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 15th 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 16 – FY 20 budget estimates and assumptions for appropriated funds,
2. FY 16 – FY 20 tax credit estimates and assumptions,
3. FY 16 deficiencies,
4. FY 16 – FY 20 projected balance of Budget Reserve Fund,
5. FY 16 – FY 20 projected bonding and debt service,
6. Budget trends and areas of concern, and
7. Possible uses of surplus funds.

The requirements of CGS Sec. 2-36b can be found in Appendix A.

Section 1: FY 16 – FY 20 Budget Estimates and Assumptions for Appropriated Funds

General Fund (GF)

We are projecting a $254.4 million deficit for FY 16 (this amount represents about 1.4% of total estimated expenditures) and $552 million in FY 17 in the GF. In addition, based on a current services analysis, we are also projecting deficits ranging from $1,772.8 million to $2,211.5 million over the three fiscal years that will follow. Please see the table below for details.

Budget Outlook (in millions)

	FY 16 $	FY 17 $	FY 18 $	FY 19 $	FY 20 $
Estimated Expenditures	18,199.3	18,863.8	20,253.7	20,939.5	21,840.2
Estimated Revenue[1]	17,944.9	18,311.8	18,530.9	19,066.6	19,628.7
Surplus/(Deficit)	**(254.4)**	**(552.0)**	**(1,722.8)**	**(1,872.9)**	**(2,211.5)**
% of Estimated Expenditures	(1.4%)	(2.9%)	(8.5%)	(8.9%)	(10.1%)

[1]Please note that these figures do not include any adjustments to account for the provision of CGS Sec. 2-35(b) requiring a revenue reserve to cover any growth in the deficit under Generally Accepted Accounting Principles (GAAP) as identified in the Comptroller's most recent Comprehensive Annual Financial Report (CAFR). This provision became operative with the publication of the Comptroller's FY 14 CAFR on February 28, 2015, which showed an increase in the GAAP deficit of $108.7 million from the prior year. While it is unclear to what fiscal year this adjustment would be attributed under CGS Sec. 2-35(b), to the extent the adjustment is made it would further reduce available revenue for that year by $108.7 million. Please see Section 6 for more details.

Special Transportation Fund (STF)

Projections for the STF indicate that the fund will experience a positive operating balance in FY 16, but will end FY 20 with a negative operating balance of $96.8 million. However, in FY 20 the STF will end with a positive cumulative balance of $109.3 million.

STF Outlook (in millions)

STF	FY 16 $	FY 17 $	FY 18 $	FY 19 $	FY 20 $
Beginning Balance	180.0	182.7	229.7	240.3	206.1
Revenues	1,423.5	1,547.9	1,683.8	1,735.6	1,774.9
Expenditures	1,420.8	1,500.9	1,673.2	1,769.8	1,871.7
Operating Surplus/Deficit	**2.7**	**47.0**	**10.6**	**(34.2)**	**(96.8)**
Ending Balance	182.7	229.7	240.3	206.1	109.3
Revenue Growth	6.30%	8.74%	8.78%	3.08%	2.26%
Expenditure Growth	4.00%	5.64%	11.48%	5.77%	5.76%

Major contributing factors to expenditure growth are:

- $60 million in Town Aid Road being bonded in FY 16 and FY 17 and $60 million added back to the Department of Transportation's appropriation in FY 18 – FY 20;
- An increase of $12.3 million in FY 17, $29.4 million in FY 18, $10.9 million in FY 19 and $11.8 million in FY 20 for the State Employees' Retirement System (SERS); and
- An increase of $61.1 million in FY 17, $62.3 million in FY 18, $64.8 million in FY 19 and $67.6 million in FY 20 for Debt Service.

Other Appropriated Funds

In total, the seven Other Appropriated Funds are projected to run operational deficiencies in FY 16, FY 19, and FY 20. In FY 17 and FY 18 revenues are projected to exceed expenditures. Overall, the aggregate fund balance is projected to decrease from $48.4 million in FY 15 to $37.7 million in FY 20. This reduction in fund balance includes two transfers of $7 million in FY 16 and in FY 17 from the Banking Fund to the General Fund.

Other Appropriated Funds Outlook (in millions)

	Actual FY 15 $	**Projected FY 16 $**	**Projected FY 17 $**	**Projected FY 18 $**	**Projected FY 19 $**	**Projected FY 20 $**
Beginning Balance	52.1	48.4	40.4	37.8	40.0	38.2
Revenue	144.0	226.6	234.0	234.7	237.7	246.5
Expenditures	(203.2)	(227.5)	(229.7)	(232.5)	(239.4)	(247.0)
Surplus/Deficit	**(59.2)**	**(1.0)**	**4.3**	**2.2**	**(1.7)**	**(0.5)**
Transfers	(55.6)	(7.0)	(7.0)	-	-	-
Ending Balance	**48.4**	**40.4**	**37.8**	**40.0**	**38.2**	**37.7**

Spending Cap

Based on Section 35 of PA 15-244, the state is under the spending cap in the current year, assuming no FY 16 deficiency appropriations are made. Calculations for FY 17 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.[1] Please see the table on the following page.

[1]Section 35 of PA 15-244 specified that the spending cap calculation reflect a five-year personal income growth rate calculated on a calendar year rather than a fiscal year basis, and treat appropriations for the unfunded liabilities of the State Employees' Retirement System (SRS), Judges, Family Support Magistrates and Compensation Commissioners' Retirement System (JRS), and Teachers' Retirement System (TRS) as exempt from being counted as general budget expenditures under the spending cap for FY 15 through FY 17.

Spending Cap Calculations[1] (in millions)

Items	FY 16 $	FY 17 $	FY 18 $	FY 19 $	FY 20 $
Appropriations Allowed by Cap	19,830.2	20,592.2	21,530.3	22,263.5	23,333.7
Estimated Expenditures	19,807.2	20,594.3	22,159.4	22,948.8	23,958.9
Over/(Under) the Cap	(23.0)	2.1	629.1	685.3	625.1

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

FY 16 General Fund Summary

The calculation of the General Fund estimated deficit of $254.4 million in FY 16 includes lower net revenue of $217.5 million and higher net expenditures of $37.7 million as compared to budgeted. The table on the following page compares the original budget plan with the projected FY 16 expenditures and revenues.

FY 16 General Fund Summary[1] (in millions)

Summary	Budget Plan $	Increase/ (Decreases) $	Projected $
Expenditures			
Agency Appropriations	18,362.2	-	18,362.2
Deficiency Requirements	-	63.8	63.8
Rescissions	-	(102.8)	(102.8)
Lapses	(200.6)	76.7	(123.9)
Total Expenditures	**18,161.6**	**37.7**	**18,199.3**
Revenues			
Taxes	15,711.6	(201.1)	15,510.5
Other Revenue	1,174.3	(12.3)	1,162.0
Other Sources	1,276.5	(4.1)	1,272.4
Total Revenue	**18,162.4**	**(217.5)**	**17,944.9**
ESTIMATED SURPLUS/(DEFICIT)	0.8	(255.2)	(254.4)

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

A further explanation of changes are identified below.

Revenue - $217.5 million lower net revenue than originally budgeted primarily due to:

- $201.1 million reduction in total net taxes, largely due to a $189.5 million negative adjustment to the Personal Income Tax which reflects lower anticipated growth in Withholding ($96.4 million) and Estimates and Finals ($93.1 million);
- $12.3 million reduction in other revenue, primarily due to a delay in the implementation of Keno; and

- $4.1 million reduction in revenue from other sources, which primarily reflects lower spending in line items subject to federal reimbursement as a revenue item.

Expenditures - $37.7 million higher net expenditures than originally budgeted primarily due to:

- $63.8 million in deficiencies[2] across six agencies, of which over 60% of the total is made up of Debt Service;
- $102.8 million in the Governor's September 18, 2015 rescissions that reduce the net expenditures; of the total rescissions, $63.5 million is in Medicaid resulting in reduced hospital funding; and
- $76.7 million in unachievable lapses; the inability to meet the budgeted lapses is primarily due to: (1) significant budgeted holdbacks compared to previous years ($89.9 million in holdbacks that is included in our lapse projection as compared to $20 million in holdbacks in FY 15)[3]; (2) Debt Service is usually a major contributor towards the lapse, however Debt Service is currently projecting a deficiency; (3) various reductions included in the budget that would have otherwise lapsed; and (4) the rescissions that have impacted the availability of unallocated lapses.

Lapses - The FY 16 General Fund Budget includes $200.6 million in lapses (approximately 1% of the budget). Our FY 16 estimated total lapses of $123.9 million, is $76.7 million lower than the budgeted lapse. The total lapses consist of $89.9 million in allocated lapses (holdbacks) plus $34 million in other agency unallocated lapses. The lapses are anticipated to remain unexpended, either through normal spending patterns (most agencies do not expend their full appropriation) or through "mandated" savings (holdbacks).

The budgeted lapses (which include both the General Fund and Special Transportation Fund) are identified in the table below with a brief explanation. Sections 10, 11, 12, 38 and 41 of PA 15-244 and Section 156 of PA 15-5, JSS 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 $89.9 million in holdbacks[4] is included in our lapse estimate of $123.9 million. The following six lapses are allocated to state agencies via holdbacks by OPM: (1) General Lapse of $10 million, (2) Statewide Hiring Reduction Lapse of $35 million, (3) Municipal Opportunities and Regional Efficiencies Program Lapse of $20 million, of which $14.8 million is allocated to the State-Owned Property PILOT and College and Hospital PILOT accounts within OPM, a (4) General Employee Lapse of $7.1 million, (5) Overtime Savings Lapse of $10.5 million and (6) Targeted Savings Lapse of $12.5 million.

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[2]For details on the agency deficiencies see Section 3 and Appendix B.

[3]The total General Fund budgeted lapses of $200.6 million is $68.5 million greater than the total budgeted lapses of FY 15 ($132.1 million).

[4]A complete list of holdbacks is located in the OFA FY 16 & FY 17 Budget Book.

FY 16 and FY 17 Budget Lapses (in millions)

Lapse	FY 16 $	FY 17 $	Explanation
General Fund Lapses			
General Lapse[1]	(10.0)	(10.0)	This reduction reflects savings in a manner to be determined by OPM. All General Fund agency accounts could be subject to this reduction.
Unallocated Lapse[1]	(105.5)	(104.9)	This reduction reflects an adjustment to gross appropriations due to an anticipated level of under spending across all General Fund agencies and accounts.
Overtime Savings	(10.5)	(10.5)	This reduction reflects savings in a manner to be determined by OPM. All General Fund agency accounts that have overtime expenditures could be subject to this reduction.
Municipal Opportunities & Regional Efficiencies	(20.0)	(20.0)	Savings to be achieved with a reduction in municipal aid as a result of various municipal saving initiatives and efficiencies.
General Employee Lapse	(7.1)	(12.8)	This reduction reflects savings in a manner to be determined by OPM. These savings shall only apply to state employees.
Targeted Savings	(12.5)	(12.5)	This reduction reflects savings identified by agency and line item in PA 15-5 JSS.
Statewide Hiring Reduction[1]	(35.0)	(35.0)	Savings anticipated to be achieved by hiring reductions and other savings initiatives in a manner to be determined by OPM. All General Fund agency Personal Services accounts could be subject to this reduction.
Subtotal	**(200.6)**	**(205.7)**	
Unallocated Lapse	(12.0)	(12.0)	This reduction reflects an adjustment to gross appropriations due to an anticipated level of under spending across all Transportation Fund agencies and accounts.
Subtotal	**(12.0)**	**(12.0)**	
TOTAL	**(212.6)**	**(217.7)**	

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

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 September 2015 forecast for electricity, natural gas, motor vehicle fuel, fuel oil, and food inflation;

- The Center for Medicare & Medicaid Service's (CMS) July 2015 projections for National Health Expenditures;
- CORE-CT data for historical state employee 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 18 %	FY 19 %	FY 20 %	Source or Methodology
Base[1]	2.3	2.3	2.3	Congressional Budget Office
Personal Services/Salary (GF)[2]	3.9	3.8	4.2	Assumes Step and Annual Increment (AI) increases on time, a 2% Cost of Living Adjustment (COLA) in July and a 1% COLA in January
Personal Services/Salary (STF)	3.8	3.7	4.0	Assumes Step and AI increases on time, a 2% COLA in July and a 1% COLA in January
Personal Services/Salary (All Appropriated Funds)	3.9	3.8	4.2	Assumes Step and AI increases on time, a 2% COLA in July and a 1% COLA in January
Electricity	2.7	2.5	2.3	Moody's Economy.com
Natural Gas	3.1	2.6	2.3	Moody's Economy.com
Motor Vehicle Fuel	3.7	1.9	1.7	Moody's Economy.com
Fuel Oil	2.5	1.3	1.1	Moody's Economy.com
Medical	5.5	6.2	6.3	National Health Expenditures, CMS Office of the Actuary, July 2015
Food	2.3	2.4	2.3	Moody's Economy.com
Education	3.2	3.2	3.2	Average teacher contract settlements
Workers' Compensation (GF)	4.7	4.9	5.2	Weighted Average of Medical Inflation Rate (National Health Expenditures, CMS Office of the Actuary, July 2015) and Personal Services Inflation Rate (GF)
Workers' Compensation (STF)	4.6	4.9	5.1	Weighted Average of Medical Inflation Rate (National Health Expenditures, CMS Office of the Actuary, July 2015) and Personal Services Inflation Rate (STF)

[1]Standard inflation rate not included in the other categories listed.
[2]Differences in Personal Services inflation between funds is caused by timing differences in Step and AI increases.

