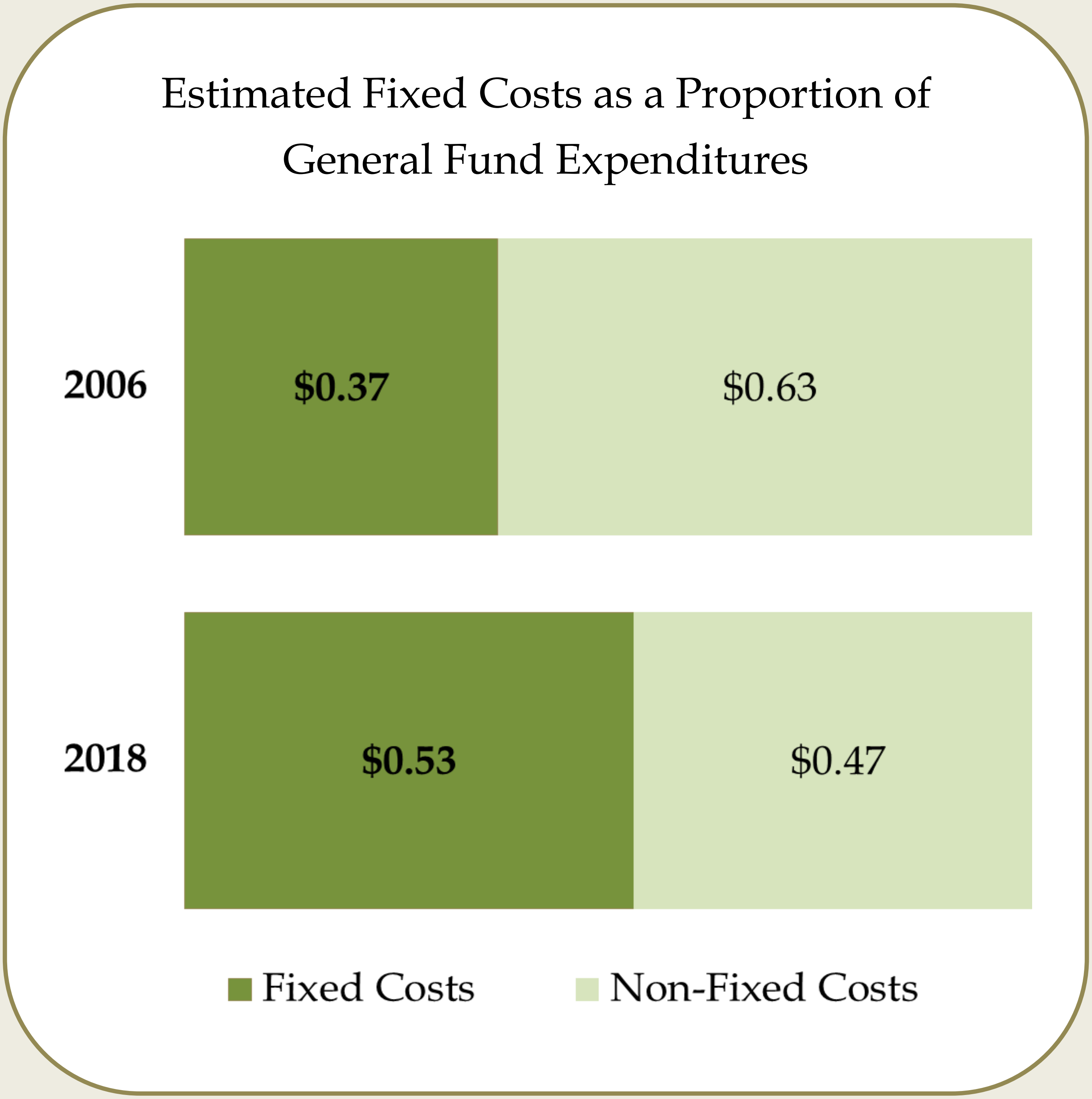
CONNECTICUT GENERAL ASSEMBLY
OFFICE OF FISCAL ANALYSIS

OFA

FISCAL ACCOUNTABILITY REPORT

FY 17 – FY 20



November 15, 2016

TABLE OF CONTENTS

Section I. Executive Summary

The Office of Fiscal Analysis (OFA) is statutorily required every November to produce the *Fiscal Accountability Report.*

Last spring, PA 16-3 of the May Special Session (MSS) made significant changes to the report's methodology. The new legislation eliminated the requirement to document each fiscal year's surplus/deficit. Instead, the report must explain: (1) the level of spending changes from current year spending allowed by consensus revenue estimates, (2) any changes to current year spending necessary because of "fixed cost drivers," and (3) the total change to current year spending required to accommodate fixed cost drivers without exceeding current revenue estimates. For this report, fixed cost drivers include debt service, pension contributions, retiree health care, entitlement programs, and federal mandates.

FY 17 General Fund

OFA is projecting a General Fund deficit of $77.5 million. The adopted FY 17 budget included a balance of $22.7 million. The deficit is a result of a decrease in net revenue of $45.9 million coupled with projected deficiencies in five agencies of $54.3 million.

FY 18 – FY 20 General Fund

Utilizing the new methodology, reductions in non-fixed costs of $1.2 billion are necessary in FY 18 to balance General Fund expenditures with consensus revenue projections. Non-fixed costs total $9.1 billion in FY 18 and will need to be reduced by 13%. Fixed costs are anticipated to grow by $898.7 million in FY 18 primarily due to debt service payments increasing by $244.6 million, Teachers' Retirement System contributions increasing by $297.4 million, and pension contributions and retiree health for state employees increasing by $192.3 million.

The FY 18 expenditure reduction of $1.2 billion is assumed into FY 19 and FY 20, which significantly reduces expenditures in those years and contributes to the positive balance in FY 19 and FY 20.

Fixed Cost Pressure

Fixed costs, such as pension contributions, retiree health, debt service and entitlements, account for over half of the state budget, up from 37% in 2006. Almost $10 billion will be spent on fixed costs in FY 18. In addition, two non-fixed cost categories, Educational Cost Sharing (ECS) and state employee wages will make up a combined $5 billion in FY 18. Fixed costs coupled with ECS and state employee wages will make up 78% of expenditures in FY 18.

Special Transportation Fund (STF)

OFA is projecting an operating deficit of $13 million in the STF in FY 17 due to a negative revenue adjustment of $23.3 million from the Oil Companies Tax and the Sales and Use Tax transfer from the General Fund. The STF is projected to have a cumulative balance of $286.3 million at the end of FY 20.

Other Appropriated Funds

In total, the Other Appropriated Funds are projected to have positive fund balances through FY 20. Overall, the aggregate fund balance is projected to increase from $37.4 million in FY 17 to $49.1 million in FY 20. See Appendix B for more detail.

Table 1.1 on the following page summarizes the FY 17 through FY 20 budget estimates by fund.

Table 1.1: Financial Summary by Fund
In Millions of Dollars

Fund	FY 17	FY 18	FY 19	FY 20
General Fund				
Revenues				
November Consensus Revenue	17,840.8	17,651.1	18,014.6	18,465.7
Expenditures				
Previous Year Expenditure	-	17,918.3	17,651.1	17,930.2
Fixed Cost Growth	-	898.7	279.1	485.3
Expenditure Reduction per PA 16-3 MSS	-	(1,165.9)	-	-
Subtotal	**17,918.3**	**17,651.1**	**17,930.2**	**18,415.5**
BALANCE	**(77.5)**	**-**	**84.4**	**50.2**
Special Transportation Fund				
Revenues				
November Consensus Revenue	1,441.1	1,617.1	1,661.5	1,714.2
Expenditures				
Previous Year Expenditure	-	1,454.1	1,540.1	1,611.3
Fixed Cost Growth	-	86.0	71.2	73.6
Expenditure Reduction per PA 16-3 MSS	-	-	-	-
Subtotal	**1,454.1**	**1,540.1**	**1,611.3**	**1,684.9**
BALANCE	**(13.0)**	**77.0**	**50.2**	**29.3**
Other Appropriated Funds				
Revenue	409.0	225.2	227.8	230.0
Expenditures	408.8	223.8	223.8	223.8
BALANCE	**0.2**	**1.4**	**4.0**	**6.2**
All Appropriated Funds				
Revenue	19,690.9	19,493.4	19,903.9	20,409.9
Expenditures	19,781.2	19,415.0	19,765.3	20,324.2
BALANCE	**(90.3)**	**78.4**	**138.6**	**85.7**

Section II. Report Methodology & Key Assumptions

Methodology

Public Act 16-3 of the May Special Session requires OFA to estimate any changes to current year expenditures because of fixed cost drivers. This method departs from previously published reports that developed expenditure projections using a current service methodology, which reflected the amount of funding required to provide the same level of services in the succeeding fiscal years plus any scheduled or required changes.

The new methodology compares the annual consensus revenue estimates developed pursuant to CGS 2-36c with the previous year expenditures plus the annual growth in fixed costs. For years where expenditures are greater than revenue an adjustment is calculated, which represents how much non-fixed spending will have to be reduced in order to achieve a zero ending balance. For years where revenue is growing faster than fixed costs, the positive ending balance represents the amount that non-fixed spending can increase.

Flat Funding of Non-Fixed Accounts

The expenditure projections contained in the report adjust only the accounts categorized as fixed costs to reflect changes over the previous year expenditures. All other accounts are flat funded at FY 17 levels.

Fixed Costs

For the purpose of this report OFA examined all expenditure accounts to identify the array of fixed costs. **Table 2.1** shows the categories of expenditures which comprise fixed costs as well as major categories that while not identified as fixed costs make up a significant portion of the budget. Please refer to Appendix D at the end of the report for account level details on the expenditure items identified in the fixed costs categories below.

Table 2.1 Fixed Cost Categories

Fixed Costs	Non-Fixed Costs
Entitlements	Education (Lower & Higher)
Debt Service	Municipal Aid
Pension Payments	Salary, Wages and Health Benefits
Retiree Healthcare Costs	Criminal Justice
Adjudicated Claims	Environment & Economic Development
-	Public Safety

Please refer to Appendix C at the end of the report for a list of key assumptions used to develop cost projections for FY 18 through FY 20.

Section III. FY 17 General Fund – Current Year Outlook

As seen in **Table 3.1**, OFA is projecting a $77.5 million deficit in FY 17. The deficit is largely due to a decrease in our income tax estimate of $66.5 million. In addition, five agencies are anticipated to need a total of $54.3 million to cover projected deficiencies. The budget included $209 million in bottom-line savings targets (lapses); $60.7 million remains unidentified. The estimate assumes these savings will be achieved in full by the end of the fiscal year.

Revenue

Income Tax Revenue Decreases by $66.5 million

Income Tax receipts were lower than anticipated at the end of last year, which lowered expectations for FY 17. In addition, budgeted income tax collections may not be verifiable until January at the earliest.

Settlement Revenues Exceed Budget by $80 million

The State recently received $120 million as part of a consent order between the Department of Banking, Office of the Attorney General, and the Royal Bank of Scotland (RBS) Securities to resolve an investigation into its underwriting of residential mortgage-backed securities in the lead-up to the 2008 financial crisis. This amount exceeded the $40 million budgeted.

Sales Tax Shortfall of $48.9 million

Monthly Sales Tax collections for FY 16 ended the year $38.4 million below the April 2016 Consensus Revenue estimate. This effectively lowers the base for FY 17. In addition, monthly collections to date in FY 17 are positive but weaker than anticipated. The FY 17 estimate has therefore decreased by $48.9 million due to these issues.

Table 3.1 FY 17 General Fund Summary
In Millions of Dollars

Summary	FY 17
Budgeted Balance	22.7
Revenue	
Budgeted	17,886.7
Personal Income Tax	(66.5)
Sales & Use Tax	(48.9)
Other Revenue	69.5
Subtotal	**(45.9)**
TOTAL	**17,840.8**
Expenditures	
Net Appropriated	17,864.0
Agency Deficiencies	54.3
TOTAL	**17,918.3**
SURPLUS/(DEFICIT)	**(77.5)**

Decrease in Health Provider Collections of $18.1 million

Health Provider Tax collections outperformed expectations in FY 16, in particular the Hospital Tax. This is associated with a decrease in the use of tax credits by hospitals. The estimate in this report assumes a similar level of tax credits will be claimed in FY 17.

Federal Grant Revenue Decreases by $28.6 million

Federal Grant revenue decreased due to lower-than-anticipated Medicaid related revenue resulting from: (1) a Medicare Premium increase, which is funded via a revenue diversion and therefore lowers federal revenue ($14 million in FY 17), and (2) a decrease in HUSKY B revenue ($27.9 million) due to lower claims in FY 16, which also impacts FY 17 revenue. Child Support Enforcement revenue is also reduced by $3.6 million. These reductions are offset by positive finalizations from FY 16 and increases associated with state agency expenditures that receive Medicaid reimbursement.

Expenditures

Adjudicated Claims Exceed Budget by $21 million

The FY 17 Revised Budget did not include an appropriation for the account. Approximately $18 million of the projected deficiency is for estimated payments for the SEBAC v. Rowland Settlement. The balance of the projected deficiency includes installment payments for previous settlements against the state.

$16.8 million Deficiency in the Office of Early Childhood

There is projected $8.1 million deficiency in the Birth to Three program and a $8.7 million projected deficiency in Care4Kids. The shortfall in the Birth to Three is primarily due to a continuation of the FY 16 deficiency as well as an increase in the number of children who require more intensive services. The shortfall in Care4Kids is driven by increased caseload.

$12.8 million Deficiency in Debt Service

A deficiency of $12.8 million is projected in debt service. The budget assumed a savings target of $162 million. The corresponding FY 16 budgeted savings target produced a deficiency of $35 million.

Other Agency Deficiencies Total $3.9 million

Public Defender Services Commission and the Office of the Chief Medical Examiner have a combined projected deficiency of $3.9 million. See **Table 3.2** below for detail.

Table 3.2 Estimated FY 17 Agency Deficiencies[1]

Agency	FY 17 $
State Comptroller - Adjudicated Claims	(20,836,000)
Office of Early Childhood	(16,800,000)
State Treasurer – Debt Service	(12,763,127)
Public Defender Services Commission	(3,633,047)
Office of the Chief Medical Examiner	(276,608)
TOTAL	**(54,308,782)**

[1]Appendix E includes a detailed description of each agency's deficiency.

Section IV. General Fund Out Years (FY 18 – FY 20)

An expenditure reduction of $1.2 billion is necessary in FY 18 based on projected revenue (6.6% of the General Fund revenue). This is due to a spike in fixed costs and negative growth in consensus revenue estimates.

The FY 18 expenditure reduction is assumed into FY 19 and FY 20, which significantly reduces expenditures in those years and contributes to the positive balance in FY 19 and FY 20.

Table 4.1 reflects the change from the prior year in consensus revenue and fixed costs. In addition, it reflects the expenditure adjustments necessary to accommodate the difference between consensus revenue and fixed costs adjustments.

New "Fixed Cost" Methodology

Under new legislation OFA and OPM are required to provide the amount of expenditure reductions necessary to accommodate the difference between the revenue changes agreed to in the consensus revenue process and fixed costs adjustments.

Table 4.1 General Fund Budget Outlook
In Millions of Dollars

Category	FY 17	FY 18	FY 19	FY 20
Revenues				
November Consensus Revenue	17,840.8	17,651.1	18,014.6	18,465.7
Expenditures				
Previous Year Expenditure		17,918.3	17,651.1	17,930.2
Teachers' Pension & Retiree Health		297.4	46.4	47.8
Debt Service		244.6	(65.8)	155.7
State Employee Pension & Retiree Health		192.3	122.9	98.6
Medicaid & Other Entitlements		176.9	175.4	183.5
Adjudicated Claims		(12.5)	0.1	(0.3)
Subtotal		**898.7**	**279.1**	**485.3**
Expenditure Reduction per PA 16-3 MSS		(1,165.9)	-	-
Subtotal	**17,918.3**	**17,651.1**	**17,930.2**	**18,415.5**
BALANCE	(77.5)	**-**	**84.4**	**50.2**

Revenue

Sales Tax Transfers to MRSA and STF Increase in FY 18

The Sales and Use Tax transfers for both Municipal Revenue Sharing Account (MRSA) and the Special Transportation Fund (STF) are scheduled to increase on July 1, 2017. This equates to a projected $341.3 million for each Fund in FY 18, for a total projected transfer of $683.6 million from the General Fund in FY 18.

