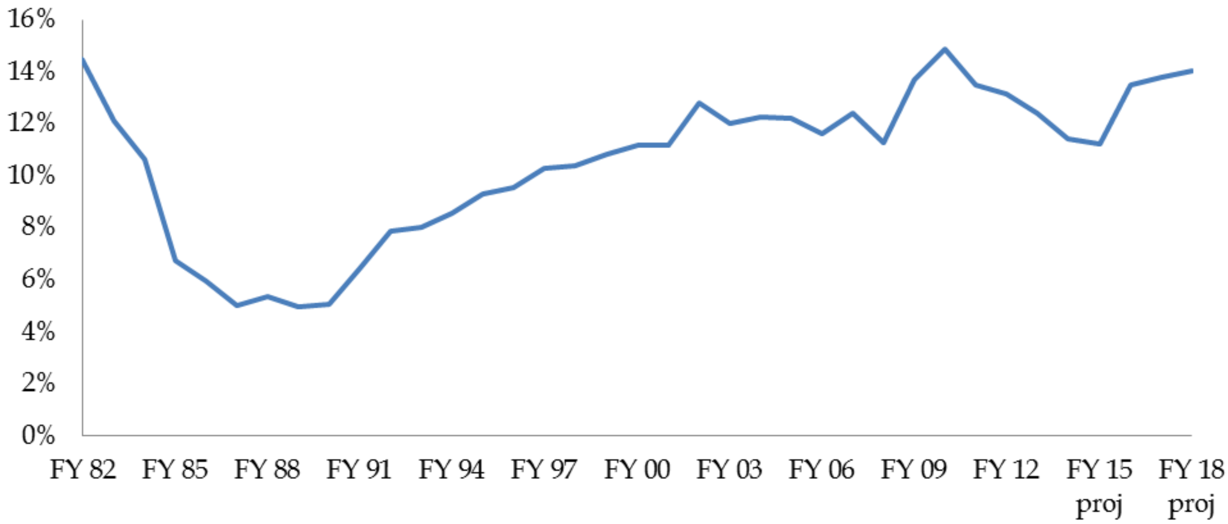
5. **Debt to personal income -** The ratio shows the percentage of the total income earned by all the state's residents it would take to pay the state's debts. Personal income represents income received by individuals in a state, regardless of where the income is generated. Unlike revenues, it is not 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

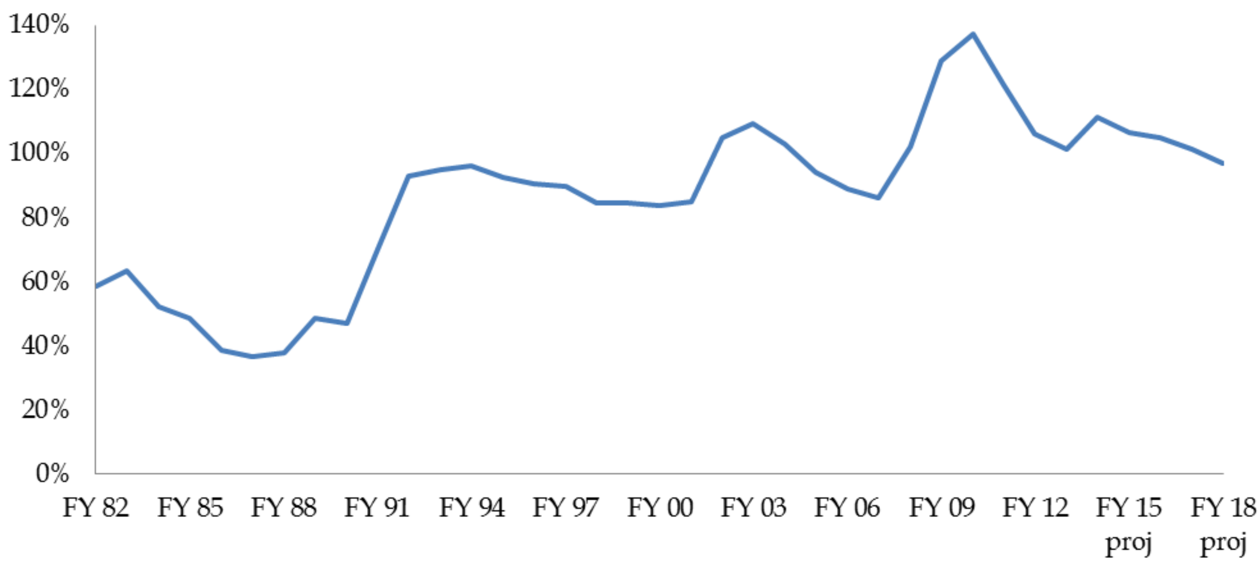
Debt service to revenue - The chart below shows the ratio of General Fund debt service to General Fund tax revenue, including historical data from FY 82 to FY 14 and projections from FY 15 to FY 18.

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 14 and projections from FY 15 to FY 18.

Ratio of General Fund Debt to General Fund Tax Revenue



Appendix D

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	3,457	(1,294)
2011	2,303	3,603	(1,300)
2012	2,450	3,537	(1,087)
2013	2,775	3,455	(680)
2014 est.	3,006	3,512	(506)
2015 est.	3,281	3,750	(469)
2016 est.	3,423	3,979	(556)
2017 est.	3,605	4,135	(530)
2018 est.	3,748	4,308	(560)
2019 est.	3,908	4,569	(661)

[1]Congressional Budget Office

Appendix E

Federal Government Shutdowns from FFY 77 to FFY 14[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		
2003	None		
2004	None		

Federal Fiscal Year	Final Date of Budget Authority	Full Day(s) of Gap	Date Gap Terminated
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 F

Update on ERN Refinancing

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.[16] The initial $314.3 million refunding issuance was completed on October 23, 2013 and the second refunding issuance of $310.9 million is planned for December FY 15. The Office of the State Treasurer is currently estimating that second ERN refunding issuance will result in a General Fund debt service saving of $125.2 million in FY 15. The OFA FY 15 estimate in this report incorporates this assumption for the purpose of projecting debt service expenditures at the end of the fiscal year.

Background: 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**

[16]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 G

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
15	27.6	(2.2)	-	25.4	13.1	(1.0)	-	12.1

[1]The figures reflect a reduction of 8.7% for federal fiscal year 13 and 7.2% for fiscal year 14. The new rate for fiscal year 15 is estimated to be 7.3%.

[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[17] 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[18], 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 and are estimated to be reduced by 7.3% in FFY 15. Connecticut issued BABs under both the General Obligation and Special Tax Obligation bond programs, as noted in the table above.

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[17]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.

[18]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.