Inflationary Adjustments (all appropriated funds – in millions)

Type	FY 18 Inflation		FY 19 Inflation		FY 20 Inflation	
	Rate %	Amount $	Rate %	Amount $	Rate %	Amount $
Personal Services	3.9%	153.7	3.8%	160.6	4.2%	183.5
Base	2.3%	93.9	2.3%	98.0	2.3%	101.0
Medical	5.5%	94.5	6.2%	114.3	6.3%	124.5
Education	3.2%	69.0	3.2%	71.2	3.2%	73.5
Workers' Compensation	4.7%	4.1	4.9%	4.6	5.2%	5.0
Food & Energy	2.9%	3.0	2.1%	2.5	1.9%	2.4
TOTAL		**418.3**		**451.3**		**490.0**

Other Current Services

In addition to inflation, other adjustments are made to calculate current services requirements in FY 18 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)

Other Current Services	FY 18 $	FY 19 $	FY 20 $
Pension Obligation	336.9	98.3	103.8
Debt Service	272.9	33.0	206.9
Caseload	157.0	150.5	151.3
Statutory Formula	143.3	9.5	10.0
Contractual Obligations	115.0	4.6	5.2
Statutory Requirements	60.0	-	-
Federal Mandate	47.6	29.5	31.5
Adjust Expenses for Current Requirements	14.2	12.7	11.3
TOTAL	**1,146.8**	**338.1**	**520.1**

Explanation of categories:

1. **Pension Obligations:** Estimate of the state's required contribution to fund ongoing and past pension liabilities for state employees and public school teachers. Actuarial valuations are performed biennially for State Employees' Retirement System (SERS), Judges and Compensation Commissioners' Retirement System (JRS) and the Teachers' Retirement System (TRS) to establish the state's required contribution. The next actuarial valuations, as of June 30, 2016, will establish the state's contribution for FY 18 and FY 19. The projected out year increases for TRS reflects the increase associated with reducing the assumed investment return from its current 8.5% to 8.0% and projected payroll growth. The Teachers' Retirement Board voted at their November, 2015 meeting to change the assumed investment return to 8.0% for the June 30, 2016 valuation. SERS and JRS was adjusted based on estimated increases in the state's actuarially

determined employer contribution (ADEC) comprised of an allocation of the unfunded accrued liability amortization payment and normal cost adjusted annually by projected salary growth, as reflected in the June 30, 2014 valuation.

2. **Debt Service:** Contractual commitment to pay the principal and interest on existing and projected future debt obligations. The primary changes in debt service are: (1) a gradual increase in the interest rates from FY 17 to FY 20 at which nontaxable General Obligation (GO) bonds will be issued; and (2) a decrease in General Obligation debt service between FY 18 and FY 19 due to the 2009 Economic Recovery Notes, which were refinanced in FY 14 and FY 15, being paid off at the end of FY 18.
3. **Caseload**: Funding necessary to accommodate changes in caseload for entitlement, certain non-entitlement or enrollment programs. This includes caseload and enrollment projections for various health, human services and education agencies.
4. **Statutory Formula Adjustments**: Resources needed to fund certain grants in accordance with current statutory formulas. This includes education grants that are capped in the FY 16 and FY 17 Budget; however revert back to full funding of the statutory formula in the out years.
5. **Contractual Obligations**: Future costs necessary to meet current contractual obligations. This adjustment is due to the state match of employee contributions for retiree health insurance starting in FY 18 pursuant to the 2011 SEBAC Agreement.
6. **Statutory Requirement:** Resources needed to fund grants in accordance with statutory requirements. This includes the town aid road transportation grant that is currently supported through bond funds.
7. **Federal Mandate**: Service levels necessary to comply with federal law. This includes adjustments in Medicaid in compliance with the federal Affordable Care Act.
8. **Adjust Operating Expenses to Reflect Current Requirements:** Adjustments necessary to support future obligations, planned expansions in programs or operations, or changes in commitments as required by current law. This includes adjustments across various agencies such as: leap year costs in FY 20, continued implementation of the Bioscience and Next Generation programs, and elimination in FY 18 of budgeted support for intended one-time uses.

Revenue Detail

FY 16 - FY 20 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 9, 2015 (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 16 %	FY 17 %	FY 18 %	FY 19 %	FY 20 %
Gross State Product	3.9	4.3	3.3	2.3	1.5
Real Personal Income	4.4	3.5	3.6	2.3	1.4
$ Average Annual Wages[1]	68.1	71.9	76.2	80.2	83.5
Nonfarm Employment	1.7	1.5	1.4	1.1	0.5
Unemployment Rate	5.2	4.7	4.4	4.3	4.3
Total Retail Sales	7.1	8.4	6.8	5.0	3.8
Real Estate Prices	1.2	2.0	3.0	3.5	4.8
Existing Home Sales	21.3	(2.2)	(16.3)	(7.3)	1.7

[1]Dollars are in thousands.

General Fund

FY 16 Overview

The consensus revenue estimates, developed jointly with OPM in November, reflect a net revenue decrease of $217.5 million in FY 16.

General Fund Consensus Revenue Estimates for FY 16[1] (in millions)

Fund/Revenue	FY 14 Actual $	FY 15 Actual $	FY 16		
			Budget $	November Revisions $	November Consensus $
Taxes					
Personal Income	8,718.7	9,151.0	9,834.4	(189.4)	9,645.0
Sales and Use	4,100.6	4,205.1	4,121.1	-	4,121.1
Corporations	782.2	814.8	902.2	-	902.2
Public Service Corporations	293.3	276.8	308.0	(20.0)	288.0
Inheritance and Estate	168.1	176.7	173.4	20.0	193.4
Insurance Companies	240.7	220.6	243.8	(5.9)	237.9
Cigarettes	376.8	358.7	361.2	-	361.2
Real Estate Conveyance	180.5	186.0	194.7	-	194.7
Oil Companies	35.6	-	-	-	-
Electric Generation	15.3	-	-	-	-
Alcoholic Beverages	60.6	61.7	61.7	-	61.7
Admissions, Dues and Cabaret	39.9	38.4	38.3	-	38.3
Health Provider Tax	480.2	455.0	676.9	(3.7)	673.2
Miscellaneous	18.1	19.0	20.8	(1.1)	19.7
Total Taxes	15,510.6	15,963.9	16,936.5	(200.1)	16,736.4
Less Refunds of Taxes	(1,077.9)	(1,042.9)	(1,090.4)	-	(1,090.4)
Less Earned Income Tax Credit	(104.5)	(120.7)	(127.4)	(1.0)	(127.4)
Less R & D Credit Exchange	(5.1)	(7.9)	(7.1)	-	(8.1)
Taxes Less Refunds	**14,323.1**	**14,792.3**	**15,711.6**	**(201.1)**	**15,510.5**
Other Revenue					
Transfer Special Revenue	323.2	323.3	343.4	(16.0)	327.4
Indian Gaming Payments	279.9	268.0	258.8	-	258.8
Licenses, Permits and Fees	314.7	257.4	308.5	-	308.5

Fund/Revenue	FY 14 Actual $	FY 15 Actual $	FY 16		
			Budget $	November Revisions $	November Consensus $
Sales of Commodities and Services	40.5	35.8	38.0	-	38.0
Rentals, Fines and Escheats	130.9	168.7	126.0	-	126.0
Investment Income	(0.3)	0.9	2.5	(1.3)	1.2
Miscellaneous	206.8	185.0	171.3	-	171.3
Refunds of Payments	(66.6)	(64.3)	(74.2)	5.0	(69.2)
Total Other Revenue	**1,229.0**	**1,174.9**	**1,174.3**	**(12.3)**	**1,162.0**
Other Sources					
Federal Grants	1,243.9	1,241.2	1,265.2	(2.1)	1,263.1
Transfer from Tobacco Settlement Fund	107.0	97.4	106.6	-	106.6
Transfer (To) Other Funds[2]	705.0	17.4	(95.4)	(1.9)	(97.3)
Transfers to the Resources of the Special Transportation Fund	-	(41.2)	-	-	-
Total Other Sources	**2,055.9**	**1,314.8**	**1,276.5**	**(4.1)**	**1,272.4**
Total Revenue	**17,608.1**	**17,282.0**	**18,162.4**	**(217.5)**	**17,944.9**

[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.

Summary

The $217.5 million downward revision to General Fund FY 16 estimated revenue is due primarily to a negative adjustment of $189.4 million to the Personal Income Tax. The adjustment is comprised of a negative adjustment to the Withholding portion of the tax, in the amount of $96.4 million, and a negative adjustment to the Estimates and Finals portion of the tax, in the amount of $93.1 million. The $189.4 million negative adjustment is approximately 1.9% of the total revenue budgeted for the Personal Income Tax.

Withholding Income Tax Adjustment

The reduction to this portion of the Income Tax consists of two separate negative adjustments: (1) a reduction in the basis for estimated growth, which was last estimated on April 30, 2015, to reflect FY 15 revenues received during the accrual period from July 1, 2015 to August 7, 2015 ($30.3 million); and (2) a reduction in the estimated growth rate from 4.2% to 3.0% ($66.1 million).

In April, withholding growth had been steadily improving since the beginning of the calendar year. In addition, coincident economic indicators were showing significant improvement. The April consensus withholding growth rate assumed that the positive trajectory exhibited through April would continue and build upon itself. However, the rate of growth began to deteriorate between May and September, resulting in negative variance from budgeted levels.

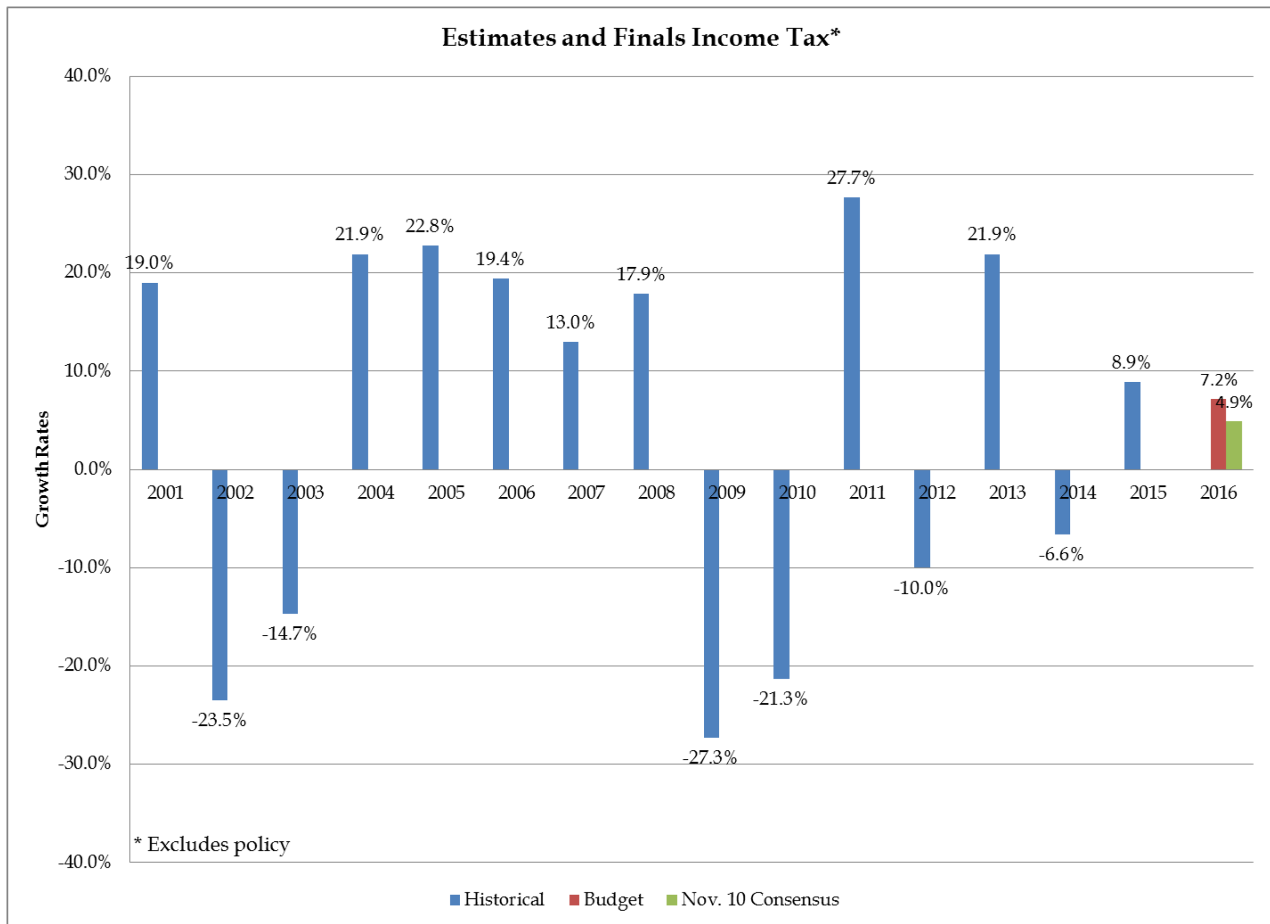
Estimates and Finals Income Tax Adjustment

The reduction to this portion of the Income tax reflects a shortfall in reaching targets for the September estimated payments ($28.6 million) and a revision to the projection of final payments in April ($64.5 million).