Loss of One-Time Revenue of $199.5 million

The FY 17 budget relied on approximately $199.5 million in one-time revenues from a larger-than-normal settlement of $120 million, fund sweeps of $70.4 million and $9.1 million in deferred costs related to GAAP.

Projections for Out Year Growth Downgraded

Recent trends in income have been historically low and volatile which has put downward pressure on revenue expectations across multiple revenue categories. In the November consensus revenue estimates, the projected average tax growth rate was reduced from 3.4% to 2.8% based on current economic and collections trends. The most significant downgrades are for income tax and the sales tax collections which have decreased by $188 million in FY 18, $270 million in FY 19, and $343 million in FY 20, inclusive of revenue policies included in the revised FY 17 budget.

Expenditures

Teachers' Pension & Retiree Health

The growth in the Teachers' Retirement System (TRS) of $297.4 million from FY 17 to FY 18 is related to increased pension and health insurance costs for retired teachers.

Retirement contributions increase by $278.3 million primarily due to growth in the unfunded liability payments. The most recent TRS valuation resulted in a $2.4 billion increase in the unfunded actuarial liability (UAL) of the system due primarily to the impact of new actuarial assumptions adopted by the Teachers' Retirement Board. The assumption change with the most significant impact on the UAL was the adoption of an 8% interest rate assumption from 8.5% which was used in prior valuations. Retiree health service costs increase by $18.4 million primarily due to the state share returning to one-third, as well as medical inflation and membership trends. Increases of $46.4 million in FY 19 and $47.8 million in FY 20 are primarily the result of projected retirement contributions.

Debt Service

Bond fund allocations have increased significantly in the last few years, which is moving capital projects and programs forward while driving up debt service. In FY 19, the growth in debt service is tempered somewhat by the expiration of the 2009 Economic Recovery Notes and a corresponding $178.7 million reduction to debt service.

State Employee Pension & Retiree Health

The growth in pension costs for FY 18 to FY 20 is predominately due to projected growth in the state's retirement contribution for the State Employees' Retirement System (SERS), largely the result of increases in the unfunded liability payment. The state's projected SERS contribution increases by $26 million in FY 18, $42 million in FY 19 and $44 million in FY 20.[1] The growth in retiree health is comprised of: (1) projected growth in medical, dental and pharmacy costs and (2) beginning in FY 18, the state's matching contribution for retiree health pursuant to the SEBAC 2011 Agreement. The projected increase in retiree health is $66 million in FY 18, $80 million in FY 19 and $54 million in FY 20. The projected retiree health contribution in FY 18 is $98 million. Based on fixed cost assumptions regarding salary and wage growth, the state's matching contribution for retiree health is flat funded in FY 19 and FY 20.

[1]The increase reflects the General Fund's share of the SERS' Actuarially Determined Employer Contribution (ADEC).

Entitlements

The growth in entitlements in FY 18 to FY 20 is predominately due to: (1) caseload increases across various programs within the Departments of Social Services, Developmental Services, Children and Family Services, Mental Health and Addiction Services, and the Office of Early Childhood Education and (2) reductions in federal reimbursement for portions of the state's Medicaid program (HUSKY B and HUSKY D).

Collective Bargaining Contracts Unsettled in Out Years; Salary Increases Anticipated

Based on the fixed cost methodology, state employee salaries and wages are considered non-fixed costs and are flat funded in the out years. All collective bargaining units have unsettled contracts for FY 18 through FY 20. For purposes of illustration, the following wage increases are estimated for all state employees: a hard zero in FY 17, a 2% increase in FY 18, and a 3% increase in each of FY 19 and FY 20. This would result in increased personnel costs of $42.4 million in FY 18, $132 million in FY 19, and $224 million in FY 20. The increased cost of $42.4 million in FY 18 is in addition to the aforementioned $1.2 billion expenditure reduction.

Section V. General Fund Trends and Concerns

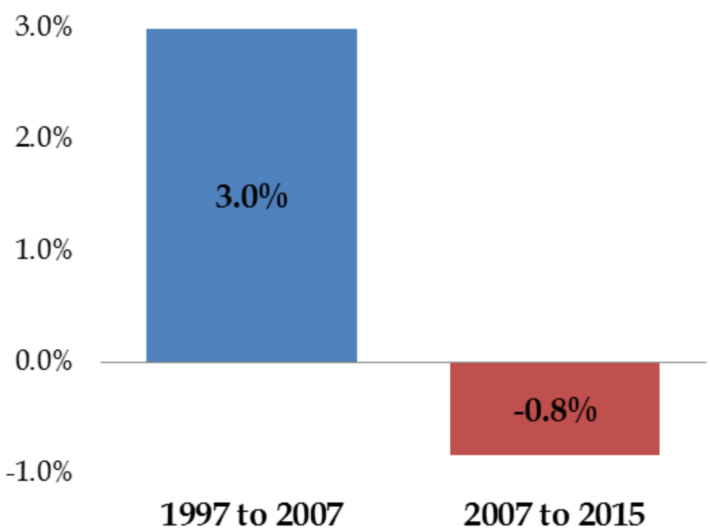
The General Fund continues to face economic and expenditure trends which put considerable stress on the fiscal stability of the state budget. The primary drivers of the tension between revenue and expenditures are:

1) **Weak Economic Growth** since the Great Recession has impacted tax collections and
2) **Robust Growth in Fixed Costs** over the last decade resulted in fixed costs accounting for a larger share of the state budget.

REVENUES

Great Recession & Weak Recovery

Figure 5.1 Growth in Real Gross State Product (GSP) Before & After Great Recession

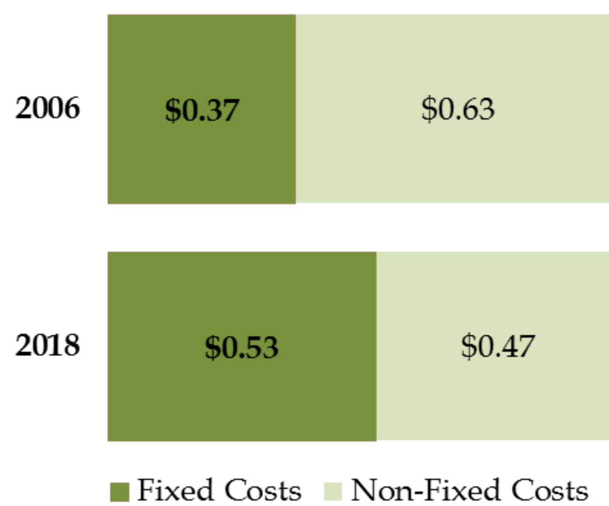


The chart above reflects the significant decline in economic growth in Connecticut as a result of the Great Recession (2008 to 2009) and the current period of weak recovery (2010 to present). The **revenue section** below will discuss: (1) how this trend has had an impact on state tax collections, (2) how Connecticut compares to other states in the region, and (3) how different economic sectors have performed.

EXPENDITURES

Fixed Costs Account for $0.53 for Every Dollar Spent

Figure 5.2 Estimated Fixed Costs as a Proportion of Expenditures



The chart above reflects the growth in fixed costs as a share of expenditures compared to 2006. This trend is anticipated to continue in the future. The **expenditure section** will discuss the fixed cost drivers in the context of major expenditure categories such as state personnel, education, municipal aid and entitlements.

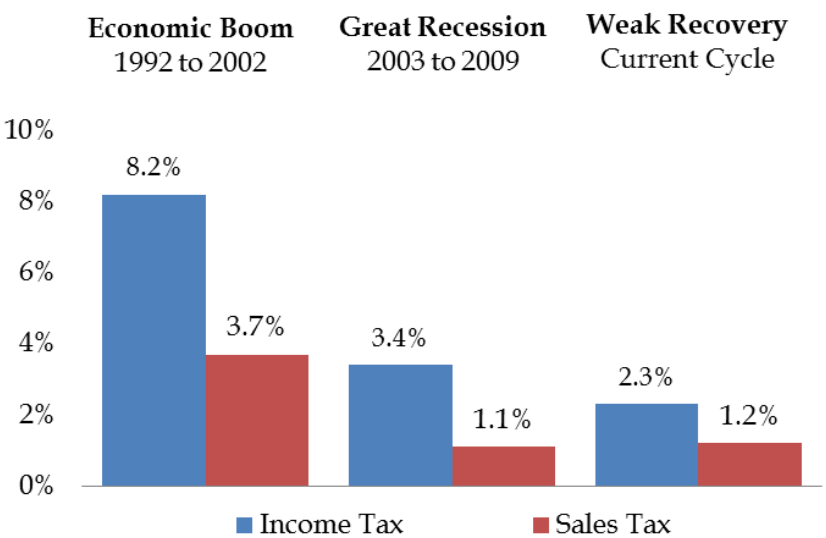
Revenue Concerns

The primary concern for General Fund revenue is the period of historically weak and volatile revenue growth, which began with the Great Recession and has continued up through the latest tax year, 2015. The weak growth and volatility is primarily in the income tax and sales tax which account for roughly $13.7 billion in FY 2018 or 77% of total General Fund revenue.

Income & Sales Taxes in Decline

Over the last three economic cycles both the income tax and the sales tax have exhibited a decline in their sustained rates of growth. As seen in **Figure 5.3** below, growth in the income tax declined from 8.2% to 3.4% between the economic cycles of the 1990's and the Great Recession. This negative trend continued into the current economic cycle where growth rates have deteriorated even further. The Great Recession was characterized by a precipitous drop in income late in the economic cycle. The current cycle is characterized by weak growth since its beginning.

Figure 5.3 Sustained Tax Growth Rates by Economic Cycle



Sustained Growth Rate

The sustained growth rate is important in understanding the budget's structural balance over time. The rates in **Figure 5.3** are annualized within an economic cycle controlling for policy. The "current cycle" begins in 2010 and ends at the end of the next recession which is estimated based on current trends and past recessions.

Connecticut Decline: Regional Perspective

Connecticut's decline was more substantial than any other regional peer largely due to the state's reliance on the Finance & Insurance industry. Subsequent growth has lagged behind Massachusetts and New York but has been in line with New Jersey and Rhode Island. **Table 5.1** shows Connecticut's decline during the recession and growth during the recovery period compared to regional peers.

Table 5.1 Growth in Federal Adjusted Gross Income (AGI) by State

Region	**Before Recession** 2003 to 2007	**Recession & Recovery** 2008 to 2014	**Recession** 2008 to 2009	**Recovery** 2010 to 2014
CT	10.7%	0.5%	-7.1%	4.1%
MA	9.2%	2.4%	-5.4%	6.3%
NY	11.3%	1.7%	-4.5%	5.1%
NJ	8.3%	1.1%	-5.4%	3.6%
RI	6.6%	1.2%	-4.8%	4.0%
USA	9.5%	1.9%	-4.5%	4.9%

Income Volatility Attributable to High Income Earners

Since 2004, 76% of all income growth has come from high income earners (income of $200,000 or more). As illustrated in **Figure 5.4**, growth in this income group has been erratic since 2010 and continued into tax year 2015.[2] Income tax growth for FY 15 was relatively flat (0.3%) in large part due to a considerable decrease in income of about $2.9 billion for the top 50 taxpayers alone.

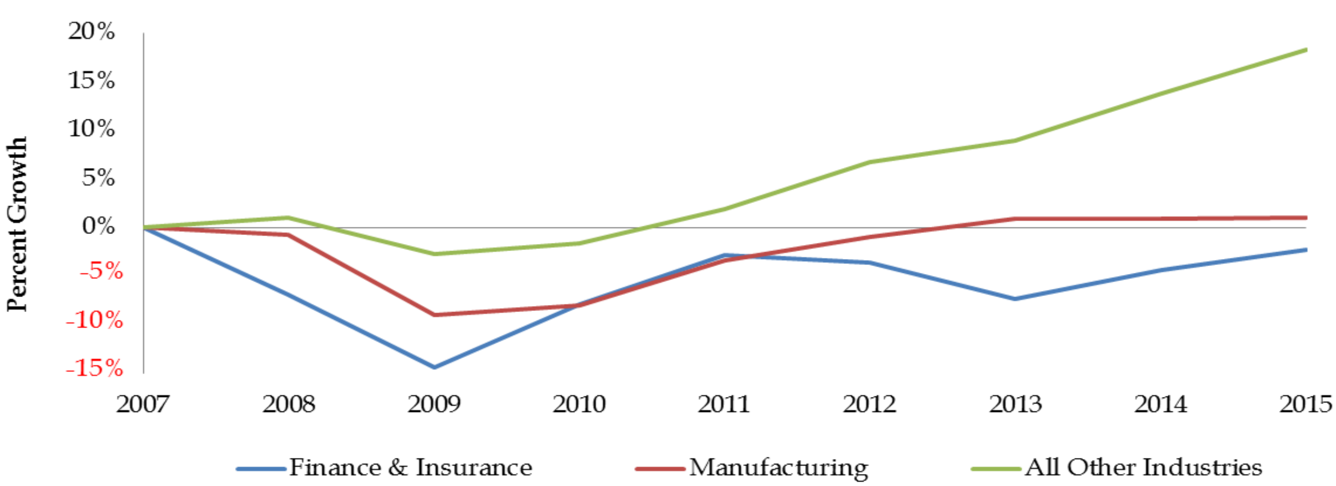
Figure 5.4 Growth in Federal Adjusted Gross Income (AGI)

Source: Statistics of Income (SOI), IRS

Underlying Issues: Finance & Insurance and Manufacturing Industries

Connecticut's economy is highly dependent on the Finance & Insurance and Manufacturing industries both of which were disproportionately impacted by the Great Recession. **Figure 5.5** illustrates that salaries and wages in both sectors were hit harder by the recession than in other industries, and have been slower to recover to pre-recession levels.

Figure 5.5 Salary & Wage Growth since 2007



Source Connecticut Department of Labor

[2]Finalized 2015 Federal AGI data by income group is expected in January.

Finance & Insurance Industry

Finance & Insurance is the single largest private industry sector in the State of Connecticut. In 2015 it accounted for roughly 19% of all private sector salaries & wages, down from the pre-recession peak of 21%. During the Great Recession this sector accounted for over 49% of all losses in salaries & wages.

Connecticut and New York are more dependent on the Finance and Insurance industry than any other state in the region. While the impact of the Great Recession on these two states was similar, recovery for the two states has been significantly different as illustrated in **Figure 5.6.** Other regional peers have also seen changes in this sector but not to the degree of Connecticut and New York.

Figure 5.6 Finance & Insurance Industry Trends in GSP

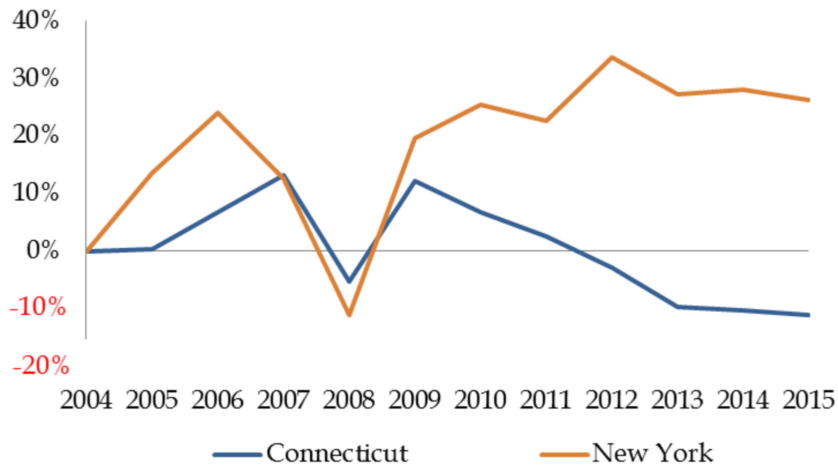


Table 5.2 Total Industry Change (2009 – 2015)
In Billions of Dollars

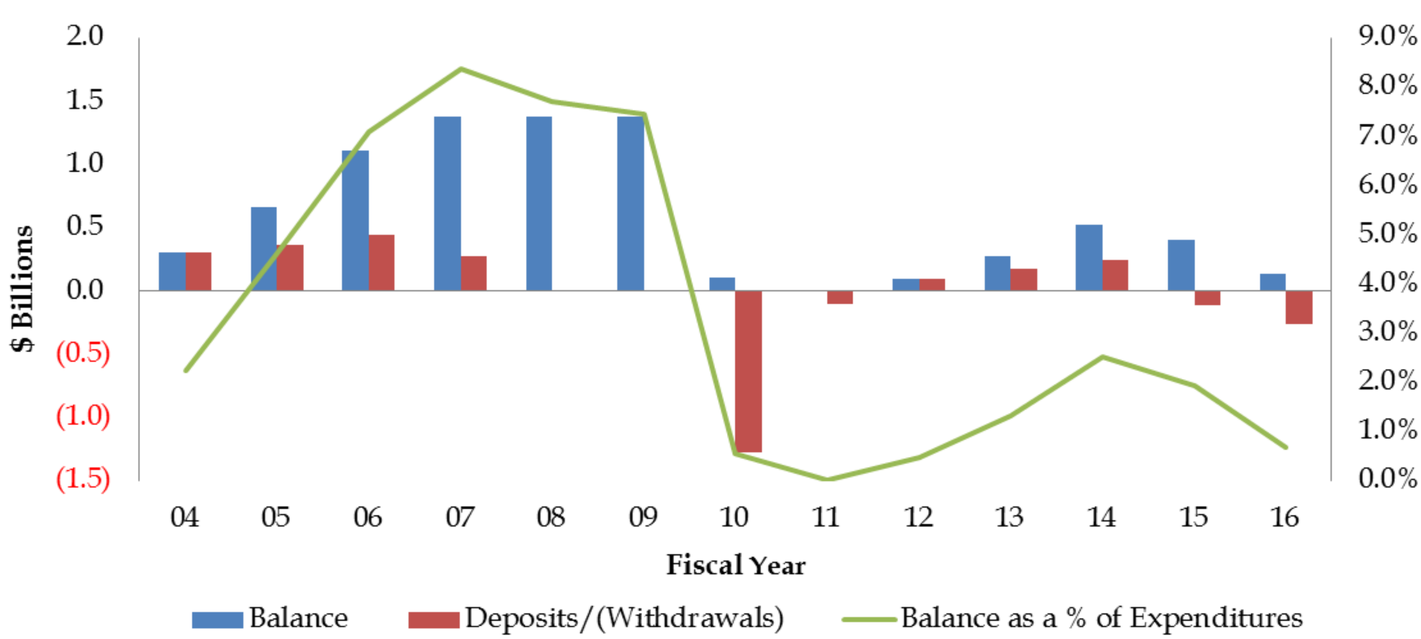
State	%	$
Connecticut	-21%	(7.2)
New York	6%	10.2
Massachusetts	1%	0.2
New Jersey	-2%	(0.5)

Source: Bureau of Economic Analysis

Budget Reserve Fund (BRF) Balance

The recent period of historically weak growth and increased volatility has had a direct impact on the General Fund budget, which has in turn led to a current BRF balance that is historically low for this point in the economic cycle. Recent experience is unique in that the BRF has been used to deal with year-to-year volatility as opposed to being reserved for recessionary downturns.

Figure 5.7 Budget Reserve Fund Balance Over Time



Expenditure Concerns

The primary concern of General Fund expenditures is the significant growth of fixed costs. Fixed costs have grown from 37% of expenditures in FY 06 to a projected 53% ($9.7 billion) in FY 18.

Pursuant to PA16-3 MSS, projected growth in fixed costs must be accommodated through expenditure reductions in non-fixed costs, which total $9.1 billion in FY 18. For FY 18 to be in balance, non-fixed costs will have to be reduced by $1.2 billion or 13%. The two largest non-fixed cost categories, ECS and state employee wages, total $5 billion (or 55% of non-fixed costs). The following section examine: (1) fixed cost growth, and (2) the impact of fixed and non-fixed costs in four important expenditure areas: state personnel, municipal grants and education aid, and entitlement programs.

Fixed Cost Growth

Fixed costs include pension costs, retiree health, debt service, entitlements, and adjudicated claims. As seen in **Figure 5.8** below, growth in pension costs and retiree health have far outpaced that of other fixed costs areas. In contrast, debt service and entitlements have grown at a slower pace. However, given the magnitude of these two categories small percentage growth changes result in significant funding increases. For example, a 1% increase in debt service and entitlement costs from FY 17 to FY 18 equates to a combined expenditure increase of $58.6 million.

Figure 5.8 Fixed Cost Trends

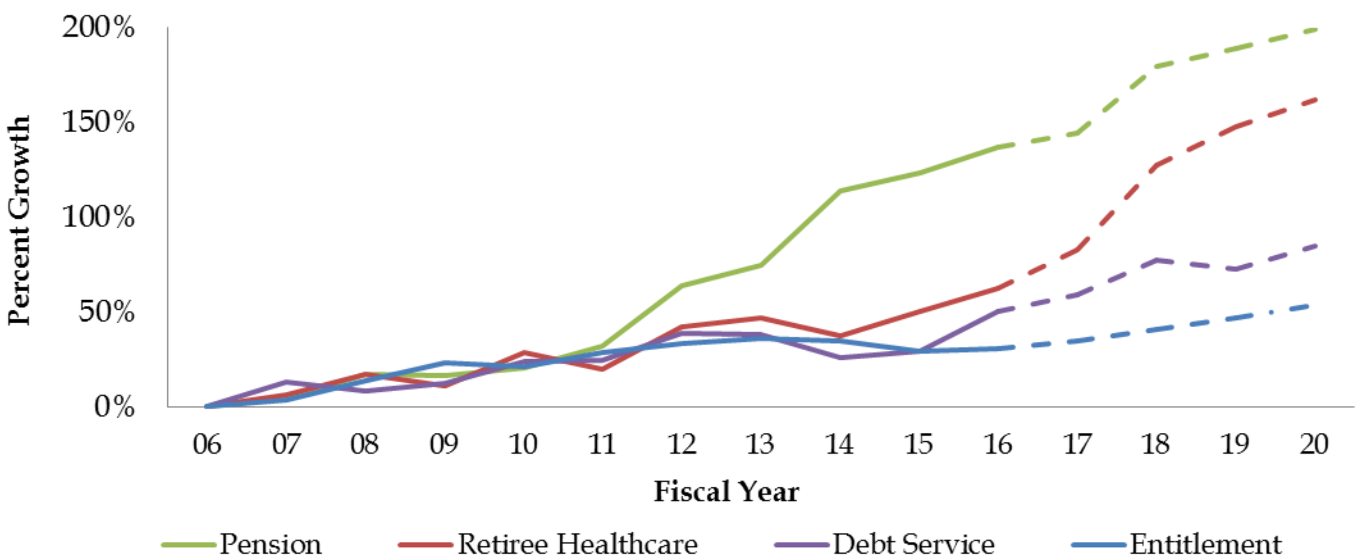


Table 5.3 Fixed Cost Expenditures
In Millions of Dollars

Category	Actual FY 06	Projected				FY 06 to FY 20	
		FY 17	FY 18	FY 19	FY 20	Per Year	$
Pension	884.0	2,160.5	2,467.0	2,552.2	2,639.9	8.1%	1,755.9
Retiree Healthcare	410.6	751.0	934.3	1,018.4	1,077.1	7.1%	666.5
Debt Service	1,306.1	2,075.9	2,320.4	2,254.6	2,410.4	4.5%	1,104.3
Entitlements	2,813.4	3,786.7	3,963.6	4,138.9	4,322.4	3.1%	1,509.0
Adjudicated Claims	6.3	20.8	8.3	8.5	8.2	2.1%	1.9
TOTAL	**5,420.3**	**8,794.8**	**9,693.5**	**9,972.6**	**10,457.9**	**4.8%**	**5,037.6**

State Personnel Costs

Growth in state personnel costs is driven by pension costs and retiree health. Pension costs largely reflect increased payments towards the state's unfunded accrued liabilities (UAL), predominately for the State Employees' Retirement System (SERS). **Figure 5.9** reflects growth in these categories of 10.6% a year between fiscal year 2006 and 2020. In contrast, the cost of active employees' benefits as well as salary and wages has remained relatively steady for the same period. The low rate of growth in these categories is partially due to a decline in the size of the state workforce, and health plan program changes implemented starting in 2011.

Figure 5.9 Personnel Growth Trends

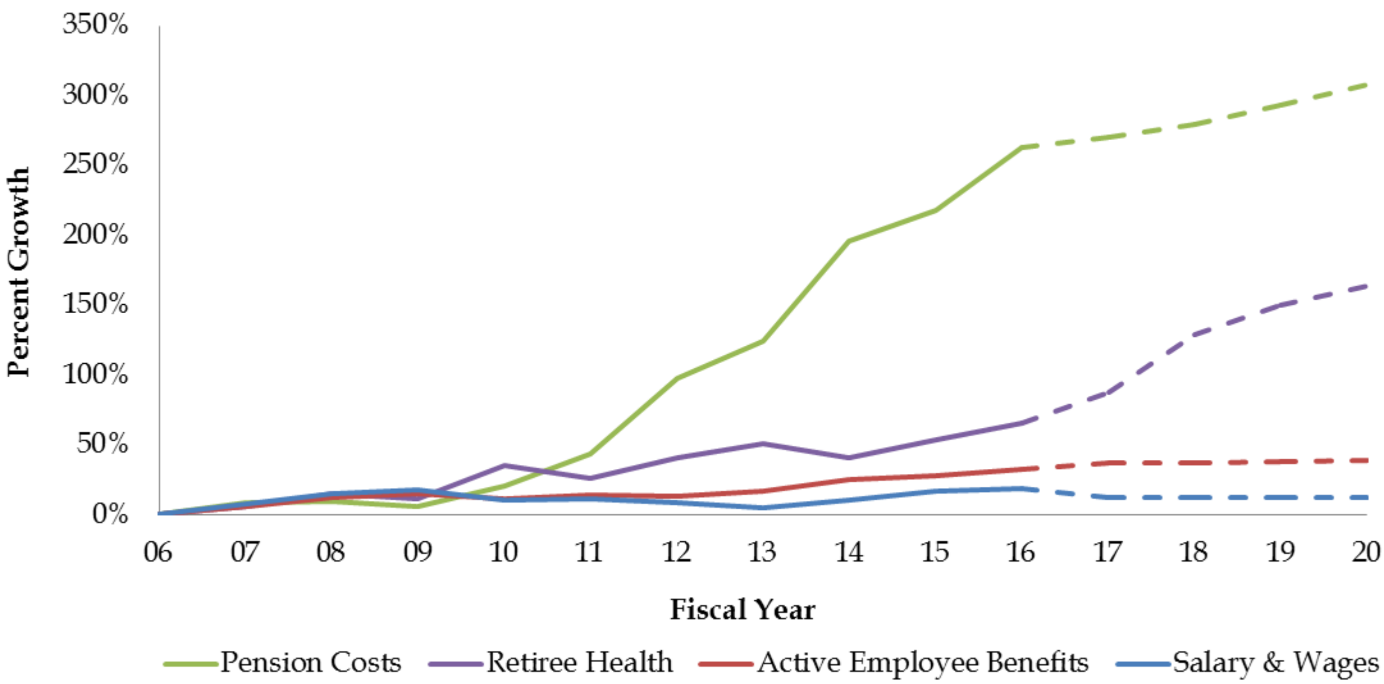


Table 5.4 Personnel Expenditures
In Millions of Dollars

Category	Actual FY 06	Projected FY 17	Projected FY 18	Projected FY 19	Projected FY 20	FY 06 to FY 20 Per Year	FY 06 to FY 20 $
Pension Costs[1]	251.6	932.3	955.4	990.6	1,027.4	10.6%	775.7
Retiree Health	390.4	731.1	895.2	974.8	1,028.3	7.2%	637.9
Active Employee Fringe[2]	835.7	1,144.5	1,144.5	1,152.6	1,161.1	2.4%	325.4
Salary & Wages	2,645.7	2,975.4	2,975.4	2,975.4	2,975.4	0.8%	329.7
TOTAL	**4,123.5**	**5,783.4**	**5,970.5**	**6,093.5**	**6,192.2**	**2.9%**	**2,068.8**

[1]Pension costs do not include the Teachers' Retirement System or the normal pension costs for active state employees in SERS or the Judges and Compensation Commissioners' Retirement System (JRS).

[2]Active Employee Fringe includes social security, unemployment compensation, group life insurance, tuition and training funds, health insurance, the normal cost for SERS and JRS, and the Higher Education Alternate Retirement Program.

Pension Costs and Retiree Health

SERS UAL Payments will Increase to $1 billion in FY 20 and $2 billion in 2032[3]

The annual UAL payments are structured to pay off the $14.9 billion in unfunded liabilities over the next 15 fiscal years.[4] SERS' current payment structure requires UAL payments to increase each year until the liability is paid off. Projected payments assume: (1) actuarial assumptions used to calculate the state's annual contribution to SERS closely resembles actual experience and (2) the state makes 100% of the annual contributions. Differences between what is assumed and actual experience will contribute to changes in the state's UAL and will impact future payments.

4 Major Factors Contribute to Historical Growth in Unfunded Pension Cost[5]

1. Legacy costs from benefits promised before actuarial funding was implemented.
2. Inadequate funding as the state's actual contributions fell short of actuarial contribution.
3. Deviations from assumptions including ERIPs in 1989, 1992, 1997, 2003 and 2009.
4. Poor investment experience relative to the assumed rate of investment since 2000.

Retiree Health Costs will increase to $930 million in FY 20 (up from $390 million in FY 06)

Growth in retiree health is predominately due to increases in the costs of medical and prescription services. Medical costs are projected to grow 6% per year and prescription drugs costs are projected to grow 10% per year. In addition, the total number of retirees and their dependents covered by the plan has increased approximately 13,000 members (or 19%) since FY 10.

SEBAC 2011 requires matching contributions of $98 million in FY 18

SEBAC 2011 requires the state to match employee contribution for retiree health starting in FY 18; equal to 3% of salary**.** Future growth in retiree health costs may be mitigated as employees with partially prefunded retiree health benefits begin to retire. The state currently funds retiree health on a pay-as-you-go basis.

Active Employees Salary and Benefits - Salary and Wages Exhibit Modest Growth

From fiscal year 2006 to 2016, individual salaries for full time employees have had an average annual growth rate of 4% including settled collective bargaining contracts and non-union employee increases. However, total state employee salary expenditures have only grown 1.8% over the same time period, primarily because the number of active General Fund full-time employees (excluding UConn) decreased from 34,553 in FY 06 to 30,722 on June 30, 2016. In addition, (1) the SEBAC 2009 and 2011 agreements included wage freezes, furloughs, a Retirement Incentive Program (RIP) and other employee concessions and (2) hiring freezes coupled with the delay in refilling positions. It is estimated that FY 17 expenditures on state employees' salaries and wages will be lower than FY 16 expenditures by $177 million.