In addition to the adjustments to the Personal Income Tax, the following revenue sources have also been changed from budget in the latest forecast:

- Public Service Companies Tax – a reduction of $20 million to reflect increased utilization of tax credits.
- Inheritance & Estate Tax – an increase of $20 million to reflect a large estate settlement received in July 2015.
- Transfers – Special Revenue – a decrease of $16 million to reflect an anticipated delay in implementation of Keno as well as growth trends based on current collections.
- Insurance Companies Tax – a decrease of $5.9 million to reflect weakness in the first quarter payments.
- Hospital Tax – a reduction of $3.7 million to reflect an exemption of the first $1 million in gross receipts from the tax imposed on ambulatory surgical centers.
- Federal Funds - a reduction of $2.1 million to reflect lower spending in line items subject to federal reimbursement as a revenue item.

- The remaining revenue adjustments, which net to a negative $0.3 million, reflect updated revenue bases from FY 15 actuals.



FY 18 - FY 20
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 in FY 18.
- 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 $220.5 million from FY 16 through FY 20.
- The anticipated opening of **casinos in Massachusetts** in fall of 2018 is projected to result in a revenue loss of $63.8 million in FY 19. Prior revenue projections

assumed casino construction would be completed in the summer of 2017, and thus included a revenue loss in FY 18. The revenue impact of the opening of Massachusetts casinos is now projected to occur no earlier than FY 19.

- Various **temporary business tax measures** are due to phase-out at the end of the 2016-2017 biennium, including a 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 $45.2 million beginning in FY 18.

On the following table are the consensus revenue estimates for FY 17 and the out-years which were developed jointly with OPM in November.

General Fund Consensus Revenue Estimates for FY 17 and the Out-Years (in millions)

Fund/Revenue	Projected FY 17 $	Projected FY 18 $	Projected FY 19 $	Projected FY 20 $
Taxes				
Personal Income Tax	10,004.1	10,437.0	10,889.9	11,332.2
Sales & Use	4,084.7	3,998.9	4,146.6	4,293.7
Corporation	908.8	859.0	890.4	853.9
Public Service	295.9	303.9	312.2	320.6
Inheritance & Estate	174.6	180.1	186.1	192.4
Insurance Companies	241.3	222.8	226.3	229.8
Cigarettes	362.3	344.7	329.1	314.3
Real Estate Conveyance	199.7	206.2	212.7	220.9
Oil Companies	-	-	-	-
Alcoholic Beverages	62.2	62.6	63.0	63.4
Admissions & Dues	39.0	39.5	39.8	40.1
Health Provider Tax	680.2	683.0	685.3	687.6
Miscellaneous	20.1	20.5	21.0	21.5
Subtotal Taxes	**17,072.9**	**17,358.2**	**18,002.4**	**18,570.4**
Refund of Taxes	(1,101.5)	(1,141.8)	(1,196.0)	(1,252.4)
Earned Income Tax Credit	(133.6)	(150.0)	(155.6)	(161.8)
R&D Credit exchange	(8.5)	(8.8)	(9.2)	(9.6)
Taxes Less Refunds	**15,829.3**	**16,057.6**	**16,641.6**	**17,146.6**
Other Revenue				
Transfers-Special Revenue	351.0	372.1	380.9	389.9
Indian Gaming Payments	252.4	247.4	183.6	181.3
Licenses, Permits, Fees	290.8	313.1	293.4	317.3
Sales of Commodities	39.1	40.2	41.3	42.4
Rents, Fines, Escheats	128.0	130.1	132.1	134.1
Investment Income	3.4	5.5	6.6	7.5
Miscellaneous	173.4	175.6	179.2	182.9
Refund of Payments	(70.1)	(71.5)	(73.0)	(74.5)
Total Other Revenue	**1,168.0**	**1,212.5**	**1,144.1**	**1,180.9**

Fund/Revenue	Projected FY 17 $	Projected FY 18 $	Projected FY 19 $	Projected FY 20 $
Other Sources				
Federal Grants	1,255.3	1,277.5	1,297.1	1,317.6
Transfer From Tobacco Fund	104.5	89.7	90.2	90.0
Transfers From/ (To) Other Funds	(45.3)	(106.4)	(106.4)	(106.4)
Total Other Sources	**1,314.5**	**1,260.8**	**1,280.9**	**1,301.2**
Total General Fund Revenues	**18,311.8**	**18,530.9**	**19,066.6**	**19,628.7**

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

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

	FY 16 %	FY 17 %	FY 18 %	FY 19 %	FY 20 %
Tax Revenues					
Personal Income	3.8	3.9	4.4	4.3	4.1
Withholding	3.0	3.3	3.3	3.5	3.5
Estimates & Finals	4.9	4.9	6.0	5.5	4.8
Sales and Use	4.2	4.3	4.3	3.7	3.5
Corporations	(3.9)	3.1	2.6	2.6	3.0
Public Service Corporations	2.7	2.8	2.7	2.7	2.7
Inheritance and Estate	12.0	3.1	3.1	3.3	3.4
Insurance Companies	1.6	1.4	1.9	1.6	1.5
Cigarettes	(5.7)	(4.5)	(4.1)	(4.5)	(4.5)
Real Estate Conveyance	4.7	2.6	3.3	3.2	3.9
Alcoholic Beverages	(0.7)	0.8	0.6	0.6	0.6
Admissions & Dues	0.7	1.8	0.3	0.8	0.8
Health Provider Tax	(0.4)	0.4	0.4	0.3	0.3
Miscellaneous Taxes	4.0	2.0	2.0	2.4	2.4
Other Revenues					
Transfers - Special Revenue	1.3	1.3	2.8	2.4	2.4
Indian Gaming Payments	(3.4)	(2.5)	(2.0)	(25.8)	(1.3)
Licenses, Permits and Fees	7.3	4.6	(2.4)	3.6	(1.9)
Sales of Commodities	6.1	2.9	2.8	2.7	2.7
Rents, Fines and Escheats	(5.0)	1.6	1.6	1.5	1.5
Miscellaneous	13.1	1.2	1.3	2.1	2.1
Refunds					
Earned Income Tax Credit	5.6	4.9	3.7	3.7	4.0

Special Transportation Fund (STF)

FY 16 Overview

The consensus revenue projections for the STF indicate a net revenue decrease of $44.6 million in FY 16 and $49.0 million in FY 17. The net decrease is a combination of:

- Positive adjustments of $12.5 million in FY 16 and $11.1 million in FY 17 from increased Motor Fuels Excise Tax collections due to higher than anticipated consumption of gasoline and diesel fuel from lower prices. Year to date collections have increased by approximately 1%[5] compared to last year;
- Negative adjustments of $58 million in FY 16 and $60.9 million in FY 17 from the impact of a significant drop in oil prices; and
- Positive adjustments of $0.9 million in FY 16 and $0.8 million in FY 17 from increased collections from licenses, permits and fees.

Special Transportation Fund Consensus Revenues (in millions)

Revenue Source	FY 16 $ Budget	Revisions $	FY 16 $ Consensus	FY 17 $ Budget	Revisions $	FY 17 $ Consensus
Taxes						
Motor Fuels Tax	499.0	12.5	511.5	502.3	11.1	513.4
Oil Companies Tax	339.1	(58.0)	281.1	359.7	(60.9)	298.8
Sales Tax-DMV	84.0	-	84.0	85.0	-	85.0
Sales and Use Tax	158.6	-	158.6	260.6	-	260.6
Refunds	(7.3)	-	(7.3)	(7.5)	-	(7.5)
Subtotal	**1,073.4**	**(45.5)**	**1,027.9**	**1,200.1**	**(49.8)**	**1,150.3**
Other Revenue						
Motor Vehicle Receipts	245.8	-	245.8	246.6	-	246.6
Licenses, Permits, Fees	139.3	0.9	140.2	139.9	0.8	140.7
Interest Income	7.7	-	7.7	8.5	-	8.5
Federal Grants	12.1	-	12.1	12.1	-	12.1
Transfer from/To Other Funds	(6.5)	-	(6.5)	(6.5)	-	(6.5)
Less: Refunds of Payments	(3.7)	-	(3.7)	(3.8)	-	(3.8)
Subtotal	**394.7**	**0.9**	**395.6**	**396.8**	**0.8**	**397.6**
TOTAL	**1,468.1**	**(44.6)**	**1,423.5**	**1,596.9**	**(49.0)**	**1,547.9**

Special Transportation Fund Transfers

STF revenue policy adjustments as of July 1, 2015 consist of: (1) a percentage of the sales tax being diverted to the STF and (2) the entire Oil Companies tax being deposited into the STF. Section 132 of PA 15-5, JSS, transfers a percentage of the sales tax to the STF, and section 91 of PA 15-244, dedicates the entire Oil Companies tax to the STF which has been a General Fund tax since it was created under PA 80-71. These transfers replace CGS 13b-61c which was the statutory General Fund transfer to STF.

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

STF Transfers (in millions)

	FY 16 $	FY 17 $	FY 18 $	FY 19 $	FY 20 $
Sales Tax to the STF	158.6	260.6	359.1	372.0	385.2
Oil Companies tax the STF	(96.2)	(78.5)	(46.1)	(10.7)	12.9
Eliminate General Fund Transfer to STF	(152.8)	(162.8)	(162.8)	(162.8)	(162.8)
Total Impact to STF	**(90.4)**	**19.3**	**150.2**	**198.5**	**235.3**

STF FY 18 - FY 20 Revenue

The STF is expected to increase by approximately 8.8% in FY 18, 3.1% in FY 19 and 2.3% in FY 20. The Oil Companies tax is anticipated to increase by approximately 11.0% in FY 18 and FY 19 and 6.4% in FY 20 which is mainly attributed to an increase on the wholesale price of gasoline. The modest growth in STF revenue to support transportation appropriations has led to a reliance on the transfer from the Sales and Use Tax which increases from 0.3% in FY 16 and 0.4% in FY 17 to 0.5% in FY 18- FY 20.

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

Revenue Source	Projected FY 18 $	Projected FY 19 $	Projected FY 20 $
Taxes			
Motor Fuels Tax	515.4	516.4	516.3
Oil Companies Tax	331.2	366.6	390.2
Sales and Use Tax	359.1	372.0	385.2
Sales Tax-DMV	85.9	86.9	88.0
Refunds	(7.6)	(8.1)	(8.5)
Subtotal	**1,284.0**	**1,333.8**	**1,371.2**
Other Revenue			
Motor Vehicle Receipts	247.4	248.1	248.9
Licenses, Permits, Fees	141.2	141.8	142.3
Interest Income	9.5	10.4	11.2
Federal Grants	12.1	12.1	12.1
Transfer from/To Other Funds	(6.5)	(6.5)	(6.5)
Less: Refunds of Payments	(3.9)	(4.1)	(4.3)
Subtotal	**399.8**	**401.8**	**403.7**
TOTAL	**1,683.8**	**1,735.6**	**1,774.9**

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 15 $	Projected FY 16 $	Projected FY 17 $	Projected FY 18 $	Projected FY 19 $	Projected FY 20 $
Mashantucket Pequot and Mohegan Fund						
Beginning Balance	459,465	-	20,093	40,186	60,279	80,372
Revenue	-	61,800,000	61,800,000	61,800,000	61,800,000	61,800,000
Expenditures	(61,698,907)	(61,779,907)	(61,779,907)	(61,779,907)	(61,779,907)	(61,779,907)
Transfers	61,239,442	-	-			
Ending Balance	**-**	**20,093**	**40,186**	**60,279**	**80,372**	**100,465**
Regional Market Operating Fund						
Beginning Balance	589,154	348,545	387,308	420,002	419,331	384,175
Revenue	831,915	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
Expenditures	(1,072,524)	(1,061,237)	(1,067,306)	(1,100,671)	(1,135,156)	(1,173,189)
Transfers	-	-	-			
Ending Balance	**348,545**	**387,308**	**420,002**	**419,331**	**384,175**	**310,986**
Banking Fund						
Beginning Balance	20,423,112	15,540,317	9,853,899	4,114,430	5,295,413	4,362,832
Revenue	28,278,827	30,000,000	30,200,000	31,200,000	30,200,000	31,200,000
Expenditures	(27,461,622)	(28,686,418)	(28,939,469)	(30,019,017)	(31,132,581)	(32,393,591)
Transfers	(5,700,000)	(7,000,000)	(7,000,000)	-	-	-
Ending Balance	**15,540,317**	**9,853,899**	**4,114,430**	**5,295,413**	**4,362,832**	**3,169,241**
Insurance Fund						
Beginning Balance	8,958,269	5,574,106	5,590,317	5,638,377	5,637,249	5,658,382
Revenue	61,592,498	79,950,000	81,400,000	84,820,000	88,700,000	92,850,000
Expenditures	(64,994,373)	(79,933,789)	(81,351,940)	(84,821,128)	(88,678,867)	(92,849,877)
Transfers	17,712	-	-			
Ending Balance	**5,574,106**	**5,590,317**	**5,638,377**	**5,637,249**	**5,658,382**	**5,658,505**
Consumer Counsel and Public Utility Control Fund						
Beginning Balance	7,102,995	9,610,948	9,620,802	9,967,209	10,230,575	10,429,714
Revenue	25,681,497	27,000,000	27,300,000	28,119,000	28,962,570	29,831,447
Expenditures	(23,173,544)	(26,990,146)	(26,953,593)	(27,855,634)	(28,763,431)	(29,767,668)
Transfers	-	-	-	-	-	-
Ending Balance	**9,610,948**	**9,620,802**	**9,967,209**	**10,230,575**	**10,429,714**	**10,493,493**
Workers' Compensation Fund						
Beginning Balance	12,742,699	14,271,602	11,198,154	13,240,462	13,446,987	12,062,575
Revenue	23,914,541	23,407,475	28,936,279	24,331,678	23,609,699	26,404,978
Expenditures	(22,396,307)	(26,480,923)	(26,893,971)	(24,125,153)	(24,994,111)	(25,970,511)
Transfers	10,669	-	-			
Ending Balance	**14,271,602**	**11,198,154**	**13,240,462**	**13,446,987**	**12,062,575**	**12,497,042**
Criminal Injuries Compensation Fund						
Beginning Balance	1,802,465	3,064,122	3,771,467	4,370,662	4,858,462	5,231,526
Revenue	3,705,978	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000
Expenditures	(2,444,866)	(2,592,655)	(2,700,805)	(2,812,200)	(2,926,936)	(3,045,114)