Benefits

Active Employee Health Costs Increase to $818 million in FY 20 (up from $396 million in FY 06)

Growth in this area is due to increases in the costs of medical and prescription services. Although not reflected in the projected expenditures in **Table 5.4**, medical costs are projected to grow 6% per year and

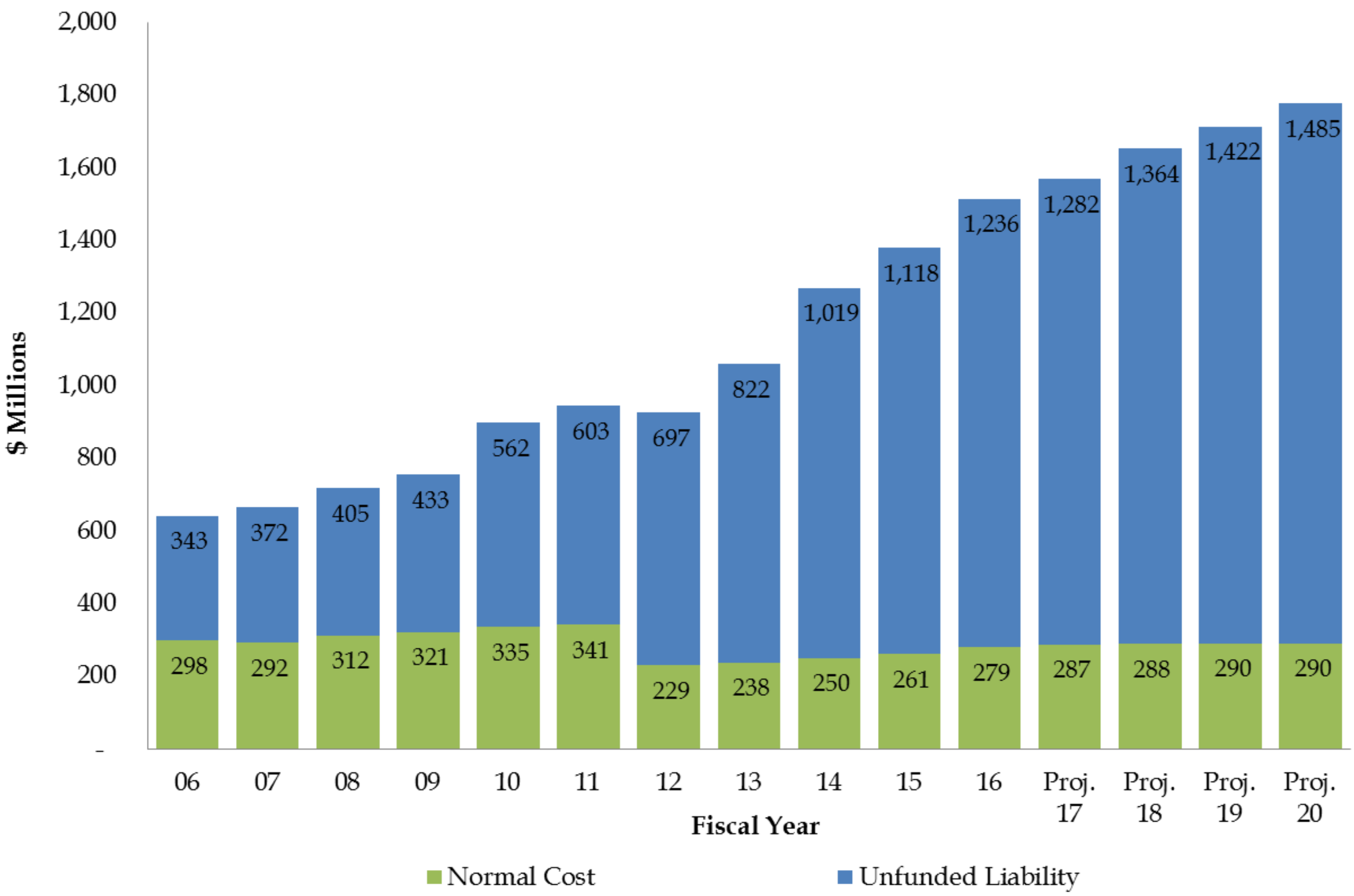
[3]The figures reflect the General Fund portion of the estimated UAL payments; 2032 marks the end of the 40 year amortization period for the SERS UAL.
[4]As of the June 30, 2014 SERS Actuarial Valuation. The June 30, 2016 valuation was not yet available.
[5]*Source*: Aubry, J.P. and Munnell, A., *Report on the Connecticut's State Employees' Retirement System and Teachers' Retirement System*, Center for Retirement Research at Boston College (Nov. 2015).

prescription drugs costs are projected to grow 10% per year. In contrast to retiree health, the total number of active employees and their dependents covered by the plan has decreased by approximately 5,000 members (or 3.8%) since FY 10. In the past, mitigating growth in this area included: (1) increased employee out-of-pocket costs, (2) disease management programs, and (3) required preventative service screenings.

Pension Normal Costs for SERS active employees remains steady.

The state's normal cost represents the cost of benefits accrued in the current year.The pension normal costs for active employees are funded on an actuarial reserve basis as a percentage of salary and average 8% of salary. The national average for similar plans is 7%. The average normal pension cost for new employees in Tier III is 3% of salary. **Figure 5.10** below reflects the portion of the SERS annual pension contribution broken out between the UAL payment and the normal cost.

Figure 5.10 Trends in State Employees' Retirement System (SERS)



Municipal Aid & Education

Municipal aid, through grants, revenue diversions and payments for the employer's share of the Teachers' Retirement System (TRS) (retired teachers' pension and health insurance), is one of the largest components of the state budget. In FY 06, municipal aid was 20% of General Fund expenditures; in FY 20 it is estimated to be 25%. However since FY 06, the make-up of municipal aid and education spending has changed significantly. The percentage of municipal aid dedicated to Education Cost Sharing (ECS), the largest form state aid to municipalities, is estimated to decline from 57% in FY 06 to 41% in FY 20. While funding for the TRS is estimated to increase from 15% of municpal aid in FY 06 to 31% in FY 20.

Property Tax Relief and Other Education Aid have remained static as a portion of overall municipal aid; from FY 06 through FY 20 each category has comprised approximately 14% of all municipal aid.
As seen in **Figure 5.11** below, municipal aid is estimated to grow through FY 20 primarily based on growth in the TRS' pension contribution. In addition, Property Tax Relief grants will also see growth due to the creation of the Municipal Revenue Sharing Account/Fund (MRSA). ECS growth has been flat over the past 11 fiscal years.

Figure 5.11 Trends in Municipal Aid[6]

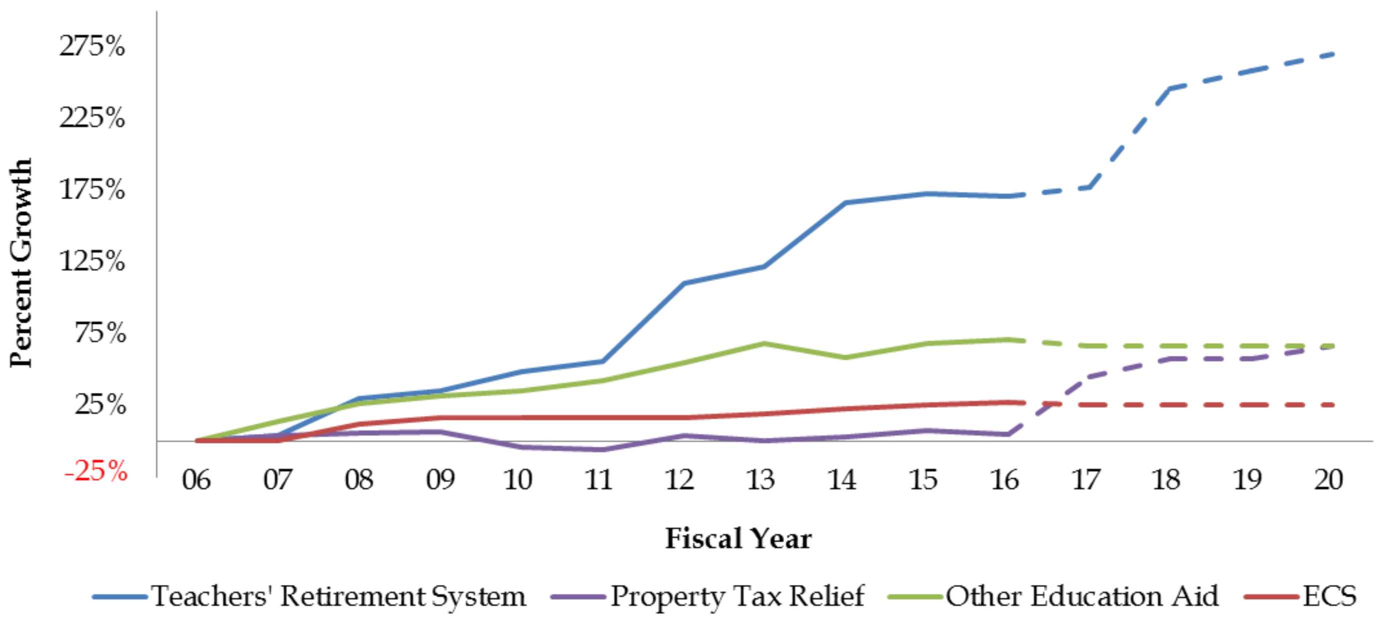


Table 5.5 Trends in Municipal Aid

Category	Actual FY 06	Projected				FY 06 to FY 20	
		FY 17	FY 18	FY 19	FY 20	Per Year	$
Teachers' Retirement System	416.4	1,151.7	1,469.8	1,494.4	1,542.2	9.8%	1,125.7
Property Tax Relief	415.8	602.6	653.6	653.6	692.6	3.7%	276.8
Other Education Aid	418.1	695.9	695.9	695.9	695.9	3.7%	277.8
Education Cost Sharing (ECS)	1,619.7	2,037.6	2,037.6	2,037.6	2,037.6	1.7%	417.9
TOTAL	**2,870.0**	**4,487.9**	**4,856.9**	**4,881.5**	**4,968.3**	**4.0%**	**2,098.3**

Teachers' Retirement System

The Teachers' Retirement System (TRS) provides pension and healthcare benefits for retired public school teachers. Pension costs represent 97% of the total FY 20 TRS cost reflected in **Table 5.5** above, which includes debt service.

Annual Pension Payments will increase to nearly $1.5 billion in FY 20 from $373 million in FY 06

These costs include the state's retirement contribution (payments towards the unfunded accrued liabilities (UAL) and normal cost) and debt service. The growth in the components of the annual pension contribution and debt service between FY 06 and FY 20 are shown in **Figure 5.12**.

[6]See Appendix F for a list of grants included in each municipal aid category, and OFA's estimates for each of these grants from FY 16 to FY 20.

UAL Payment will increase to over $1.1 billion in FY 20

The TRS 2016 valuation resulted in a $2.4 billion increase (for a total of $13.1 billion) in the unfunded actuarial liability (UAL) of the system due primarily to the impact of new actuarial assumptions adopted by the Teachers' Retirement Board. The assumption change with the most significant impact on the UAL was the adoption of a lower interest rate assumption of 8% versus the previous 8.5%.

Normal Cost for active employees remains steady

The state's normal cost represents the cost of benefits accrued in the current year.Normal cost as a percentage of payroll is 4.5% of salary in the TRS. The 2014 national average for employer normal cost in similar plans is 7.4%.

TRS Debt Service will increase to $118.4 million in FY 20

Debt service costs for the $2.3 billion pension obiligation bonds issued on behalf of the TRS in 2008 have been part of the TRS related expense since FY 10 when the cost was $59 million. Debt Service costs will continue for the life of the bond (2032) and is funded in the Office of the State Treasurer's - Debt Service.

3 Major Factors Contribute to Historical Growth in Unfunded Pension Costs[7]

1. Legacy costs from benefits promised before actuarial funding was implemented in 1979.
2. Inadequate funding as the state's actual contributions fell short of actuarial contribution.
3. Poor investment experience relative to the assumed rate of investment since 2000.

Figure 5.12 Teachers' Retirement System Pension Costs
In Millions of Dollars

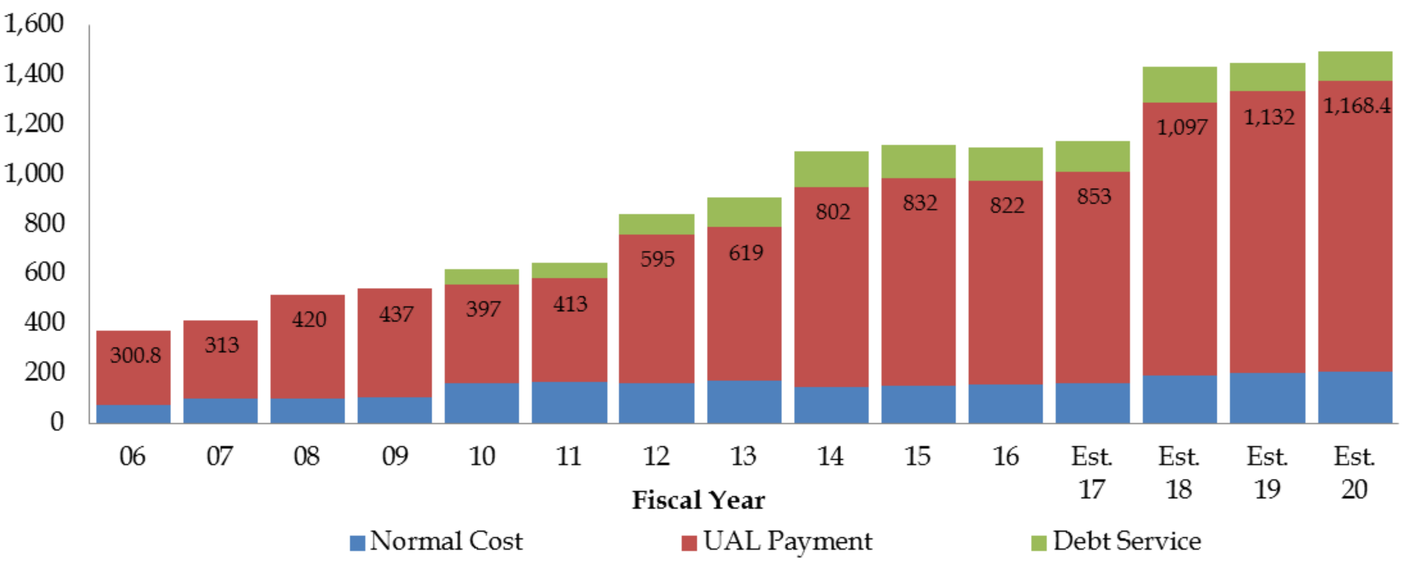


Table 5.6 Teachers' Retirement System Pension Growth (FY 06 and FY 20)
In Millions of Dollars

Category	FY 06	FY 20	Change
UAL Payment	300.8	1,168.4	867.6
Normal Cost	72.4	206.6	134.1
Debt Service	-	118.4	118.4
TOTAL	**373.3**	**1,493.4**	**1,120.1**

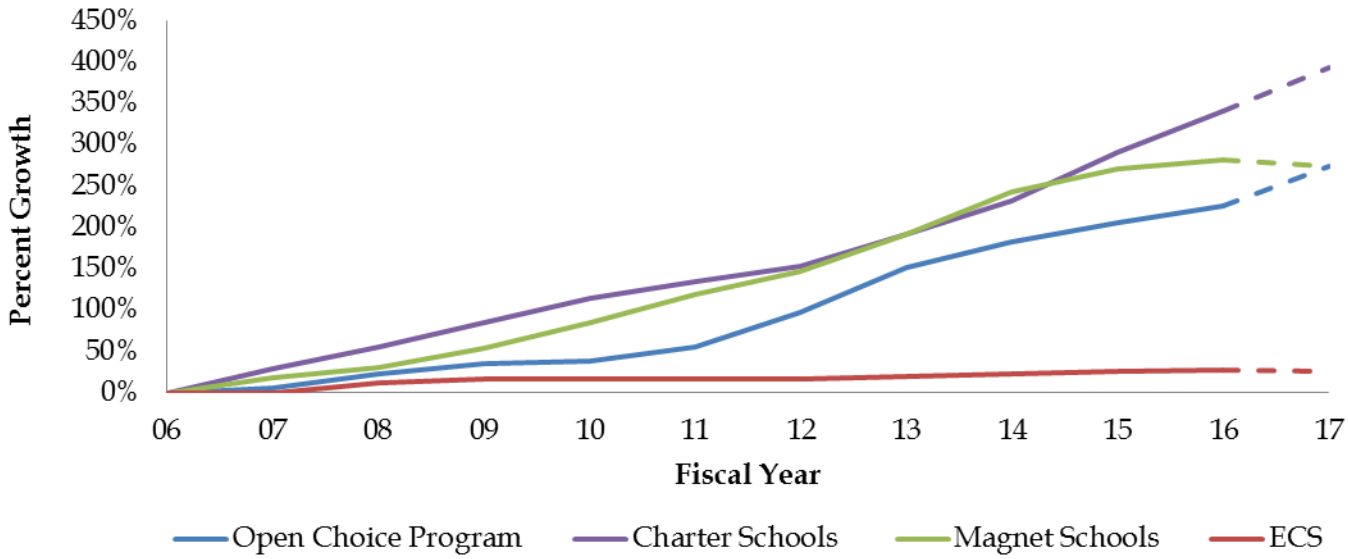
[7]*Source*: Aubry, J.P. and Munnell, A., *Report on the Connecticut's State Employees' Retirement System and Teachers' Retirement System*, Center for Retirement Research at Boston College (Nov. 2015).