Fund	Actual FY 15 $	Projected FY 16 $	Projected FY 17 $	Projected FY 18 $	Projected FY 19 $	Projected FY 20 $
Transfers	545	-	-	-	-	-
Ending Balance	**3,064,122**	**3,771,467**	**4,370,662**	**4,858,462**	**5,231,526**	**5,486,412**
TOTALS						
Beginning Balance	52,078,159	48,409,640	40,442,040	37,791,328	39,948,296	38,209,576
Revenue	144,005,256	226,557,475	234,036,279	234,670,678	237,672,269	246,486,425
Expenditures	(203,242,143)	(227,525,075)	(229,686,991)	(232,513,710)	(239,410,989)	(246,979,857)
Transfers	55,568,368	(7,000,000)	(7,000,000)	-	-	-
ENDING BALANCE	**48,409,640**	**40,442,040**	**37,791,328**	**39,948,296**	**38,209,576**	**37,716,144**

Other Appropriated Funds Explained (alphabetical)

Banking Fund: The Banking Fund is supported by: (1) consumer credit and securities licensing fees; (2) securities registration fees; and (3) a fee assessed on state banks and credit unions based on asset size. Funds are used primarily for the ongoing operation of the Department of Banking. The Banking Fund is also used for the following programs in three additional departments: (1) Judicial – Foreclosure Mediation Program; (2) Labor – Opportunity Industrial Center and Individual Development Accounts; and (3) Housing – Fair Housing.

Revenue in even years reflects an additional $1 million due to biennial license fees. Expenditures are projected to increase by the standard rates of inflation described elsewhere in this report.

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, the Office of the Consumer Counsel, and the Connecticut Siting Council. 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 18 - FY 20 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.

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.

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

Insurance Fund: The Insurance Fund supports the operation of the Department of Insurance and the Office of the Healthcare Advocate, and certain programs under the Department of Public Health and other agencies. 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.

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.

Mashantucket Pequot/Mohegan Fund: The Mashantucket Pequot Mohegan Fund is an appropriation that reduces the amount of slot machine revenues that are otherwise deposited into the General Fund. The appropriation provides grants to towns.

FY 18 - FY 20 projections assume a General Fund transfer to the Pequot Fund of $61.8 million, which is equal to the FY 17 transfer. PA 15-244, the FY 16 and FY 17 budget, requires a transfer to the Pequot fund equal to the amount appropriated for payments to municipalities.

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

Revenue is based on incoming rents from eighteen (18) leases, in addition to outdoor billboard advertising, farmers' market stalls, rail cars, and office rents. Expenditures are projected to increase by the standard rates of inflation described elsewhere in this report. Revenue for FY 18 – FY 20 assumes a 3% increase to reflect inflationary increases. Expenditures are projected to increase by the standard rates of inflation described elsewhere in this report. Balances at the end of each fiscal year are deposited into the Short-Term Investment Fund (STIF) account.[6]

Workers' Compensation Fund: The Workers' Compensation Fund primarily supports the operation of the Workers Compensation Commission. The Commission administers the Connecticut workers' compensation system according to the provisions of the Workers' Compensation Act including determining benefits for work-related disabilities and injuries. The State Treasurer assesses private insurance companies and employers to primarily cover the Commission'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 $14 million. Expenditures are projected to increase by the standard rates of inflation described elsewhere in this report.

[6]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.

Section 2: FY 16 – FY 20 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 will release a more detailed tax expenditure report in February 2016. The most recent report from January 2014 can be found on OFA's website.[7]

Tax Expenditures (Credits, Exemptions, and Deductions)

There are currently $7.1 billion in tax expenditures resulting from tax credits, exemptions, and deductions offered by the state. This level is around 36.7% of the total projected FY 16 General Fund and Special Transportation Fund revenue. The majority of tax expenditures occur in the Sales and Use Tax and Motor Fuels Tax (approximately 56.1% and 25.8%, respectively).

Tax credits are estimated to be $702.3 million in FY 16, or 9.9% of all projected FY 16 tax expenditures. Of the $702.3 million in tax credits, Personal Income Tax credits comprise 44.6%, or $313.3 million, and Corporation Business Tax credits comprise 17.6%, or $123.4 million. The remaining $6.4 billion in FY 16 total tax expenditures includes all exemptions and deductions.

[7] 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

The table below presents OFA's estimates of total tax credits, exemptions and deductions for FY 16 through FY 20.

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

Category	FY 16 $	FY 17 $	FY 18 $	FY 19 $	FY 20 $
Personal Income Tax	481.2	443.1	473.1	484.4	496.5
Sales and Use Tax	3,998.5	4,167.9	4,345.4	4,505.8	4,665.6
Petroleum Companies Gross Earnings Tax	330.1	351.0	388.9	430.3	457.9
Corporate Business Tax	209.0	202.6	213.8	218.1	223.0
Cigarette and Tobacco Products Tax	12.3	11.7	11.2	10.7	10.2
Public Service Companies Gross Earnings Tax	87.3	88.7	90.4	92.1	93.9
Insurance Premiums Tax	72.6	83.2	82.5	82.9	142.5
Health Provider Tax	59.8	64.7	68.3	66.2	45.9
Admissions and Dues Tax	23.7	23.6	23.6	23.7	23.8
Miscellaneous Tax	8.3	8.5	8.7	8.9	9.1
Unified Estate and Gift Tax	4.0	8.0	8.0	8.0	8.0
Real Estate Conveyance Tax	1.8	1.8	1.8	1.8	1.9
Motor Fuels and Motor Carrier Road Fuels Taxes	1,837.7	1,853.3	1,880.5	1,908.7	1,936.9
TOTAL	**7,126.4**	**7,308.0**	**7,596.2**	**7,841.5**	**8,115.1**

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

Section 3: FY 16 Deficiencies[8]

Based on current data, state agencies will require $63.8 million in deficiency appropriations or transfers from other areas to fund projected FY 16 costs. This assumes that $8.6 million in allotment holdbacks in the associated agencies (as a result of budgeted lapses) are not released by OPM. The deficiency amounts represent 2% of these agencies' total FY 16 available funding, assuming all holdbacks are not released.

Over the past ten years, General Fund agencies have required on average $105.6 million per year in deficiency funding, less than 1% of the General Fund budget. The deficiencies have ranged from $26 million to $355 million annually over the same time period.

The following table includes the agency's FY 16 appropriation, total level of available funding (less holdbacks and rescissions plus any transfers for collective bargaining costs from the Reserve for Salary Adjustments account), estimated expenditures, and projected deficiency amount.

FY 16 Estimated Agency Deficiency Needs[1] (in millions)

Agency	Budgeted Appropriation $	Available Appropriation[2] $	Estimated Expenditures $	Deficiency without release of holdbacks $	Deficiency with release of holdbacks $
General Fund					
Debt Service - State Treasurer	1,937.6	1,937.6	1,976.9	(39.3)	(39.3)
Department of Correction	693.4	680.6	687.9	(7.2)	-
Office of Early Childhood	295.0	294.3	300.5	(6.2)	(6.0)
State Comptroller - Miscellaneous	69.6	69.2	75.3	(6.1)	(5.8)
Public Defender Services Commission	70.3	69.3	73.7	(4.4)	(3.8)
Office of the Chief Medical Examiner	6.2	6.1	6.6	(0.5)	(0.4)
TOTAL				**(63.8)**	**(55.2)**

[1]Totals may not appear to add up due to rounding.
[2]Appropriation less budgeted lapses (holdbacks) and rescissions; 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.

[8]See Appendix B for an explanation on the agency deficiencies.

Section 4: Projected Balance of the Budget Reserve Fund

The current balance in the Budget Reserve Fund (Rainy Day Fund) is $406.0 million.

Recent Activity
FY 15 ended with a General Fund deficit of $113.2 million. The Budget Reserve Fund balance at the beginning of FY 15 was $519.2 million. The deficit of $113.2 million will be eliminated through a transfer from the Budget Reserve Fund; thus reducing the BRF balance to $406.0 million.

Background
PA 15-244, the FY 16 and FY 17 budget, increases the BRF's maximum balance from 10% to 15% of net General Fund appropriations for the current fiscal year but appears to allow the balance to exceed 15% under certain circumstances. As under existing law, once the BRF reaches the maximum, the treasurer may not transfer additional funds to it. Any remaining funds must go towards (1) the State Employee Retirement Fund's unfunded liability and (2) paying off outstanding state debt.

PA 15-244, establishes, beginning in FY 21, a transfer of any excess General Fund (GF) revenue to the Budget Reserve Fund (BRF) and the State Employees' Retirement Fund (SERF). This results in a potentially significant diversion of revenue from the GF to the BRF and SERF in FY 21 and annually thereafter.[9]

In order for a revenue transfer to be triggered, total "combined revenue"[10] must be in excess of a calculated threshold based on the average difference (as a percentage) between actual revenue and the ten year average. The act allows for the threshold to be adjusted for changes in tax policy that impact the corporation business tax or the personal income tax.

The table on the following page displays activity and balances in the BRF from FY 00 – FY 15 and projected balances from FY 16 – FY 20.

[9]Per the act, BRF revenue can be accessed in the event of a decrease in GF revenue greater than 2% over the prior year (for example, during a recession).
[10]For the purposes of the act "combined revenue" is equal to the sum of: (1) the corporation business tax, and (2) the estimated and final payments portion of the personal income tax.

Budget Reserve Fund Activity and Balance: FY 00 – FY 20 (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	519.2	(113.2)	**406.0**
16[1] (Est.)	406.0	(254.4)	**151.6**
17 (Proj.)	151.6	-	**151.6**
18 (Proj.)	151.6	-	**151.6**
19 (Proj.)	151.6	-	**151.6**
20 (Proj.)	151.6	-	**151.6**

[1]CGS Sec. 4-30a(b) appropriates BRF funds to offset a General Fund year-end deficit. OFA is estimating a FY 16 deficit of $254.4 million. Thus, it is anticipated that $254.4 million of the BRF balance would be released to extinguish the projected FY 16 deficit, pending any other action.

Section 5: FY 16 – FY 20 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 16 through FY 20. The FY 16 and FY 17 GO bond authorization and allocation figures show an increase that is the result of several housing and economic development initiatives. Between FY 18 and FY 20, the trends for bond authorizations, allocations and issuance are anticipated to stabilize at a lower level.

GO debt service expenditures are expected to increase between FY 16 and FY 18 due to: (1) the increase in bonds authorized during the 2015 legislative session, (2) the issuance of GAAP conversion bonds[11] and (3) refinancing of the 2009 Economic Recovery Notes (ERNs – see Appendix G for more information on the result of the refunding). There is no increase in debt service expenditures between FY 18 and FY 19 because the ERNs are paid off during FY 18. The underlying interest rate assumption over the FY 17 to FY 20 period is that rates will gradually increase. For example, the tax exempt GO bonds were issued in August 2015 at an interest rate of 4.6% while the projections in the table below assume a rate of 5.25% in FY 17 and 5.5% between FY 18 and FY 20. The STO debt service projections use the same assumption of a higher interest rate trend over this period but the effect on STO debt service is less noticeable because fewer bonds are issued.

FY 16 – FY 20 Projections for General Obligation and Special Tax Obligation Bonds (in billions)

Projections	FY 16 $	FY 17 $	FY 18 $	FY 19 $	FY 20 $
General Obligation Bonds					
Bond Authorizations	2.4	2.3	2.0	2.0	1.9
Bond Allocations	1.8	1.8	1.7	1.7	1.6
Bond Issuance	2.3	2.2	2.3	2.3	2.2
Debt Service[1]	2.0	2.1	2.3	2.3	2.4
Special Tax Obligation Bonds					
Bond Authorizations[2]	0.7	0.7	0.7	0.7	0.7
Let's Go CT Program	0.3	0.5	0.6	0.7	0.7
Bond Allocations	1.0	1.2	1.3	1.3	1.4
Bond Issuance[3]	0.7	0.8	0.9	0.9	0.9
Debt Service[1]	0.5	0.6	0.6	0.7	0.8

[1]The FY 16 and FY 17 GO and STO debt service estimates are based on the budget enacted during the 2015 legislative session. The FY 18-FY 20 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 16 and FY 17 STO authorization figure is based on authorizations made during the 2015 legislative session.