Slow Growth for ECS while School Choice Programs Experience Double Digit Growth

The ECS grant is the largest type of state aid to municipalities. However, since FY 06 growth in ECS has been static in comparison to the growth in school choice programs (Charter Schools, Magnet Schools, and Open Choice). From 2006 to 2017, ECS expenditures have grown approximately 2.1% per year, while Charter Schools have grown 15.6%, Magnet Schools 12.8% and Open Choice 12.7%. The ECS eligible student population has decreased approximately 48,000 students over the past 10 years, while enrollment in school choice programs is now over 36,000 students.[8]

The growth in school choice programs can be attributed to: (1) conditions contained in the Sheff Court Order, (2) an increase in student participation, and (3) rate increases for each of the three programs over the past decade.

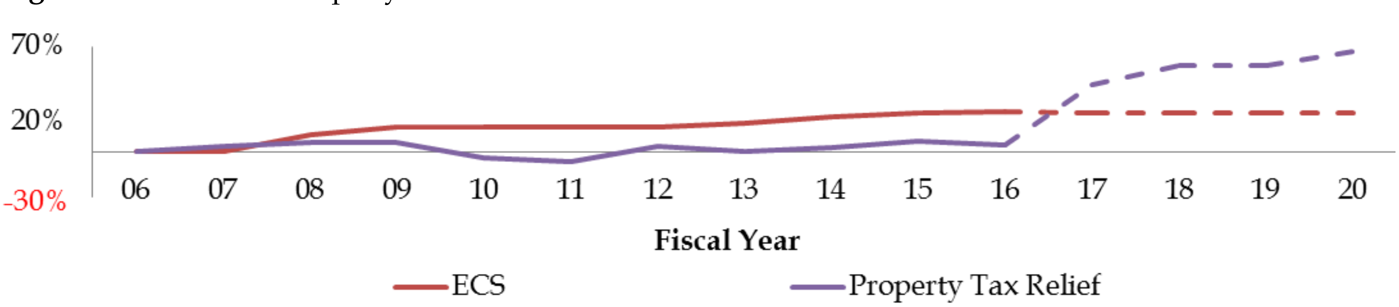
Figure 5.13 Trends in Funding for Educational Choice



MRSA Results in Significant Growth in Property Tax Relief Grants[9]

Property Tax Relief grants are expected to grow 38% from FY 17 to FY 18, after several years of flat growth, as **Figure 5.14** below shows. The current fiscal year and out year growth is due entirely to the creation of the Municipal Revenue Sharing Fund/Account (MRSA). Payments from MRSA grow from $185 million in FY 17 (its first year) to an estimated $275 million in FY 20 due to a reduction in the cap on motor vehicle mill rates, and changes in municipal grand lists. It is estimated to be the largest source of non-education aid to municipalities in each fiscal year from FY 17 to FY 20.

Figure 5.14 Trends in Property Tax Relief



[8]FY 15 student enrollment figures are the most recent available for school choice programs.
[9]Property Tax Relief includes the State Property PILOT, College & Hospital PILOT, and Pequot grants, as well as other reimbursements to municipalities for various property tax exemptions. It also includes some large grants to towns for non-education related purposes, such as Town Aid Road.

Entitlements

Entitlements are the largest category of fixed costs, representing 42% of projected fixed costs in FY 18. However, annual growth has been the smallest of all other fixed costs categories at 3.1% per year. Absent future specific state or federal policy changes impacting these programs expenditures are anticipated to increase consistent with current historical trends.

Medicaid is the largest entitlement program projected to cost $2.9 billion in FY 20 (or 67% of this category of expenditures). The Medicaid program is projected to increase at an average of 5.5% per year for the period FY 17 to FY 20. The increase is due to (1) caseload growth and (2) changes in federal reimbursement associated with the HUSKY D population. Despite projected growth in this area, per member per month costs have decreased each year for the period FY 12 to FY 15, ranging from -0.5% to -5.9%.

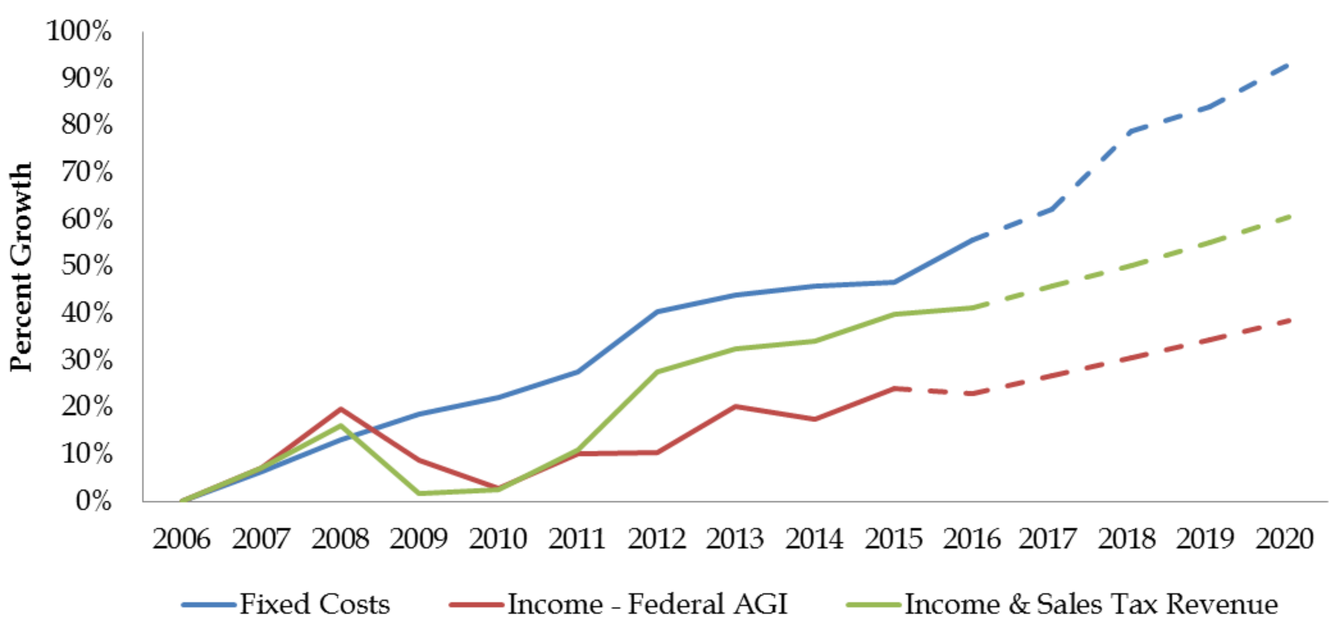
Community residential services for DDS consumers is the second largest entitlement program projected to cost $594 million in FY 20. Projected growth in this program is due to prior year annualization of caseload changes including, group home privatizations and regional center closures and caseload growth for community placements limited to age-outs, long-term care residents (Money Follows the Person) and Southbury Training School residents.

Fixed Costs Outpace Income and Sales Tax

As seen in **Figure 5.15,** fixed costs have outpaced revenue since 2008 and are projected to continue to do so through FY 20.

Income and sales tax revenue has not kept pace in large part due to the Great Recession. Since the end of the recession, weak growth in revenue has been partially offset by tax increases (e.g. $1.2 billion in 2012 and $339 million 2016). The divergence between growth in fixed costs and the income and sales tax is expected to increase in 2018 due to the combination of a spike in fixed costs and continued weak revenue growth. This structural imbalance will be exacerbated in the event of a recessionary downturn in the out years.

Figure 5.15 Diverging Growth Projections



Section VI. Special Transportation Fund

OFA is projecting an operating deficit of $13 million in the Special Transportation Fund (STF) in FY 17. A negative revenue adjustment of $23.3 million offsets expenditure savings of $9.3 million and a $1 million budgeted operating balance. The STF revenue reliance on the Oil Companies Tax and the Sales and Use Tax connects future STF collection trends more closely to underlying state economic instability. In addition, the Oil Companies Tax is correlated to energy market patterns, which may expose the STF to more unpredictability in the future.

Highlights

Sales Tax collections have experienced weaker collections since the spring. Sales Tax receipts are lagging nationally, leading several states, including Connecticut to adjust expectations. Consequently, the Sales and Use Tax transfer from the General Fund (GF) to the STF is decreased by $5.2 million in FY 17.

The Petroleum Gross Earnings (Oil Companies) Tax has experienced weaker collections than expected through the first quarter of FY 17, which decreases the FY 17 projection by $12.7 million.

Motor Vehicle Receipts has been decreased by $5.4 million due to lower than anticipated collections.

Debt Service expenditures are anticipated to be less than budget by $15.3 million. The $800 million bond issuance in July was at a lower interest rate than expected and yielded more bond premiums, which lowered the amount of principal issued. These factors contribute to the $15.3 million lapse projection.

Table 6.1 FY 17 Transportation Fund Summary
In Millions of Dollars

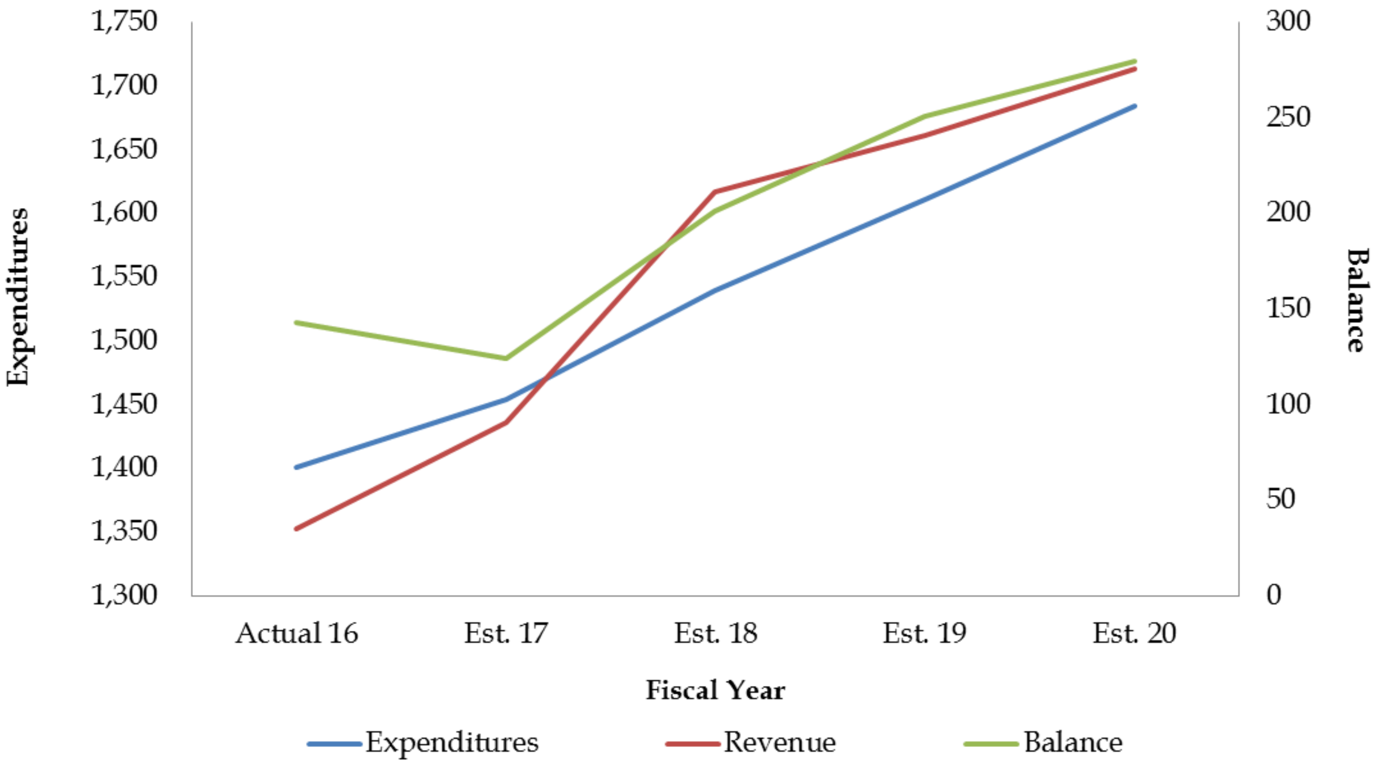
Summary	FY 17
Balance as of 7/1/16	142.8
Budgeted Operating Balance	1.0
Revenue	
Budgeted	1,464.4
Sales and Use Tax	(5.2)
Petroleum Gross Earnings Tax (Oil Companies)	(12.7)
Motor Vehicle Receipts	(5.4)
Subtotal	**1,441.1**
Expenditures	
Net Appropriated	1,463.4
Agency Lapses	(9.3)
Subtotal	**1,454.1**
SURPLUS/(DEFICIT)	**(13.0)**
Projected Balance as of 6/30/17	**129.8**

Special Transportation Fund Out Years (FY 18 – FY 20)

The STF carries a balance into each fiscal year and is projected to start FY 18 with a balance of $129.8 million and end FY 20 with a cumulative balance of $286.3 million. The projected FY 18 balance includes the final increase in the GF Sales and Use Tax transfer to a 0.5 percentage point share of the 6.35% rate, thus increasing STF revenue by $143.6 million in FY 18. The inclusion of the Sales and Use Tax in STF revenue exemplifies the interdependence with General Fund operations. This interdependence has led to periodic cost and revenue shifts which have depleted the STF balance.

Revenue growth in FY 17 through FY 20 is anticipated to be stable over time. Excluding the transfer from the Sales and Use Tax, STF revenue has an average assumed rate of growth of 2.8% in FY 17 through FY 20, while average expenditure growth for the same period is 4.7%.

Figure 6.1 Special Transportation Fund Expenditures & Ending Balance
In Millions of Dollars



Special Transportation Fund Trends and Concerns

The fund is projected to run an operating surplus in each out year. Fixed cost growth rates, primarily debt service and fringe benefits, are not projected to exceed revenue growth.