[3]The STO authorizations figures use information provided by the Office of the State Treasurer.

[11]The GAAP conversion bonds were issued in November 2013. The first debt service payment on the bonds is being made in FY 16.

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

Detail for FY 16 – FY 20 Projections for General Obligation Bonds (in millions)

Projections	FY 16 $	FY 17 $	FY 18 $	FY 19 $	FY 20 $
Bond Authorizations					
Regular authorizations[1]	1,865.5	1,866.3	1,600.0	1,600.0	1,600.0
Underground Storage Tank Program	9.0	-	-	-	-
Recapitalize Connecticut Innovations, Inc.	25.0	-	-	-	-
Regenerative Medicine Research Fund	10.0	10.0	10.0	10.0	0.0
Smart Start Competitive Grant Program	10.0	10.0	10.0	10.0	10.0
UConn 2000	312.1	266.4	269.5	251.0	269.0
CSUS 2020	118.5	95.0	95.0	95.0	0.0
Bioscience Collaboration (JAX)	21.4	21.1	15.8	12.5	10.6
Bioscience Innovation Fund	15.0	25.0	25.0	25.0	25.0
TOTAL	**2,386.5**	**2,293.8**	**2,025.3**	**2,003.5**	**1,914.6**
Bond Allocations					
Regular allocations[2]	1,375.0	1,350.0	1,325.0	1,300.0	1,300.0
UConn 2000	312.1	266.4	269.5	251.0	269.0
CSUS 2020	118.5	95.0	95.0	95.0	0.0
Bioscience Collaboration (JAX)	21.4	21.1	15.8	12.5	10.6
Bioscience Innovation Fund	15.0	25.0	25.0	25.0	25.0
TOTAL	**1,842.0**	**1,757.5**	**1,730.3**	**1,683.5**	**1,604.6**
Bond Issuance					
Tax exempt GO bonds[3]	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0
Taxable GO bonds	250.0	250.0	250.0	250.0	250.0
UConn 2000	300.0	225.0	250.0	250.0	225.0
TOTAL	**2,300.0**	**2,225.0**	**2,250.0**	**2,250.0**	**2,225.0**

[1]The FY 16 and FY 17 figures are actual GO bonds authorized during the 2015 legislative session. The FY 18 to FY 20 projections are based on historic levels of bond authorizations.
[2]The FY 16 figure is based on GO bonds authorizations. FY 17-FY 20 projections are based on historic levels of bond allocations.
[3]The figures are based on the Office of the State Treasurer's projected bond issuance schedule for FY 16 through FY 20. They include $300 million in variable bonds per year.

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 16 is 86.7% and for FY 17 is 89.6%. The FY 18 and FY 19 projected level

both exceed the 90% debt limit ceiling and the projected FY 20 limit is 89.3%. The projections use net tax revenues from the November 2015 consensus revenue estimates as the basis for calculating the statutory limit.

The base figure for net indebtedness is the debt certification for FY 16 issued by the Office of the State Treasurer on July 1, 2015. The net indebtedness figures between FY 17 and FY 20 are based on GO bond issuance and principal repayment assumptions provided by the Office of the State Treasurer and OFA's projections for new GO bond authorizations.

FY 16 – FY 20 Projections for the Statutory Debt Cap on General Obligation Bonds[1]
(in thousands)

Projections	FY 16 $	FY 17 $	FY 18 $	FY 19 $	FY 20 $
Net Tax Revenues	15,510,500	15,829,300	16,057,600	16,641,600	17,146,600
Multiplier	1.6	1.6	1.6	1.6	1.6
DEBT LIMIT	**24,816,800**	**25,326,880**	**25,692,160**	**26,626,560**	**27,434,560**
Calculation of Bonds Subject to Limit:					
Net Indebtedness	21,520,230	22,700,901	23,443,481	24,064,376	24,501,224
% Net Indebtedness	86.72%	89.63%	91.25%	90.38%	89.31%
Margin to 100% of Debt Limit	**3,296,570**	**2,625,979**	**2,248,679**	**2,562,184**	**2,933,336**
90% Debt Limit Ceiling[2]	22,335,120	22,794,192	23,122,944	23,963,904	24,691,104
Margin to 90% Ceiling	**814,890**	**93,291**	**(320,537)**	**(100,472)**	**189,880**

[1]Based on November 2015 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 $71.1 billion, an increase of $2.7 billion (3.9%) from last year's reported amount of $68.4 billion. The following table includes the state's unfunded liabilities in six areas.

Long-Term Obligations (in billions)

Unfunded Liabilities	Nov. 2014 $	Nov. 2015 $	Difference $
Debt Outstanding	21.3	22.8	1.5
State Employee Retirement System (SERS)[12]	13.3	14.9	1.6
Teachers' Retirement System	10.8	10.8	0
State Post Employment Health and Life	19.5	19.5	0
Teachers' Post Employment Health	2.4	2.4	0
Generally Accepted Accounting Principles Deficit	1.1	0.7	(0.4)
TOTAL	**68.4**	**71.1**	**2.7**

Explanations of the unfunded liabilities are included below:

Debt Outstanding

The amount is updated through August 31, 2015 (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 refunding issuances that were done in October 2013 and December 2014 (a total of $520.3 million outstanding) for the 2009 Economic Recovery Notes (ERNs).

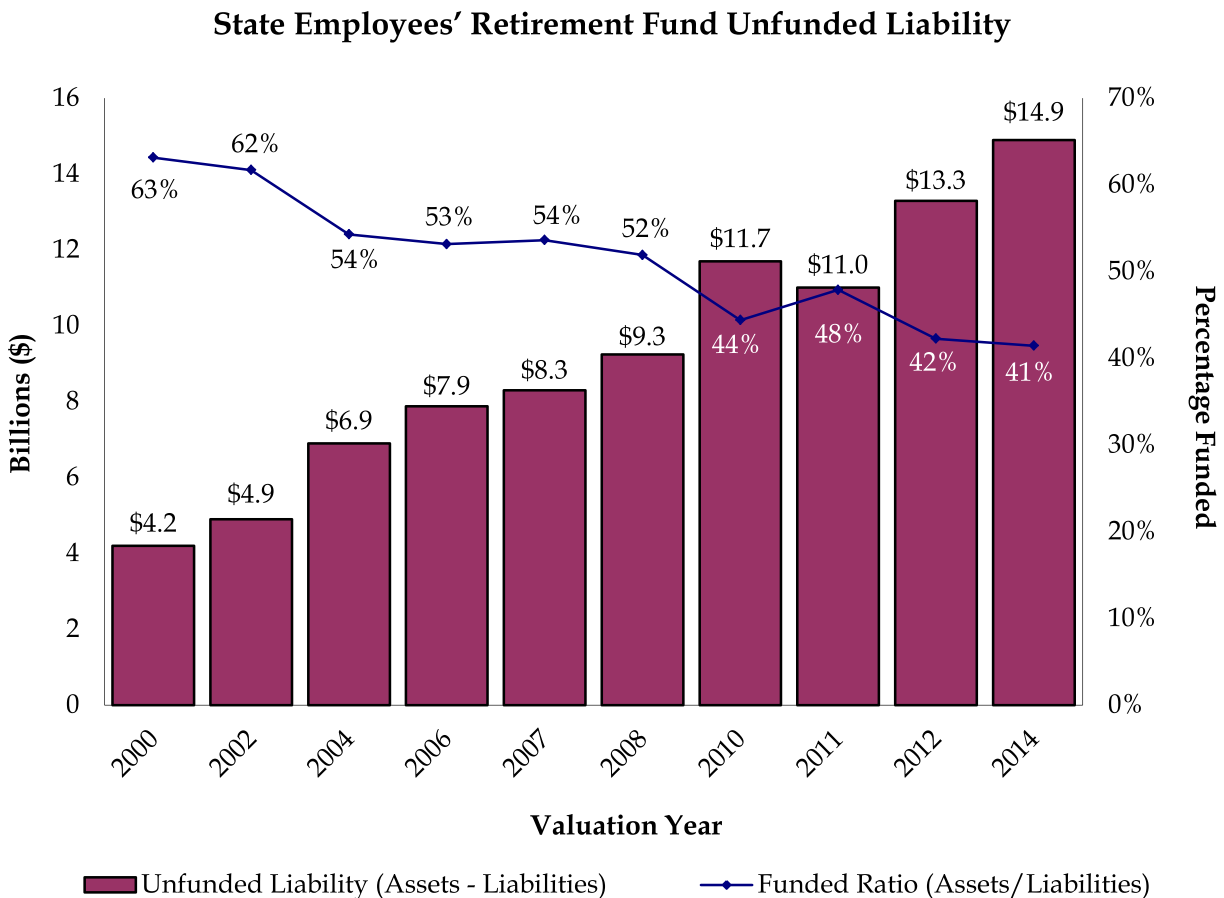
[12]In addition to SERS and TRS, the state appropriates funds for 3 other pension systems: 1) the Higher Education Alternative Retirement System (ARP) which is a defined contribution plan for which there is no unfunded liability, 2) the Judges Retirement System (JRS), which has an unfunded liability of $153.7 million and lastly, 3) the state provides retirement benefits for a small group of employees including statutory (e.g. Governor), state's attorneys and public defenders which is funded on a pay-as-you-go basis.

State Employee Retirement System (SERS)[13]

This figure is 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 $1.6 billion or 12.4% since the 2012 valuation from $13.3 billion to $14.9 billion. As of 2014, SERS had a funded ratio (assets to liabilities) of 41.5%. The 2014 valuation reflects the impact of two plan changes: (1) increasing the benefit multiplier for benefits below the salary breakpoint from 1.33% to 1.40% and (2) a one-time election for members to maintain current retirement eligibility through June 30, 2022 and to make additional contributions. These two changes increased the actuarially determined employer contribution rate by 0.48% and 0.14% respectively, and account for an increase of $193.4 million in the unfunded liability.

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

State Employees' Retirement Fund Unfunded Liability

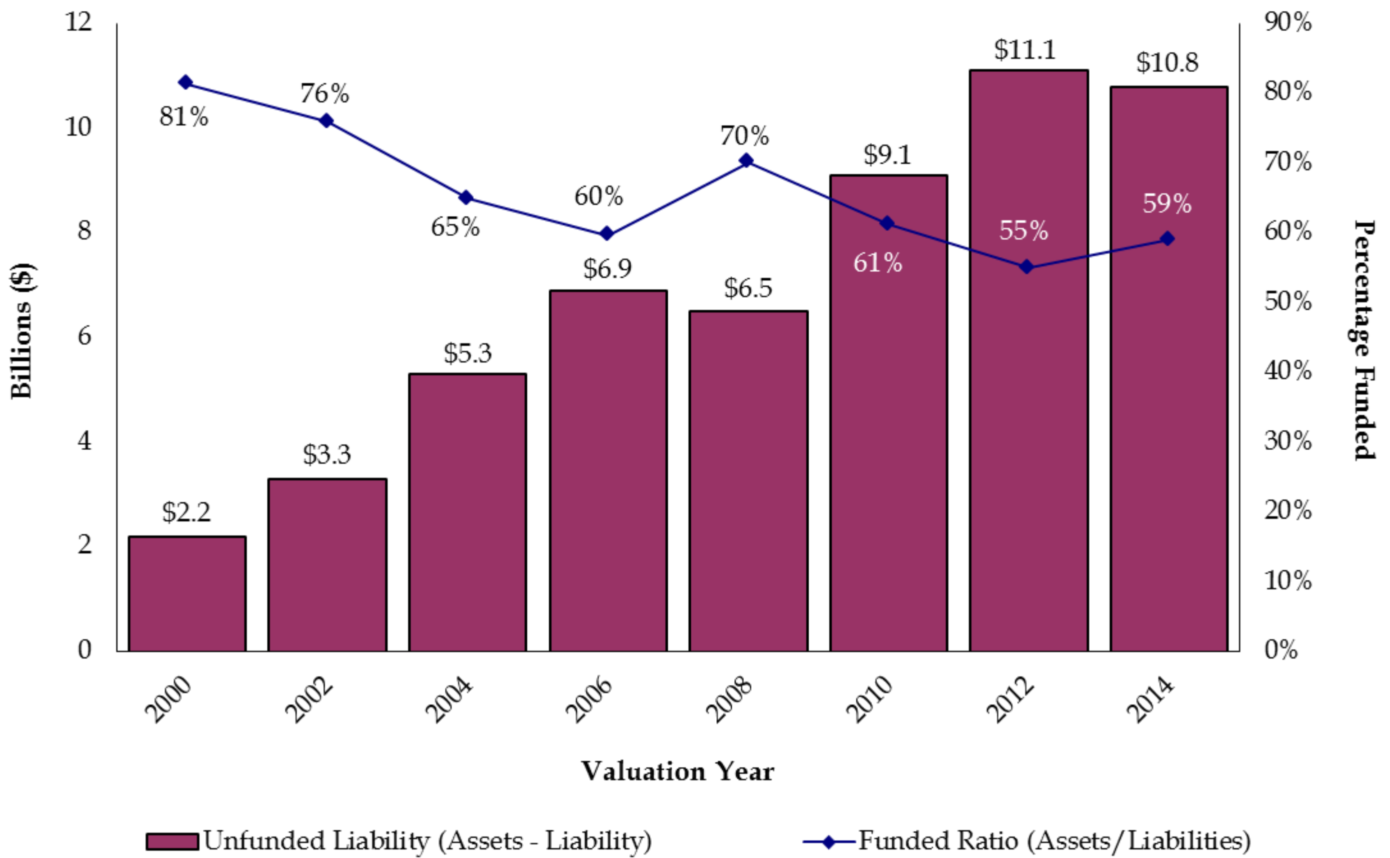


[13]Source: *State Employees' Retirement System Actuarial Valuation Report*, for fiscal year ending June 30, 2014.

Teachers' Retirement System (TRS)[14]

These figures are an actuarial estimate of the cost of the future retirement payments for Connecticut public school teachers for which reserves have not been set aside. The $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



[14]Source: *Connecticut State Teachers' Retirement System Actuarial Valuation*, as of June 30, 2014. Valuations are performed biennially. The next valuation, as of June 30, 2016, will establish the state's FY 18 and FY 19 contribution.

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 2013 valuation 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.[15] The next OPEB valuation is due in the Spring.

Teachers' Other Post-Employment Benefits[16]
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[17] 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 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.[18]

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.

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[15]Source: *State of Connecticut Other Post-Employment Benefits Program as* of June 30, 2013.
[16]Source: *Connecticut State Teachers' Retirement System, Retiree Health Insurance Plan, Actuarial Valuation* as of June 30, 2014.
[17]Set by policy boards such as the Financial Accounting Standards Board (FASB) and the Government Accounting Standards Board (GASB).
[18]National Association of State Budget Officers, 2008 Budget Process in the States.

In Connecticut, converting to GAAP standards consists of three 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", and (3) extinguishing future deficits after FY 13.

Cumulative GAAP Deficit

According to the State Comptroller, the State's cumulative GAAP deficit in the General Fund was $727.2 million as of June 30, 2014. 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 2000.

General Fund Accumulated GAAP Deficit

Fiscal Year Ended June 30,	Accumulated GAAP Deficit $	Change From Previous Year %
2000	(674,991,000)	-
2001	(781,846,000)	15.8
2002[1]	(944,022,000)	20.7
2003	(842,813,000)	(10.7)
2004	(900,171,000)	6.8
2005	(1,037,681,000)	15.3
2006	(1,058,714,000)	2.0
2007	(994,314,000)	(6.1)
2008	(1,149,231,000)	15.6
2009[1]	(2,303,429,000)	100.4
2010	(1,678,971,000)	(27.1)
2011	(1,748,946,000)	4.2
2012[2]	(1,146,053,000)	(34.5)
2013	(1,217,051,000)	6.2
2014[3]	(727,209,000)	(4.1)

[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.

[3]Includes $598.5 million in GAAP conversion bonds, which reduces the total deficit.

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

Unamortized GAAP Deficit

Separate from extinguishing the accumulated FY 13 GAAP deficit through a combination of borrowing and establishing an amortization schedule for the remaining FY 13 deficit as described above, statute requires prospective (post-FY 13) budgets to negate future growth in the GAAP deficit.

To accomplish this objective: 1) appropriations are made to “GAAP Accrual” line items to cover anticipated positive growth in expenditures which accrue back to the prior fiscal year; and 2) revenue diversions are required to offset actual growth in the GAAP deficit, adjusted to reflect any funds from other resources deposited into the General Fund to reduce the GAAP deficit. CGS 2-35(b), which governs the adoption of revenue schedules by the Finance, Revenue and Bonding Committee, requires the setting aside of revenue to cover actual growth in the GAAP deficit. This provision became operative with the publication of the Comptroller’s FY 14 CAFR on February 28, 2015. That report showed a GAAP deficit of $727.2 million. The calculation contained in CGS 2-35(b) yields an increase in the GAAP deficit of $108.7 million, as illustrated below.

FY 14 Unamortized GAAP Deficit

	Amount $
FY 13 GAAP Deficit	(1,217,051,000)
Less: GAAP Conversion Bond Proceeds	598,500,000
FY 13 GAAP Deficit, Adjusted	(618,551,000)
FY 14 GAAP Deficit	(727,209,000)
Growth in the GAAP Deficit	(108,658,000)

The GAAP deficit grew between FY 13 and FY 14 primarily for the following reason:

The income tax accrual period for FY 14 contained more payroll days, which increased the variance between the GAAP basis of accounting and the statutory basis. This increased variance negatively impacted the GAAP deficit by approximately $64 million because more General Fund revenue was attributable to the statutory accrual period which ends in early August.

The remaining $44.7 million variance is attributable to various adjustments to accounts payable and receivable.

Major Expenditure Growth Areas

The table below identifies the expenditure growth drivers for the General Fund in FY 18 - 20.

FY 18 - FY 20 General Fund Major Expenditure Growth Categories
(increases shown are above prior year base - in millions and percent growth)

Driver	FY 18		FY 19		FY 20	
	$	%	$	%	$	%
State Employees	435.0	6.9%	324.4	4.8%	343.4	4.8%
Teachers' Retirement	259.1	25.1%	45.6	3.5%	47.6	3.6%
Debt Service	210.6	10.0%	-31.8	-1.4%	139.3	6.1%
Health & Social Service Programs	241.3	4.9%	208.8	4.1%	235.8	4.4%
Education Grants	201.0	7.1%	91.6	3.0%	89.6	2.9%
All other	43.0	2.6%	47.3	2.8%	45.0	2.6%
Total General Fund Expenditure Growth	**1,389.9**	**7.4%**	**685.9**	**3.4%**	**900.7**	**4.3%**

Explanation of Categories:

1. **State Employees:** Includes wages and salaries for state employees as well as fringe benefit costs (including pension and health costs for active and retired state employees), workers' compensation costs, and funds reserved for salary adjustments.
2. **Teachers' Retirement:** Growth related to retirement and health service costs for teachers.
3. **Debt Service**: Increases in contractual commitments to pay the principal and interest on existing and projected future debt obligations.

4. **Health & Social Service Programs**: Includes costs for direct and contracted social and health programs. Increases include those for caseload, inflation and other anticipated increases due to federal mandates and other various requirements. These increases are in the following agencies: Departments of Children & Families, Developmental Services, Social Services, Mental Health and Addiction Services, Correction, Public Health, Office of Early Childhood and Department of Aging.
5. **Education Grants:** Grants provided by the State Department of Education to local and regional schools. The growth reflects statutory requirements, inflation and enrollment growth.
6. **All other:** All other growth not contained in above categories (includes other expenses in agencies, various grant programs, and other agency spending).

Debt Burden

As the table below shows, in 2013 Connecticut ranked: (1) number four in state and local debt per capita, and (2) number 24 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.

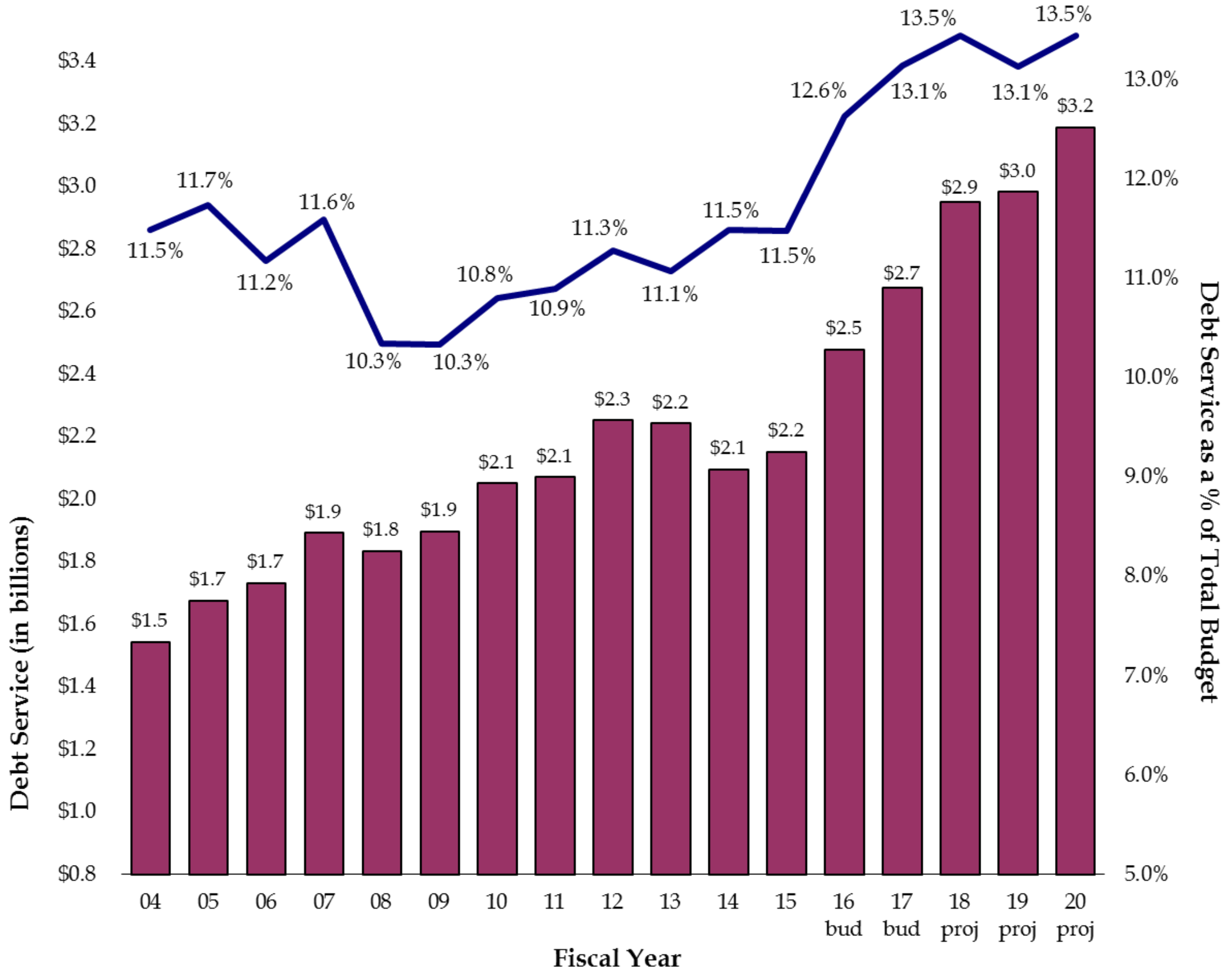
Ranked by State and Local Debt Per Capita among the 50 States in 2013			
Rank	**State**	**Amount $**	**Moody's Bond Rating**
1	New York	17,579	Aa1
2	Massachusetts	14,213	Aa1
3	Alaska	13,042	Aaa
4	**Connecticut**	**12,051**	**Aa3**
5	Rhode Island	11,687	Aa2
6	Illinois	11,535	A3
7	New Jersey	11,329	A2
8	Washington	11,084	Aa1
9	California	10,936	Aa3
10	Pennsylvania	10,190	Aa3
11	Hawaii	10,149	Aa2
12	Colorado	10,091	Aa1*
Mean		**8,285**	

Ranked by State and Local Debt as a % of Personal Income (PI) in 2013		
Rank	**State**	**Debt/PI %**
1	New York	32.8%
2	Kentucky	26.3%
3	Alaska	25.4%
4	Rhode Island	25.3%
5	Massachusetts	25.1%
6	South Carolina	25.0%
7	Illinois	24.8%
8	Nevada	24.5%
9	Washington	23.3%
10	Hawaii	22.9%
11	Texas	22.8%
24	**Connecticut**	**19.4%**
Mean		**18.9%**

Source: U.S. Census Bureau, Bureau of Economic Analysis 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 04 – FY 20 Debt Service Expenditures – General & Transportation Funds



Federal Revenue
The table below identifies federal grant revenue in FY 16 through FY 20. Totals reflect consensus revenue estimates as of November 10, 2015.

November 2015 Consensus Revenue - Federal Grants (in millions)

Grant	FY 16 $	FY 17 $	FY 18 $	FY 19 $	FY 20 $
Medicaid Related	699.4	686.7	705.2	720.9	737.4
Temporary Assistance to Needy Families (TANF)/ Child Care Development Block grant (CCBDG)	291.1	291.1	291.1	291.1	291.1
SNAP	47.7	49.7	51.2	52.7	54.3
Child Support Enforcement	40.7	43.8	45.2	46.5	47.9
Title IV-E - Foster Care/Adoption	112.6	112.2	113.2	114.2	115.2
Build America Bonds	25.6	25.6	25.6	25.6	25.6
Workforce Investment Act (WIA)	32.1	32.1	32.1	32.1	32.1
Miscellaneous	14.0	14.0	14.0	14.0	14.0
TOTAL	**1,263.1**	**1,255.3**	**1,277.5**	**1,297.1**	**1,317.6**

Other Federal Issues Affecting Connecticut

Bipartisan Budget Act of 2015
On November 2, 2015 the President signed the Bipartisan Budget Act (BBA) of 2015. The agreement, among other things: 1) increases discretionary spending caps by $50 billion in FFY 16 ($25 billion each for defense and non-defense spending) and $30 billion in FFY 17 ($15 billion each for defense and non-defense spending); and 2) suspends the Federal debt limit until March 25, 2017. The act does not change discretionary spending caps in the out years.

Funding for individual programs has not yet been determined. The agreement maintains and extends sequestration of mandatory spending through Federal FY (FFY) 25.