Fringe Benefits

- STF fringe benefits have grown 97% between FY 06 to FY 17 (or $98 million) and are projected to grown another 21% between FY 17 and FY20 (or $42 million).
- The largest growth has been in State Employee Retirement Contributions (SERS) and Active Employee Health.
  - SERS and health contributions comprise approximately 90% of total STF fringe benefit costs (or $181 million).
  - SERS STF contributions are projected to increase by $39 million between FY 17 and FY 20. Payments towards the state's unfunded accrued liability (UAL) represent $32 million of this growth.
  - Over 80% of annual STF SERS contributions are for the UAL.

Debt Service

- Debt service costs for FY 17 represent 38% of the overall STF expenditures (or $547.7 million).
- STF debt service has grown 17.9% since 2008 and is projected to grow another 38% between FY 17 and FY 20 (or $200.2 million).
- This growth is attributed to an increase in the issuances from $700 million in FY 16 to $900 million annually in FY 18 through FY 20.

- **Debt Service Coverage**
  - The STF must maintain revenues in each fiscal year equal to at least two times the debt service payments for special tax obligation bonds. Additional bonds cannot be issued unless a 2.0 times coverage ratio is met, limiting future issuance growth unless revenues are increased.
  - Debt service coverage has averaged 2.7 times in the past nine years and is projected to average 2.5 times in FY 17 through FY 20.

Section VII. Projected Bonding and Debt Service (FY 17 - FY 21)

Debt Service Costs

Debt service costs are projected to increase by 27% in the General Fund and 48% in the Special Transportation Fund between FY 17 and FY 21. New debt drives these increases. In the General Fund, new debt issuances of $2.3 billion each year are assumed to maintain the approximate current level of funds available to support capital projects and programs. The General Fund cost of new debt is partially offset in FY 19 by a reduced debt service cost of $178.7 million due to retirement of the 2009 Economic Recovery Notes. The Let's Go, CT! Project contributes significantly to growth in the debt service of the Special Transportation Fund.

Bond Cap Impacts FY 18

Bond authorizations must be reduced from current levels to fall under the statutory bond cap. The General Obligation (GO) new bond fund authorizations in **Table 7.1** are the maximum amounts allowable under the statutory 90% threshold (i.e., the statutory bond cap) including pre-existing, future authorizations for certain projects: (1) UConn 2000, (2) CSUS 2020, (3) Jackson Labs, (4) the Bioscience Innovation Fund and (5) Sikorsky's production of CH-53K "King Stallion" helicopters. The statutory bond cap may be achieved by limiting future bond authorizations and/or reducing the approximate $6 billion in GO bond funds previously authorized but unissued.

Statutory Bond Cap

If the State Treasurer certifies per CGS 2-27b that the net amount of General Obligation indebtedness meets or exceeds 90% of net General Fund Tax Revenue multiplied by 1.6, the Governor must review bonds for which indebtedness has not yet been incurred and recommend to the General Assembly priorities for repealing authorizations of remaining projects.

Table 7.1 Summary Bonding and Debt Service General Obligation and Special Tax Obligation
In Millions of Dollars

Fiscal Year	New Authorizations		Allocations		Issuances		Debt Service	
	GO	STO	GO	STO	GO	STO	GF	STF
17	2,016	1,200	2,300	900	2,300	900	2,076	547
18	1,345	1,400	2,300	900	2,300	900	2,320	614
19	1,994	1,500	2,300	900	2,300	900	2,255	680
20	2,038	1,500	2,300	900	2,300	900	2,410	748
21	2,123	1,500	2,300	900	2,300	900	2,632	822

OFA estimates that $1.3 billion is the maximum amount of new FY 18 GO bond authorizations allowable under the cap provided that existing bond authorizations are not cancelled. Comparatively, new GO bond authorizations in the FY 17 Revised budget are approximately $2 billion, which was enabled under the cap by cancelling approximately $1 billion in bond authorizations provided in previous budgets. Of the $1.3 billion in new GO bond authorizations allowable in FY 18, approximately $1 billion in total is pre-authorized for certain projects (e.g., UConn 21st Century) or anticipated to be authorized to fund local school construction. This leaves approximately $300 million in new GO bond authorizations to support all other GO bond fund-supported projects and programs if no new cancellations are made.

Uncertain Future Bond Issuances

It is uncertain whether or not the GO bond issuance assumptions of $2.3 billion annually will suffice to support future capital spending. To a large degree, the Governor controls the allocation of bond funds and therefore can delay or diminish the scope of authorized projects or programs. The practice of the Governor is to establish an overall limit on allocations (i.e., the soft bond cap) in a calendar year. The soft bond cap on GO allocations has increased steadily since FY 11, from approximately $1.1 billion to $2.7 billion in FY 16; the issuance of GO debt has followed the same path, increasing from $1.2 billion in FY 11 to $2.3 billion in FY 16. Because of differences between annual allocations and issuances of GO bond funds, the cumulative balance of allocated but unissued GO bond funds is now $2.6 billion. Actual FY 16 spending of GO bond funds was approximately $2.4 billion in total. The FY 16 spending level, in conjunction with the $2.6 billion in allocated but unissued GO bond funds, indicate some upward pressure on bond issuances. Ultimately, the policy direction that the Governor will choose to take when he establishes the soft bond cap for 2017 will play a significant role in determining the amount of GO bond fund issuances required in the near term.

Cost of Borrowing Projected to Increase

The cost of borrowing is anticipated to increase slowly as the Federal Open Market Committee is expected to tighten monetary policy over time. The interest rates on tax-exempt GO fixed-rate bonds, which comprise the bulk of GO borrowing, are projected to increase from 4.5% presently to 5.0% in 2017, 5.25% in 2018-2019 and 5.5% in 2020 through the rest of the projection. Taxable GO issuances, which mature in 10 years rather than 20 years, were issued at a rate of 2.13% in August and are expected to see a similar ratcheting up of rates over time. The projection assumes variable interest rates at 3.5% and UConn bonds at rates of 5.0% on all issuances from 2017 through 2021. Interest rates applicable to Special Tax Obligation issuances are also expected to rise slowly and incrementally over the next few years. Interest rate projections beyond 18 months are highly uncertain.

Projected Decrease in Bond Premiums

A rise in bond premiums has enabled significant short-term reductions to debt service appropriations, but bond premiums are projected to decrease from current levels due to the anticipated rise in interest rates and application of a new federal rule.

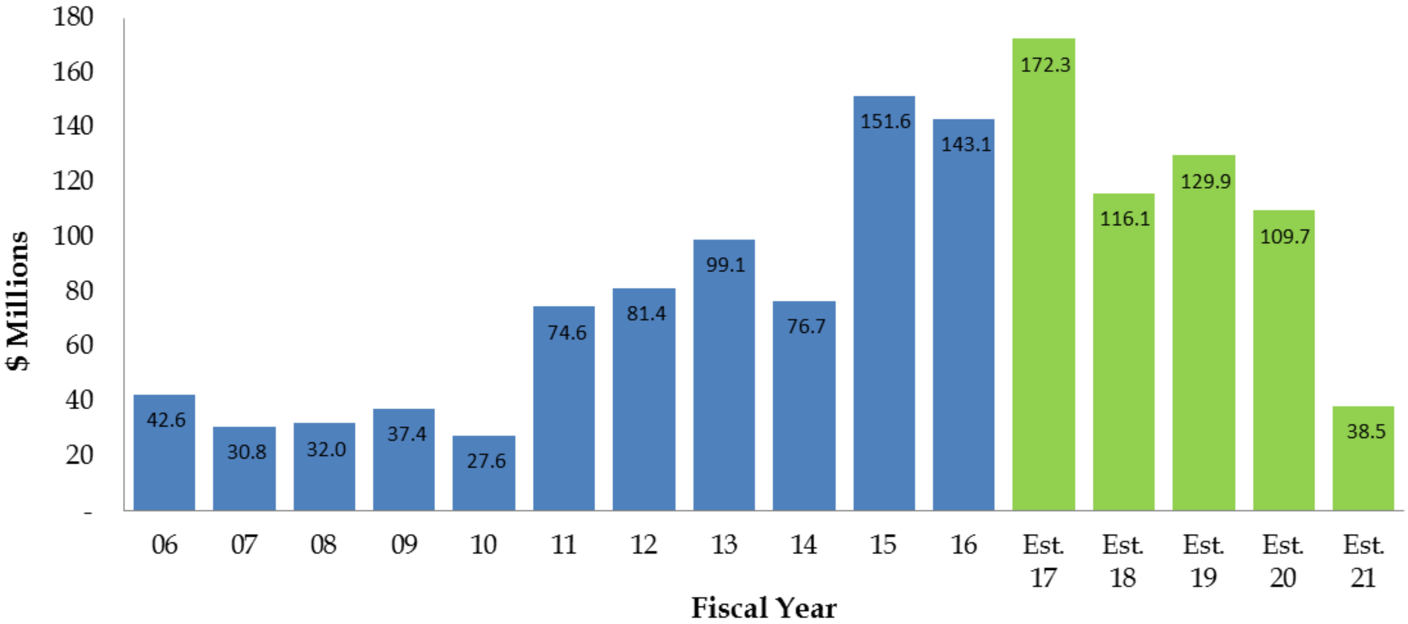
Bond premiums move in the opposite direction of changes in the overall interest rate; typically as interest rates rise, bond premiums fall and vice versa. The relatively low interest rates prevailing in the last several years have produced bond premiums at a rate of approximately 12% of the principal amounts borrowed compared to a rate of approximately 2% earlier this century. Coupled with an increase in the total amount of bonds issued, the higher rate of premiums has produced a relatively large amount of bond premiums in recent years. See **Figure 7.1**. As described in the section above, interest rates are projected to increase; consequently, the bond premium rate is anticipated to decrease over time. (Note: If bond issuances exceed expectations, the amount of bond premiums could still increase even though premium rates decline.)

Bond Premiums

Investors are motivated to pay premiums to minimize the risk that rising interest rates will reduce the future marketability of the bonds. Rising interest rates negatively impact (discount) the value of bonds. Federal law imposes a higher income tax rate on investors who purchase bonds on the secondary market at a discount that exceeds established thresholds.

A recent federal rule requires bond premiums on certain issuances to be used to cover 31 months of interest on the bonds (i.e., capitalized interest) rather than 18 months. Spreading out bond premiums over a greater length of time reduces the volatility of bond premiums and thereby mutes the impact in any single year. For instance, a particularly large bond premium would be distributed over approximately 2.5 years rather than 1.5 years. This new rule is expected to impact issuances beginning in March 2017.

Figure 7.1 Bond Premiums by Fiscal Year of Use[1]



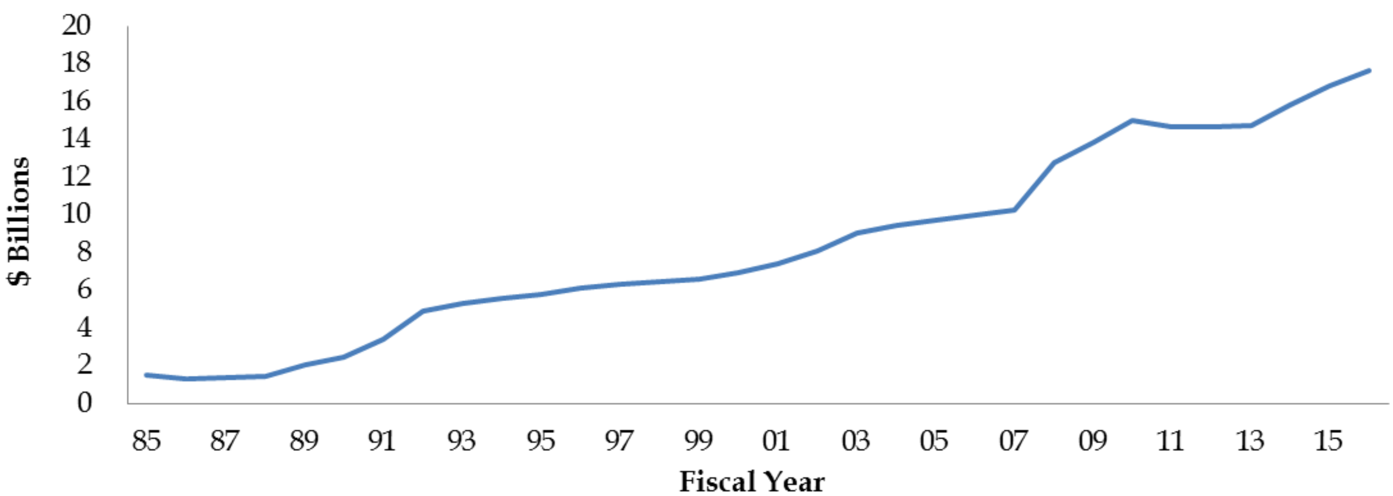
[1]Of the FY 15 total, $61.1 million was used to reduce the amount of the 2009 ERNs re-issuance (i.e., avoid new debt).

Debt Overview

Debt supported by the General Fund has grown $7.4 billion or 72% from FY 07 to FY 16. Major increases include $2.3 billion in debt to issue Pension Obligation Bonds (POBs) for the Teachers' Retirement System and $0.6 billion in GAAP deficit conversion bonds.

Debt spending on various capital projects and programs has increased $1.5 billion or 170% over the last five fiscal years: FY 11 and FY 16. It is estimated that approximately ½ this increase, or $744 million, is attributable to economic development programs, local school construction projects and the UConn infrastructure program.

Figure 7.2 Growth in General Fund Supported Debt



Debt Burden

The state's debt burden has increased over time according to two widely-used measures. Between 2007 and 2016, outstanding GO debt grew from 5.2% to 7.1% of total personal income. General Fund debt service as a percentage of General Fund revenues is expected to climb from slightly less than 10% in FY 15 to 13% in FY 20. Connecticut consistently ranks at or near the top of a listing of the 50 States according to debt service ratios, as reported by Moody's Investors Service.

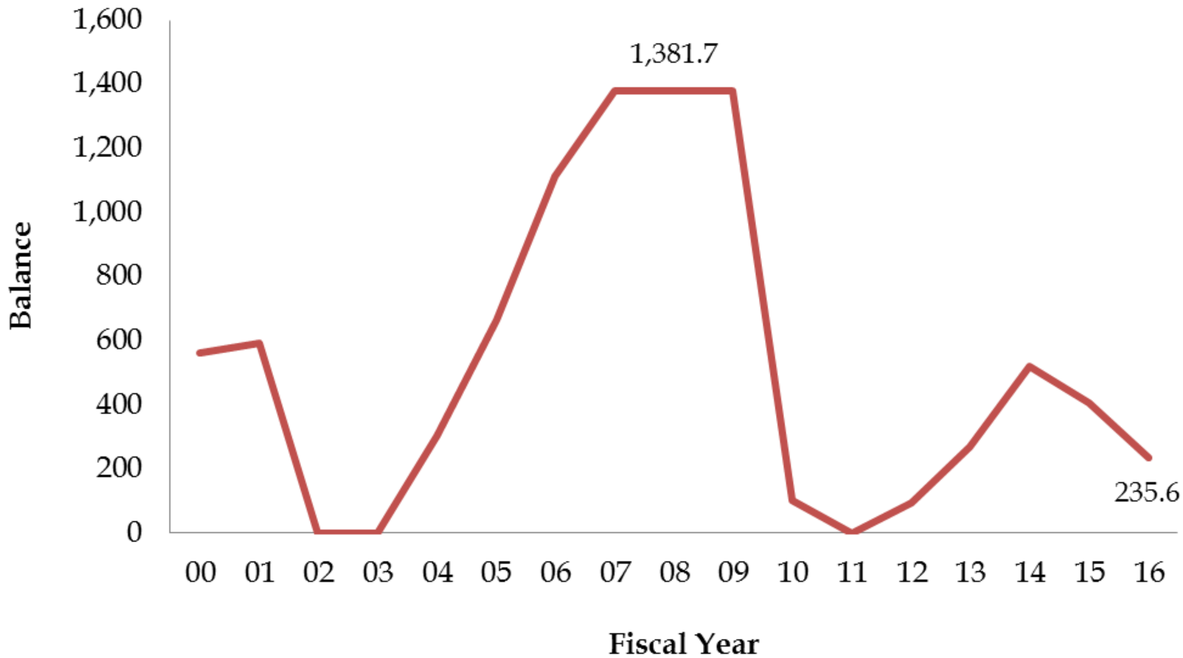
Connecticut is fairly unique in that it provides so much GO bond fund support to local school construction, which makes effective interstate comparisons difficult but not impossible. Approximately 40% of Connecticut's debt service on GO bonds is attributable to local school construction. Based on research conducted by the National Conference of State Legislatures, the State of Ohio primarily uses GO bond funds for school construction and that K-12 school general obligation bond debt service represents approximately 28% of total General Fund debt service paid in FY 16. According to reporting by Moody's, Ohio's debt service ratio has remained relatively stable between 4% and 5% between FY 11 and FY 15. It is unclear to what degree other factors, including disparate revenue growth rates, may be driving the difference in debt service ratios. Further research is pending.