The agreement includes a number of policies that offset the additional spending, including:

- An extension of mandatory sequestration by one year (to FFY 25);
- Applying the inflation-based Medicaid rebate currently paid on brand name drugs to generic drugs;
- A reduction of: (1) $1.5 billion to the Crime Victims' Fund and (2) $746 million to the Assets Forfeiture Fund;
- Auctioning off portions of the broadcast spectrum; and
- Selling oil from the Strategic Petroleum Reserve.

Sequestration

Below is a chart showing changes made to FFY 16 and FFY 17 discretionary spending levels in the BBA of 2015, as compared with the post-sequestration spending caps set in FFY 16 and FFY 17 by the Budget Control Act (BCA) of 2011:

FFY 16 and FFY 17 Spending Levels in BBA of 2015 vs. BCA of 2011 (in billions)

Spending Level	FFY 16			FFY 17		
	Defense $	Non-Defense $	Total $	Defense $	Non-Defense $	Total $
Budget Control Act of 2011 (post-sequestration)	523	493	1,016	536	504	1,040
Bipartisan Budget Act of 2015	548	518	1,066	551	519	1,070
Difference, BBA of 2015 – BCA of 2011	25	25	50	15	15	30

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. FFY 16 sequestration is unchanged by the BBA of 2015. The Office of Management and Budget has estimated FFY 16 sequestration of 6.8% for mandatory non-defense programs and 9.3% for mandatory defense programs. The chart below shows the mandatory sequestration that has taken place so far, from FFY 13 to FFY 15, and estimated FFY 16 sequestration. Mandatory spending sequestration will continue until FFY 25.

Mandatory Sequestration from FFY 13 to FFY 16

Federal Fiscal Year (FFY)	Nondefense %	Defense %
2013	(5.1)	(7.9)
2014	(7.2)	(9.8)
2015	(7.3)	(9.5)
2016 Est.	(6.8)	(9.3)

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.

The Bipartisan Budget Act (BBA) of 2013 reset FFY 14 and FFY 15 post-sequestration discretionary spending levels originally set in the Budget Control Act of 2011. FFY 15 discretionary spending levels were set at $1.013.6 trillion, which was about $18 billion above the original post-sequestration spending cap. As a result of the change in the cap, no additional sequestration of discretionary spending occurred in FFY 15.

Highway Trust Fund

According to the Congressional Budget Office (CBO), Highway Trust Fund revenue has not kept pace with outlays since 2001. From FFY 13 to FFY 15, Congress has approved transfers from other funds to the HTF totaling approximately $27.2 billion.

The Federal Department of Transportation currently estimates that the Highway Trust Fund will be insolvent during the summer of 2016. Congress and the President have been negotiating a long-term financing plan for the Highway Trust Fund.

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

CBO October 2015 Report on Highway Trust Fund Cash Inflow, Outflow, and Fund Balance, FFY 16 to FFY 20 (in billions)[1]

Highway Account	FFY 16 $	FFY 17 $	FFY 18 $	FFY 19 $	FFY 20 $
Start-of-Year Balance	8	(2)	(11)	(21)	(31)
Revenue and Interest	35	36	36	36	36
Intragovernmental Transfers	0	0	0	0	0
Expenditures	45	45	46	46	47
End-of-Year Balance	**(2)**	**(11)**	**(21)**	**(31)**	**(42)**
Transit Account					
Start-of-Year Balance	3	0	(3)	(6)	(10)
Revenue and Interest	5	5	5	5	5
Intragovernmental Transfers	0	0	0	0	0
Expenditures	8	8	8	9	9
End-of-Year Balance	**0**	**(3)**	**(6)**	**(10)**	**(14)**
Trust Fund Total					
Start-of-Year Balance	11	(2)	(14)	(27)	(41)
Revenue and Interest	40	41	41	41	41
Intragovernmental Transfers	0	0	0	0	0
Expenditures	53	53	54	55	56
End-of-Year Balance	**(2)**	**(14)**	**(27)**	**(41)**	**(56)**

[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 15 levels.

Federal Debt and the Debt Ceiling

The BBA of 2015 suspends the debt ceiling until March of 2017, at which point the new debt ceiling will be the most recent debt ceiling of $18.113 trillion, plus obligations incurred between now and then.

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

Table 1: Federal Debt and the Debt Limit FFY 93 to FFY 15 (in billions)

Federal Fiscal Year	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	1.1	10.5	3.7
1998	5,950	3,697	1,741	5,439	60	(1.3)	10.1	2.1
1999	5,950	3,609	1,958	5,568	57	(2.4)	12.5	2.4
2000	5,950	3,388	2,204	5,592	54	(6.1)	12.6	0.4
2001	5,950	3,296	2,437	5,733	54	(2.7)	10.6	2.5
2002	6,400	3,517	2,644	6,161	56	6.7	8.5	7.5
2003	7,384	3,891	2,847	6,738	58	10.6	7.7	9.4
2004	7,384	4,277	3,057	7,333	59	9.9	7.4	8.8
2005	8,184	4,570	3,301	7,871	60	6.9	8.0	7.3
2006	8,965	4,810	3,610	8,420	61	5.3	9.4	7.0
2007	9,815	5,018	3,904	8,921	61	4.3	8.1	6.0
2008	10,615	5,780	4,180	9,960	67	15.2	7.1	11.6
2009	12,104	7,528	4,325	11,853	82	30.2	3.5	19.0
2010	14,294	9,001	4,510	13,511	90	19.6	4.3	14.0
2011	15,194	10,107	4,639	14,746	95	12.3	2.9	9.1
2012	16,394	11,251	4,776	16,027	99	11.3	3.0	8.7
2013	16,699	11,959	4,741	16,700	98	6.3	(0.7)	4.2
2014	N/A	12,769	5,012	17,781	101	6.8	5.7	6.5
2015	18,113	13,110	5,003	18,113	100	2.7	(0.2)	1.9

[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 FFY 09 to FFY 15 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.

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	5.0
August 10, 1993	4,900	530	12.1
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	12.2
August 5, 1997	5,950	450	8.2
June 28, 2002	6,400	450	7.6
May 27, 2003	7,384	984	15.4
November 19, 2004	8,184	800	10.8
March 20, 2006	8,965	781	9.5
September 29, 2007	9,815	850	9.5
July 30, 2008	10,615	800	8.2
October 3, 2008	11,315	700	6.6
February 17, 2009	12,104	789	7.0
December 28, 2009	12,394	290	2.4
February 12, 2010	14,294	1,900	15.3
August 2, 2010	16,394	2,100	14.7
February 4, 2013 to May 19, 2013[2]	16,699	305	1.9
October 16, 2013 to February 7, 2014[2]	17,200[2]	501	3.0
February 15, 2014 to November 2, 2015[2]	18,113[2]	913	5.3

[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 again suspended until March of 2015, at which point it was reinstated at $18.1 trillion. On November 2, 2105 the debt ceiling was again suspended until March of 2017.

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 2015 report, estimated FFY 16 revenues of approximately $3.514 trillion and FFY 15 expenditures of approximately $3.928 trillion (including interest payments on the debt). This means that, on an annual basis, anticipated incoming revenue can cover approximately 89% 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 13 the Federal government is estimated to have spent approximately $41.5 billion in Connecticut. Below is a breakdown of spending by category.

Est. FFY 13 Federal Spending in Connecticut, by category (in millions)[19]

Type of Spending	Amount $
Est. Grants to CT State Government	5,949
Est. Grants to Municipal Government	635
Est. Grants to Private Entities	463
Contracts	10,401
Payments to or on Behalf of Individuals	22,173
Salaries and Wages of Federal Employees	1,831
TOTAL	**41,452**

"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 13. This includes grants to all state agencies, municipal governments, and boards of education. This includes Medicaid, Child Nutrition, Special Education, and Education- Title I grants, Temporary Aid for Needy Families (TANF) block grants, highway and transportation grants, and Workforce Investment Act grants. This also includes reimbursement of the

[19]The "Total" figure, in addition to the figures for Contracts, Payments to or on Behalf of Individuals, and Wages and Salaries of Federal Employees, are from a report compiled by the Pew Center for the States. Payments to State and Municipal governments, and grants to private entities, are estimated using Pew data and Census data.

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.

“Payments to or on behalf of individuals” includes a broad range of programs, such as Medicare, Social Security, unemployment compensation, Federal employee pension payments, higher education aid, and the Supplemental Nutrition Assistance program.

It is estimated that over 80% of these payments are Medicare (est. 7.1 billion in FFY 13), Social Security (est. $10 billion), and unemployment compensation payments (est. $1.4 billion).

Section 7: Possible Uses of Surplus Funds

In FY 16 - FY 20, 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.

Changes to the Budget Reserve Fund in PA 15-244

PA 15-244, the FY 16 and FY 17 budget, establishes, beginning in FY 21, a transfer of any excess General Fund (GF) revenue to the Budget Reserve Fund (BRF) and the State Employees' Retirement Fund (SERF). This results in a potentially significant diversion of revenue from the GF to the BRF and SERF in FY 19 and annually thereafter.[20]

In order for a revenue transfer to be triggered, total "combined revenue"[21] must be in excess of a calculated threshold based on the average difference (as a percentage) between actual revenue and the ten year average. The act allows for the threshold to be adjusted for changes in tax policy that impact the corporation business tax or the personal income tax.

Based on historical data, the transfer of GF revenue to the BRF and SERF may exceed $800 million in a fiscal year. The table below compares actual deposits into the BRF to deposits that would have occurred had the new law been in effect.

Comparison of Historical BRF Transfers to Formula (in millions)

FY	Actual Deposit into BRF $	Transfers as Calculated Under the Act $
04	302.2	24.6
05	363.9	433.6
06	446.5	697.1
07	269.2	815.8
08	-	818.5
09	-	-
10	(1,278.5)	-
11	(103.2)	-
12	93.5	75.0
13	177.2	200.4
14	248.5	-

[20] Per the act, BRF revenue can be accessed in the event of a decrease in GF revenue greater than 2% over the prior year (for example, during a recession).

[21] For the purposes of the act "combined revenue" is equal to the sum of: (1) the corporation business tax, and (2) the estimated & final payments portion of the personal income tax.

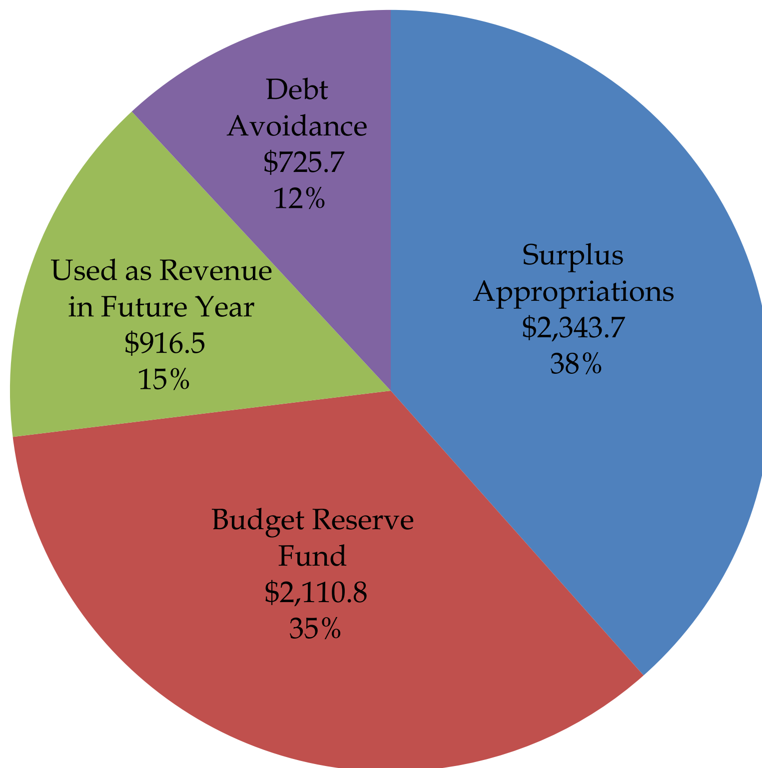
The breakout of the transfer from the GF to the BRF or SERF varies based on the amount of funds currently in the BRF relative to total GF appropriations, which is illustrated in the table below.

BRF and SERF Diversions Calculation

BRF Balance / Appropriations	Budget Reserve Fund	State Employees Retirement Fund
0 to 5%	95%	5%
5 to 10%	90%	10%
10 to 15%	85%	15%
Greater than 15%	0%	100%

The chart below shows the historical use of surplus funds from FY 00 – FY 15.

Historical Use of Surplus: FY 00 - FY 15 (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 $63.8 million
(The following assumes that holdbacks will not be released by OPM.)

Office of the State Treasurer - General Fund Debt Service - $39.3 million

The agency's projected FY 16 budget shortfall is composed of:

- $39.3 million in Debt Service.

The projected $39.3 million shortfall in the General Fund Debt Service account is predominately due to a lower level of premium income related to the issuance of General Obligation bonds. This represents 2.4% of the FY 16 appropriation. The FY 16 budget included a reduction of $142.8 million below the level requested by the Office of the State Treasurer primarily due to the anticipated receipt of premiums on bond issuances in the current fiscal year. To date, $42.1 million of the anticipated $142.8 million has been received and OFA projects that an additional $61.4 million will be received from various sources by the end of the fiscal year.

Department of Correction - $7.2 million

The agency's projected FY 16 budget shortfall is composed of:

- $7.2 million in Personal Services.

The $7.2 million projected shortfall in the Personnel Services account is due to not meeting the holdbacks, or budgeted lapses assigned by OPM. The agency had a total holdback of $10.9 million assigned to the Personal Services account. In addition, the FY 16 budget included an overtime savings target of $5.3 million and $10.6 million of savings related to Second Chance initiatives. The deficiency represents 1.7% of the agency's Personal Services appropriation.

Office of Early Childhood - $6.2 million

The agency's projected FY 16 budget shortfall is composed of:

- $6.2 million in Early Intervention.

The $6.2 million projected shortfall in the Early Intervention account (25.1% of the FY 16 appropriation), commonly known as Birth to Three, is due to several factors: (1)

underfunding of the Birth-to-Three program over the past three years, (2) an increase in the number of children served, (3) an increase in the number of children requiring more intensive services, and (4) an increase in federally funded infrastructure supports.

The Early Intervention account expenditures have been increasing over the past three years, from $35.4 million in FY 13 to $42.1 million in FY 15. This has resulted in a transfer of funding from other accounts (via an FAC transfer) to cover the shortfalls. In FY 13, Department of Developmental Services (DDS) transferred $497,000 from the Employment Opportunities and Day Services to the Early Intervention account to support the Birth-to-Three program, while in FY 15 DDS transferred $2.9 million from Personal Services. The FY 16 and FY 17 Budget transferred the Birth-to-Three Program from DDS to OEC. The amount transferred to OEC for the reallocation of the program did not include supplemental funds to cover the full program costs. Additionally, the FY 16 expenditure requirements include $500,000 in unpaid FY 15 invoices, resulting in a total cost of $3.4 million over budget.

The number of children in the Birth-to-Three program is projected to increase by 3.7%, resulting in a cost of approximately $1.9 million. The number of children requiring intensive services (primarily those diagnosed with an autism spectrum disorder) is also increasing, resulting in a cost of approximately $400,000.

An additional $500,000 in higher than budgeted costs is attributable to supporting program costs that were previously supported by federal funds. Those federal funds are now being used for federal infrastructure supports including salaries and fringe benefits.

Office of State Comptroller - Miscellaneous - $6.1 million

The agency's projected FY 16 budget shortfall is composed of:

- $6.1 million in Adjudicated Claims.

The $6.1 million projected shortfall (25% of the FY 16 appropriation) is due to higher than budgeted normal claims costs. Average normal claims experience over the past 10 years, after adjusting for large settlements, has been approximately $8.0 million annually. As of October, $8.8 million has been expended. Normal claims experience for FY 16 is projected to be $10.2 million, $6.1 million greater than the historical $4.1 million appropriation.

The total FY 16 appropriation of $24.8 million, included $20.8 million for estimated settlement costs associated with the State Employees' Bargaining Agent Coalition (SEBAC) versus the State (commonly referred to as the Rowland settlement).

Public Defender Services Commission - $4.4 million

The agency's projected FY 16 budget shortfall is composed of:

- $4.3 million in Assigned Counsel; and
- $0.3 million in Expert Witnesses.

This shortfall is partially offset by $150,000 lapsing funds from the following accounts:

- $77,000 in Other Expenses;
- $70,000 in Contracted Attorneys Related Expenses; and
- $3,000 in Training and Education.

A total projected shortfall of $4.6 million is due to a deficiency of $4.3 million (19.6% of the appropriation) in the Assigned Counsel account and $0.3 million (10% of the appropriation) in the Expert Witnesses account.

The Assigned Counsel deficiency of $4.3 million is due to: (1) an increase in child protection cases ($3.8 million); and (2) an increase in habeas cases ($528,000). In child protection cases, the Division of Public Defender Services is required to provide counsel for all children whose parents are deemed indigent and for any party where the court orders counsel. In FY 14 there were a total of 8,364 child protection cases (697 per month) and in FY 15 there were a total of 10,307 cases (859 per month). It is anticipated that there will be a total of approximately 12,000 cases in FY 16. From July through October of FY 16 they have averaged approximately 1,203 cases each month. While the number of child protection cases has increased significantly since FY 14, the funding level has remained the same at $7.6 million. Child protection cases are assigned to outside counsel and are paid through the Assigned Counsel account at a flat rate of $500 per case (attorneys can also petition for an hourly rate). The estimated 3,600 additional cases in FY 16 will require approximately $3.8 million in additional funding.

In addition to the deficiency due to the child protection increases, PA 12-115, *An Act Concerning Habeas Reform*, reduced the time in which a habeas petition can be filed, and resulted in an influx of habeas petitions received by the agency. Habeas petitions have doubled since the legislation passed. Previous to the legislation, the agency averaged 25 petitions per month, or 300 per year. Since the legislation passed, the agency has averaged 50 petitions per month, or 600 per year. In FY 16 to date, the agency has been averaging approximately 54 petitions per month, or 648 per year. The cost per case can vary significantly depending on the complexity of the appeal but on average costs approximately $11,000 per case. The additional 48 cases in FY 16 will require approximately $528,000 additional funding in FY 16.

Funds in the Expert Witnesses account are used, in part, to support habeas cases, which have increased significantly, as explained above. The cost per case is, on average, approximately $2,083 per case.

The projected shortfall is partially offset by projected lapses in various accounts totaling $150,000.

Office of the Chief Medical Examiner - $497,000

The agency's projected FY 16 budget shortfall is composed of:

- $372,000 in Personal Services (PS); and
- $125,000 in Other Expenses (OE).

The $372,000 shortfall in PS represents 7.7% of the FY 16 appropriation in the account. The $125,000 shortfall in OE represents 9.3% of the FY 16 appropriation in the account. The shortfall in PS predominantly reflects overtime expenses ($350,650), which are anticipated to increase by 36.5% from FY 15 to the end of the fiscal year. Expenditures in OE are projected to be 17.4% greater in FY 16 ($1.4 million) than in FY 15 ($1.2 million). Primary cost drivers for OE are laboratory services, and body transportation. CME's overall caseload continues to rise. The Office is open 24 hours a day, every day of the year. It is charged to investigate all human deaths that fall into the following categories:

1. Violent (whether apparently homicidal, suicidal, or accidental);
2. Sudden, or unexpected, that are not caused by a readily recognizable disease;
3. Under suspicious circumstances;
4. Related to disease resulting from employment;
5. Related to disease that might constitute a threat to public health; and
6. The bodies of the deceased to be cremated.[22]

[22]There is a $150 fee for this investigation and the associated certificate, which is usually handled through the funeral director of the family's choice. The revenue from the fee ($2.3 million in FY 15) is deposited into the General Fund.

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** - 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.

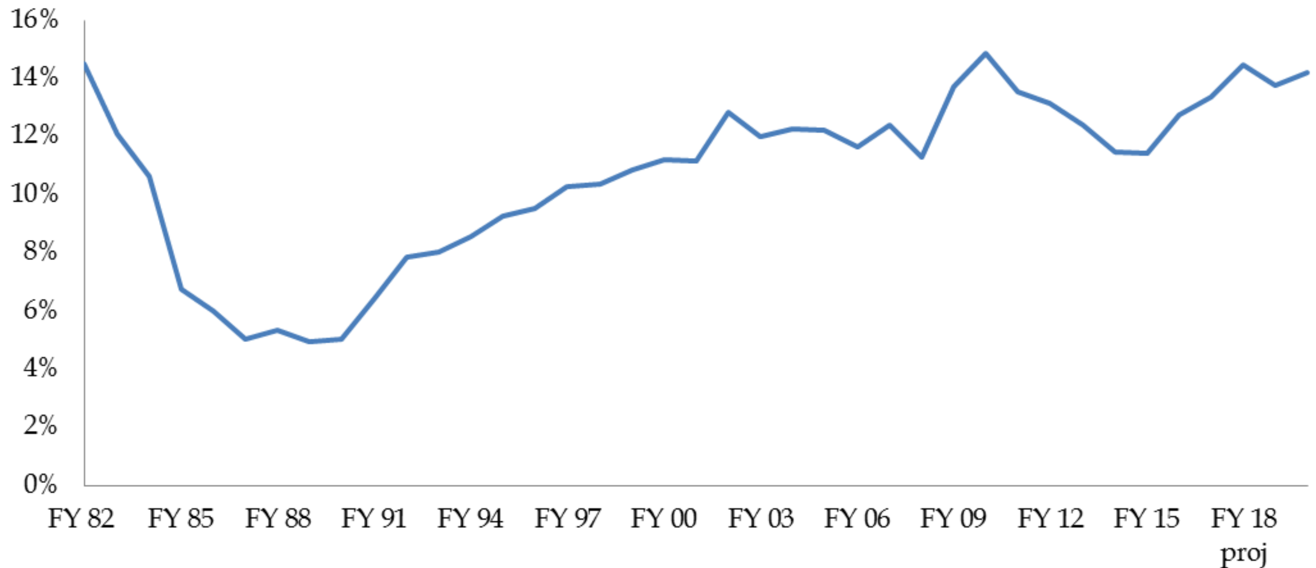
5. **Debt to personal income** - The ratio shows the percentage of the total income earned by all the state's residents it would take to pay the state's debts. Personal income represents income received by individuals in a state, regardless of where the income is generated. Unlike revenues, it is not 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 15 and projections from FY 16 to FY 20.

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 15 and projections from FY 16 to FY 20.

Ratio of General Fund Debt to General Fund Tax Revenue

Appendix D

Federal Revenue, Expenditures, and Deficit[1] (FFY 90 to FFY 20 – 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	3,021	3,506	(485)
2015 est.	3,251	3,677	(426)
2016 est.	3,514	3,928	(414)
2017 est.	3,628	4,044	(416)
2018 est.	3,730	4,184	(454)
2019 est.	3,847	4,443	(596)
2020 est.	4,004	4,690	(687)

[1]Congressional Budget Office

Appendix E

Federal Government Shutdowns from FFY 77 to FFY 15[1]

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

Federal Fiscal Year	Final Date of Budget Authority	Full Day(s) of Gap	Date Gap Terminated
2003	None		
2004	None		
2005	None		
2006	None		
2007	None		
2008	None		
2009	None		
2010	None		
2011	None		
2012	None		
2013	None		
2014	9/30/2013	16	10/16/2013
2015	None		

[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, were refinanced in two separate issuances in order to minimize the call premium on the refinanced notes.[23] The first refunding issuance of $314.3 million was completed in October 2013. In December 2014 the State Treasurer paid off $61.1 million in ERNs that matured in FY 15 and refunded the remaining $61.1 million[24]. The table below shows how the principal from the original ERNs was refunded and the outstanding balance at the end of each fiscal year between FY 10 and FY 18.

Principal Refunding and Outstanding Balances for Economic Recovery Notes (ERNs) between FY 10 and FY 18 (in millions)

Fiscal Year	2009 ERNs	2013 ERN Refunding		2014 ERN Refunding		Total Principal $	End of FY Outstanding Balance $
	Principal $	Principal Refunded $	Refunding Principal $	Principal Refunded $	Refunding Principal $		
2010	-	-	-	-	-	-	915.8
2011	-	-	-	-	-	-	915.8
2012	167.9	-	-	-	-	167.9	747.9
2013	174.6	-	-	-	-	174.6	573.4
2014	182.7	(182.7)	-	-	-	-	580.8
2015	191.3	(69.2)	-	(61.1)	-	61.1	520.3
2016	199.4	(55.0)	2.9	-	20.5	167.7	352.6
2017	-	-	154.9	-	20.5	175.5	177.1
2018	-	-	156.5	-	20.6	177.1	-
TOTAL	**915.8**	**(306.9)**	**314.3**	**(61.1)**	**61.6**	**923.8**	**-**

As shown in the table below, the impact of refinancing the ERNs General Fund debt service expenditures was to: (1) extend the repayment schedule of the ERNs by two years (from FY 16 to FY 18) and (2) reduce expenditures by $188.6 million in FY 14, $131.8 million in FY 15 and $22.0 million in FY 16 and increase expenditures by $185.3 million in FY 17 and $181.8 million in FY 18. The total cost to the General Fund to refinance the ERNs was $24.7 million.

[23]The first 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.
[24]The second refunding was done through the issuance of variable rate SIFMA index bonds.

Comparison of Total Debt Service Payments[25] on Original and Refinanced ERNs (in millions)

Fiscal Year	Original ERNs $	Refinanced ERNs $	Difference $
2010	3.2	3.2	-
2011	40.6	40.6	-
2012	208.4	208.4	-
2013	208.4	208.4	-
2014	208.4	19.9	(188.6)
2015	208.4	76.6	(131.8)
2016	208.4	186.4	(22.0)
2017	-	185.3	185.3
2018	-	181.8	181.8
TOTAL	**1,085.9**	**1,110.6**	**24.7**

[25]Total debt service includes both principal and interest payments.

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	Sequestration[1]	(Offsets)[2]	Net Subsidy	Interest Subsidy	Sequestration[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	(0.9)	-	12.1
16	27.6	(1.9)	-	25.6	13.1	(0.8)	-	12.2

[1]The figures reflect a reduction of 8.7% for FFY 13, 7.2% for FFY 14, 7.3% for FFY 15 and 6.8% for FFY 16.

[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[26] 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, interest subsidy payments to issuers of BABs were reduced by 8.7% in FFY 13, 7.2% in FFY 14, 7.3% in FFY 15 and 6.8% in FFY 16. Connecticut issued BABs under both the General Obligation and Special Tax Obligation bond programs, as noted in the table above.

[26]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.