Connecticut's relatively high debt service levels contribute to an increase in the cost of borrowing. Ratings agencies have recently downgraded Connecticut's credit while citing the lack of sufficient reserves (i.e., the relatively low balance in the Budget Reserve Fund) and the rise in fixed costs as a percentage of the budget as reasons for the downgrades. Credit ratings are a factor in the interest rate determinations for bond sales. Measured against a benchmark of municipal bonds, the risk premium (spread) Connecticut pays has increased from 0.36% in June 2014 to 0.73% in October 2016. For example, the interest cost of 0.73% on $650 million over twenty years is approximately $50 million with annual debt service costs ranging from nearly $5 million to a few hundred thousand dollars.

Section VIII. Budget Reserve Fund & Uses of Surplus Funds

The Budget Reserve Fund (BRF) was created over 30 years ago. At its highest point, there was approximately $1.4 billion[10] in the BRF (in FY 07 - FY 09). The current balance in the BRF is $235.6 million. **Figure 8.1** below displays the BRF ending balance fluctuations from FY 00 through FY 16.

Figure 8.1 Budget Reserve Fund's Fiscal Year Ending Balances (FY 00 – FY 16)
In Millions of Dollars



Uses of Surplus Funds

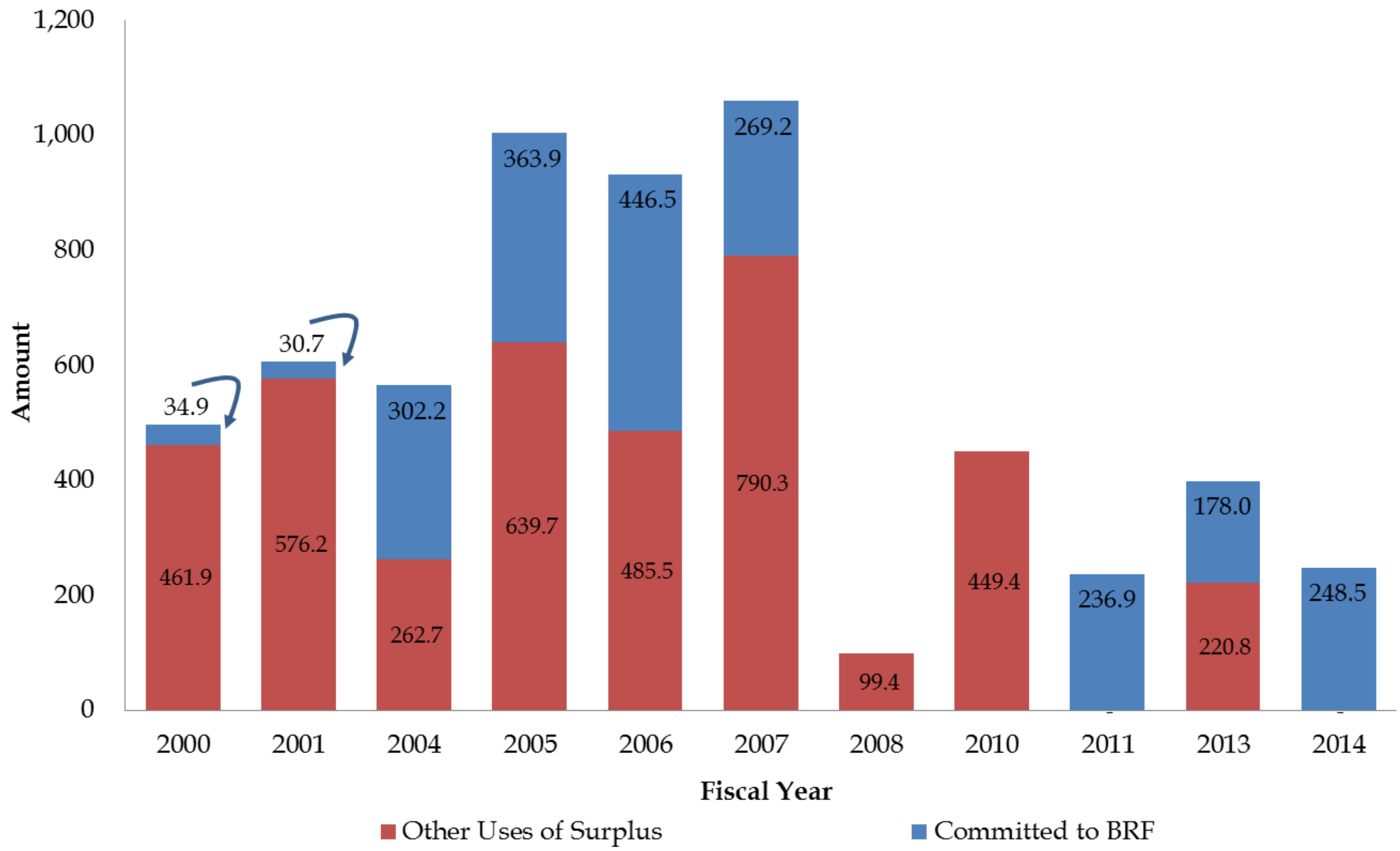
Pursuant to CGS 4-30a, unappropriated surpluses are transferred to the BRF. The maximum allowed in the BRF is 10% of the net General Fund appropriations for the fiscal year in progress, which in FY 17 would be $1.8 billion. The current balance is $235.6 million or 1.3%.

Other possible uses of surplus funds could include reducing: (1) the unfunded liability in the State Employees' Retirement Fund, (2) bonded indebtedness, or (3) the unfunded liability in the Teachers' Retirement Fund.

Since FY 00 there have been 11 fiscal years ending with a surplus, totaling $6.1 billion. Of the total, 34.6% ($2.1 billion) has been committed to the BRF. **Figure 8.2** on the following page shows the amount of surplus funds committed to the BRF from FY 00 through FY 16.

[10]Appendix G has the BRF deposit and withdrawal activity from FY 00 through FY 16.

Figure 8.2 Amount of Surplus Committed to Budget Reserve Fund (FY 00 – FY 16)[1]
In Millions of Dollars



[1]The following fiscal years are not included in the chart because there were no surpluses: FY 02, FY 03, FY 09, FY 12, FY 15 and FY 16.

Section IX. Tax Expenditure Estimates (FY 17 – FY 20)

State law currently permits various tax expenditures in the form of tax credits, exemptions, and deductions which amount to an estimated $7.1 billion in FY 17. This level is approximately 36.8% of the total projected FY 17 General Fund and Special Transportation Fund revenue. The majority of tax expenditures occur in the Sales and Use Tax and Motor Fuels Tax (approximately 56.4% and 24.9%, respectively). The table below reflects OFA's estimated total tax credits, exemptions and deductions for FY 17 through FY 20.[11]

Table 9.1 Summary of Major Identifiable State Tax Expenditure Estimates[1]
In Millions of Dollars

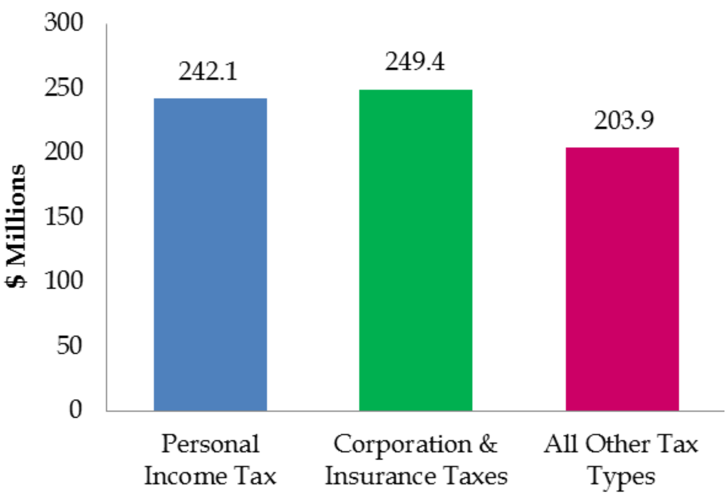
Category	FY 17	FY 18	FY 19	FY 20
Personal Income Tax	455.9	493.7	515.0	535.2
Sales and Use Tax	4,000.8	4,110.6	4,233.7	4,360.3
Corporation Tax	275.5	264.3	264.2	270.7
Insurance Premiums Tax	77.4	65.6	65.8	142.7
Real Estate Conveyance Tax	1.4	1.4	1.4	1.4
Unified Estate and Gift Tax	8.0	8.0	8.0	8.0
Public Service Companies Gross Earnings Tax	100.5	102.4	104.3	106.2
Petroleum Companies Gross Earnings Tax	318.1	346.7	383.1	429.2
Cigarette Tax	3.3	3.1	2.9	2.8
Alcoholic Beverage Tax	-	-	-	-
Admissions and Dues Tax	23.9	23.5	23.5	23.5
Health Provider Taxes	58.2	61.8	59.7	39.4
Motor Fuels and Motor Carrier Road Taxes	1,767.4	1,754.4	1,782.6	1,810.8
Miscellaneous Tax	8.3	8.5	8.7	8.9
TOTAL	**7,098.7**	**7,244.0**	**7,453.0**	**7,739.2**

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

Tax Credits

Tax credits are estimated to be $695.4 million in FY 17, or 9.8% of all projected FY 17 tax expenditures. The remaining $6.4 billion in FY 17 total tax expenditures includes all exemptions and deductions. A breakout of the tax credits by tax type is provided in **Figure 9.1** below.

Figure 9.1 FY 17 Tax Credit Estimates by Revenue Type



What's the difference?

A **credit** directly reduces a taxpayer's tax liability. An **exemption** excludes specified transactions from tax (e.g. sales tax on food products). A **deduction** lowers the taxable amount of a specific transaction (e.g. contributions to CHET to taxable income).

[11]For more information, please see the Connecticut Tax Expenditure Report, Office of Fiscal Analysis (February 2016). Please note that this report includes updated estimates on certain expenditures where necessary.
https://www.cga.ct.gov/ofa/Documents/year/TER/2016TER-20160201_Tax%20Expenditure%20Report%20FY%2016.pdf

Sales and Use Tax

Sales and Use Tax expenditures represent approximately 56.4% of all identifiable tax expenditures and are estimated to be $4.0 billion in FY 17. **Figure 9.2** details the categories of Sales and Use Tax expenditures available as well as the value of each category.

Figure 9.2 Sales Tax Expenditures by Category (FY 17)
In Millions of Dollars

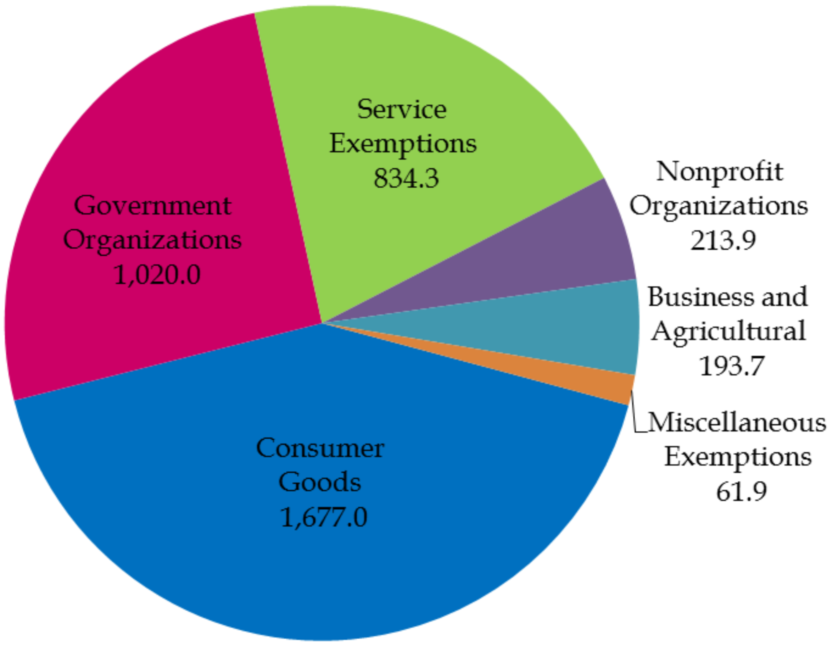


Table 9.2 Estimated Significant Sales Tax Expenditures
In Millions of Dollars

Expenditure	FY 17
Motor Vehicle Fuel	502.2
Food Products	458.4
Patient Care Services	364.6
Prescription Medication	306.8
Computer & Data Processing	193.8

APPENDIX A: Consensus Revenue

Revenue Estimates for FY 17 and the Out-Years

In Millions of Dollars

Fund/Revenue	FY 17	FY 18	FY 19	FY 20
General Fund				
Taxes				
Personal Income Tax	9,452.5	9,754.6	10,083.2	10,434.9
Sales & Use	4,279.8	3,921.8	4,046.6	4,177.9
Corporation	839.3	787.7	815.8	776.7
Public Service	283.9	292.3	301.2	310.3
Inheritance & Estate	174.6	180.1	186.1	192.4
Insurance Companies	245.4	227.0	230.5	234.1
Cigarettes	371.1	354.1	336.8	320.3
Real Estate Conveyance	201.8	208.3	214.9	223.2
Alcoholic Beverages	62.2	62.6	63.0	63.4
Admissions & Dues	39.0	39.5	39.8	40.1
Health Provider Tax	701.5	701.1	700.2	700.1
Miscellaneous	20.1	20.5	21.0	21.5
Total Taxes	**16,671.2**	**16,549.6**	**17,039.1**	**17,494.9**
Refund of Taxes	(1,106.5)	(1,146.8)	(1,201.0)	(1,257.4)
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	**15,422.6**	**15,244.0**	**15,673.3**	**16,066.1**
Other Revenue				
Transfers-Special Revenue	355.5	372.1	380.9	389.9
Indian Gaming Payments	267.0	267.3	199.0	196.6
Licenses, Permits, Fees	269.2	298.3	275.9	306.4
Sales of Commodities	42.6	43.8	44.9	46.1
Rents, Fines, Escheats	128.0	130.1	132.1	134.1
Investment Income	3.8	5.9	7.0	7.9
Miscellaneous	299.0	181.3	185.0	188.8
Refund of Payments	(66.1)	(67.5)	(68.9)	(70.4)
Total Other Revenue	**1,299.0**	**1,231.3**	**1,155.9**	**1,199.4**
Other Sources				
Federal Grants	1,229.0	1,194.8	1,203.9	1,218.9
Transfer From Tobacco Fund	108.5	93.7	94.2	94.0
Transfers From/ (To) Other Funds	(218.3)	(112.7)	(112.7)	(112.7)
Total Other Sources	**1,119.2**	**1,175.8**	**1,185.4**	**1,200.2**
TOTAL – GENERAL FUND	**17,840.8**	**17,651.1**	**18,014.6**	**18,465.7**
Special Transportation Fund (STF)				
Motor Fuels Tax	503.7	506.8	507.6	507.8
Oil Companies Tax	255.7	278.8	308.0	345.3
Sales & Use Tax	197.7	341.3	352.2	363.6

Fund/Revenue	FY 17	FY 18	FY 19	FY 20
Sales Tax - DMV	90.3	90.9	91.9	92.6
Refunds of Taxes	(14.5)	12.6)	(14.1)	(14.5)
Total-Taxes Less Refunds	**1,032.9**	**1,205.2**	**1,245.6**	**1,294.8**
Other Sources				
Motor Vehicle Receipts	256.4	258.7	261.4	263.8
Licenses, Permits, Fees	141.5	142.0	142.6	143.1
Interest Income	8.5	9.5	10.4	11.2
Federal Grants	12.1	12.1	12.1	12.1
Transfers From/ (To) Other Funds	(6.5)	(6.5)	(6.5)	(6.5)
Refunds of Payments	(3.8)	(3.9)	(4.1)	(4.3)
Total Other Revenues	**408.2**	**411.9**	**415.9**	**419.4**
TOTAL - STF	**1,441.1**	**1,617.1**	**1,661.5**	**1,714.2**

APPENDIX B: Other Appropriated Funds

Other Appropriated Funds	Actual FY 16 $	Projected FY 17 $	Projected FY 18 $	Projected FY 19 $	Projected FY 20 $
Mashantucket Pequot and Mohegan Fund					
Beginning Balance	-	-	-	-	-
Revenue	61,687,907	58,076,612	58,076,612	58,076,612	58,076,612
Expenditures	(61,687,907)	(58,076,612)	(58,076,612)	(58,076,612)	(58,076,612)
Transfers	-	-	-	-	-
Ending Balance	**-**	**-**	**-**	**-**	**-**
Regional Market Operating Fund					
Beginning Balance	307,405	122,592	125,286	127,980	130,674
Revenue	864,337	1,000,000	1,000,000	1,000,000	1,000,000
Expenditures	(1,049,150)	(997,306)	(997,306)	(997,306)	(997,306)
Transfers	-	-	-	-	-
Ending Balance	**122,592**	**125,286**	**127,980**	**130,674**	**133,368**
Banking Fund					
Beginning Balance	14,344,493	8,587,945	2,133,899	3,679,853	4,225,807
Revenue	30,084,413	30,200,000	31,200,000	30,200,000	31,200,000
Expenditures	(28,840,961)	(29,654,046)	(29,654,046)	(29,654,046)	(29,654,046)
Transfers	(7,000,000)	(7,000,000)			
Ending Balance	**8,587,945**	**2,133,899**	**3,679,853**	**4,225,807**	**5,771,761**
Insurance Fund					
Beginning Balance	4,062,349	11,607,796	6,289,754	6,332,858	6,352,459
Revenue	82,966,591	75,130,000	80,491,146	80,467,643	80,770,058
Expenditures	(75,458,972)	(80,448,042)	(80,448,042)	(80,448,042)	(80,448,042)
Transfers	37,828	-	-	-	-
Ending Balance	**11,607,796**	**6,289,754**	**6,332,858**	**6,352,459**	**6,674,475**
Consumer Counsel and Public Utility Control Fund					
Beginning Balance	8,531,688	5,327,701	6,021,088	7,539,475	9,907,612
Revenue	24,886,839	27,500,000	28,325,000	29,174,750	30,049,993
Expenditures	(26,090,826)	(26,806,613)	(26,806,613)	(26,806,613)	(26,806,613)
Transfers	(2,000,000)	-	-	-	-
Ending Balance	**5,327,701**	**6,021,088**	**7,539,475**	**9,907,612**	**13,150,992**
Workers' Compensation Fund					
Beginning Balance	13,372,894	15,320,563	18,478,612	15,647,784	15,647,784
Revenue	25,168,214	28,162,271	22,173,394	25,004,222	25,004,222
Expenditures	(23,220,545)	(25,004,222)	(25,004,222)	(25,004,222)	(25,004,222)
Transfers	-	-	-	-	-
Ending Balance	**15,320,563**	**18,478,612**	**15,647,784**	**15,647,784**	**15,647,784**
Criminal Injuries Compensation Fund					
Beginning Balance	2,875,078	3,212,619	4,178,531	5,144,443	6,110,355
Revenue	3,915,184	3,900,000	3,900,000	3,900,000	3,900,000

Other Appropriated Funds	Actual FY 16 $	Projected FY 17 $	Projected FY 18 $	Projected FY 19 $	Projected FY 20 $
Expenditures	(2,827,643)	(2,764,345)	(2,764,345)	(2,764,345)	(2,764,345)
Transfers	(750,000)	-	-	-	-
Ending Balance	**3,212,619**	**4,348,274**	**5,483,929**	**6,619,584**	**7,755,239**
Municipal Revenue Sharing Fund					
Beginning Balance	-	-	-	-	-
Revenue	-	185,000,000			
Expenditures	-	(185,000,000)	-	-	-
Transfers	-	-	-	-	-
Ending Balance	**-**	**-**	**-**	**-**	**-**
Totals					
Beginning Balance	43,493,906	44,179,216	37,396,913	38,811,879	42,883,920
Revenue	229,573,486	408,968,883	225,166,152	227,823,227	230,000,885
Expenditures	(219,176,005)	(408,751,186)	(223,751,186)	(223,751,186)	(223,751,186)
Transfers	(9,712,172)	(7,000,000)	-	-	-
ENDING BALANCE	**44,179,216**	**37,396,913**	**38,811,879**	**42,883,920**	**49,133,619**

Assumptions: All expenditures in the other appropriated funds are non-fixed costs, and as such are flat funded in FY 18-20. Revenue assumptions for each fund is as follows:

Banking Fund: Revenue in even years reflects an additional $1 million due to biennial license fees.
Consumer Counsel/Department of Public Utility Control Fund: FY 18 - FY 20 revenue assumes a 3% increase to reflect inflationary increases.

Criminal Injuries Compensation Fund: Annual revenue from criminal fines, which are set by statute, is anticipated to remain flat at approximately $3.9 million.

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

Mashantucket Pequot/Mohegan Fund: FY 18 - FY 20 projections assume a General Fund transfer to the Pequot Fund of $58.0 million, which is equal to the FY 17 transfer. PA 14-217, the revised FY 15 budget implementer, requires a transfer to the Pequot fund equal to the amount appropriated for payments to municipalities.

Municipal Revenue Sharing Fund: There is no projected revenue into or expenditures from this Fund in the Out Years. PA 16-1 requires the grants provided from this Fund in FY 17 to instead be funded via a diversion of sales tax revenue into the non-appropriated Municipal Revenue Sharing Account in the Out Years.

Regional Market Operation Fund: Revenue is based on incoming rents from eighteen (18) leases, in addition to outdoor billboard advertising, farmers' market stalls, rail cars, and office rents. Revenue for FY 18 – FY 20 is projected based on the anticipated terms of the lease.

Workers' Compensation Fund: The State Treasurer assesses private insurance companies and employers to cover the Commission's annual costs. 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.

APPENDIX C: Key Assumptions

Key Assumptions

The following assumptions were used to develop the fixed cost projections for FY 18 through FY 20.

Department of Mental Health and Addiction Services

- *General Assistance Managed Care* - Assumes average growth of 5.5% to accommodate caseload needs.
- *Medicaid Adult Rehabilitation Option* - Assumes average growth of 10% to support Medicaid claiming needs.

Department of Social Services

- *Medicaid* – Assumes growth of 5.5% per year.
- *Medicaid* - Assumes a decline in federal reimbursement for the HUSKY D population pursuant to the provisions of the federal Affordable Care Act. The federal share will decline from 95% in FY 17 to 94% in FY 18, 93% in FY 19, and 90% in FY 20.
- *HUSKY B* – Assumes growth of 5.5% per year. The estimate also reflects enhanced federal reimbursement for the period October 1, 2015 to September 30, 2019 from 65% to 88%.
- *Community Residential Services* – Reflects prior year annualization of caseload changes including group home privatizations and regional center closures and caseload growth for community placements for age-outs, long-term care residents (Money Follows the Person) and Southbury Training School residents.
- *Other Entitlements* – Assumes 2% annual growth based on historical impact of cost and caseload increases. TANF is flat funded based on caseload trends in recent years.

Office of Early Childhood

- *Birth to Three* - Assumes 2% growth per year based on caseload trends.
- *Care4Kids TANF/CCDF* - Assumes a 3% increase per year on total subsidy expenditures in each year.

Teachers' Retirement Board

- *Retirement Contributions* – Reflects the actuarially determined contributions for FY 18 and FY 19 presented in the June 30, 2016 Teachers' Retirement System (TRS) valuation using an interest rate assumption of 8%. FY 20 reflects an actuarially projected contribution based on the 2016 TRS valuation.
- *Retiree Health Service Cost* – Reflects the state share returning to one-third of the basic premium costs as provided by statute, adjusted by aggregate medical inflation and projected membership increases.
- *Municipal Retiree Health Insurance Costs* - Reflects the state share returning to one-third of the flat statutory subsidy and no projected membership increase.

Department of Children and Families

- *No Nexus Special Education* – Funding is projected at FY 17 levels as placements in residential treatment centers are anticipated to stabilize at current levels.
- *Board and Care for Children - Adoption* - Reflects a caseload growth rate of 1.2% per year. In addition, an extra per diem of approximately $257,000 is included in FY 20 due costs related to the leap year.

- *Board and Care for Children – Foster* - Reflects caseload growth rate of 5.1% per year. In addition, an extra per diem of approximately $242,000 is included in FY 20 due costs related to the leap year.
- *Board and Care for Children - Short-term and Residential* - It is anticipated that the caseload for the account will stabilize in the current fiscal year and that expenditures will remain relatively flat going forward. An extra per diem of approximately $148,000 is included in FY 20 due costs related to the leap year. It is anticipated that rate increases under the Single Cost Account System per CGS Sec. 17a-17 will be suspended in the out years, as they have been in each of the past seven fiscal years.
- *Individualized Family Supports* – The account is projected to remain at FY 17 levels in the out years. While adoption and foster care caseloads are anticipated to grow, the consequent increased demand on this account is anticipated to be offset by savings due to credentialing of services.

State Treasurer – Debt Service

- *General Fund Debt Service* – Assumes: (1) new debt issuance of $2.3 billion per year, (2) interest rates on tax-exempt General Obligation of 5.0% in 2017, 5.25% in 2018, and 2019 and 5.5% in 2020, (3) a decline in bond premiums as a result of the anticipated rise in interest rates, and (4) the retirement of the 2009 Economic Recovery Notes by the end of FY 18.
- *Special Tax Obligation Bonds* – Estimates are based on interest rate assumptions of 5% in 2017, 5.25% in 2018, and 5.5% in 2019.

State Comptroller – Fringe Benefits

- *State Employee Retirement* – Contributions are based on actuarial projections as of January 2016. Projections assume: (1) level percentage of payroll amortization methodology, (2) 8% interest rate, and (3) 15 year amortization period.
- *Higher Education Alternative Retirement System* – This account is flat funded for the period FY 18 to FY 20 consistent with wage growth assumptions.
- *Pensions & Retirements - Other Statutory* - Assume 2% annual growth based on average historical changes in the account, including COLAs.
- *Judges and Compensation Commissioners' Retirement System* – reflects the unfunded accrued liability payment and normal cost based on actuarial projections and assumptions in the most recent valuation, June 30, 2014.
- *Retired State Employees Health Service Cost* – Assumes average rate of growth of 9% in FY 18, 10% in FY 19, and 6% in FY 20. Growth is based on projected growth in medical, dental, and pharmacy trends for Medicare and non-Medicare covered retirees and dependents.
- *Other Post Employment Contribution* – The state's contribution begins in FY 18 pursuant to the SEBAC 2011 Agreement. Projected contributions reflect 3% of total projected Personal Services expenditures for FY 18 through FY 20 for all funds.

APPENDIX D: Fixed Cost Details

Agency	Fund	Account	FY 17 $	FY 18 $	FY 19 $	FY 20 $
Department of Children and Families	GF	Board and Care for Children - Adoption	95,262,732	97,119,791	98,183,643	99,565,934
Department of Children and Families	GF	Board and Care for Children - Foster	132,818,978	137,903,768	141,201,868	145,433,704
Department of Children and Families	GF	Board and Care for Children - Short-term and Residential	97,801,834	97,801,834	97,801,834	97,950,093
Department of Children and Families	GF	Individualized Family Supports	7,938,182	7,938,182	7,938,182	7,938,182
Department of Children and Families	GF	No Nexus Special Education	1,804,042	1,804,042	1,804,042	1,804,042
Department of Social Services	GF	Aid To The Blind	627,276	641,367	656,242	671,583
Department of Social Services	GF	Aid To The Disabled	61,941,968	63,333,555	64,802,260	66,317,207
Department of Social Services	GF	Community Residential Services	536,616,053	561,044,561	578,209,140	593,671,355
Department of Social Services	GF	Connecticut Home Care Program	40,190,000	40,993,800	41,813,676	42,649,950
Department of Social Services	GF	HUSKY B Program	4,350,000	4,589,250	4,841,659	5,107,951
Department of Social Services	GF	Medicaid	2,447,241,261	2,581,839,530	2,723,840,704	2,874,469,095
Department of Social Services	GF	Old Age Assistance	38,833,056	39,705,478	40,626,248	41,576,009
Department of Social Services	GF	Protective Services to the Elderly	478,300	489,045	500,386	512,084
Department of Social Services	GF	State Administered General Assistance	22,816,579	23,329,176	23,870,180	24,428,217
Department of Social Services	GF	Temporary Assistance to Families - TANF	89,936,233	89,936,233	89,936,233	89,936,232
Department of Mental Health and Addiction Services	GF	General Assistance Managed Care	40,857,795	43,072,595	45,740,195	48,047,795
Department of Mental Health and Addiction Services	GF	Medicaid Adult Rehabilitation Option	4,269,653	4,701,175	5,169,196	5,674,042
Office of Early Childhood	GF	Birth to Three	32,046,200	32,791,200	33,651,200	34,530,500
Office of Early Childhood	GF	Care4Kids TANF/CCDF	130,830,084	134,527,384	138,335,684	142,147,284
State Comptroller - Miscellaneous	GF	Adjudicated Claims	20,836,000	8,303,333	8,450,136	8,151,414
State Comptroller - Fringe Benefits	GF	Higher Education Alternative Retirement System	2,750,000	2,750,000	2,750,000	2,750,000
State Comptroller - Fringe Benefits	GF	Judges and Compensation Commissioners Retirement	19,163,487	21,408,116	22,568,045	23,822,514
State Comptroller - Fringe Benefits	GF	Other Post-Employment Benefits	-	98,241,863	98,241,863	98,241,863
State Comptroller - Fringe Benefits	GF	Pensions and Retirements - Other Statutory	1,721,000	1,755,420	1,808,083	1,862,325
State Comptroller - Fringe Benefits	GF	Retired State Employees Health Service Cost	731,109,000	796,908,810	876,599,690	930,072,271
State Comptroller -	GF	State Employees Retirement	1,124,661,963	1,150,614,671	1,192,657,949	1,236,459,559

Agency	Fund	Account	FY 17 $	FY 18 $	FY 19 $	FY 20 $
Fringe Benefits		Contributions				
Debt Service - State Treasurer	GF	CHEFA Day Care Security	4,234,363	5,500,000	5,500,000	5,500,000
Debt Service - State Treasurer	GF	Debt Service	1,785,140,170	1,984,869,402	1,919,978,692	2,057,657,360
Debt Service - State Treasurer	GF	Pension Obligation Bonds - TRB	119,597,971	140,219,021	118,400,521	118,400,521
Debt Service - State Treasurer	GF	UConn 2000 - Debt Service	166,878,789	189,860,389	210,764,389	228,794,514
Teachers' Retirement Board	GF	Municipal Retiree Health Insurance Costs	5,355,153	6,100,000	6,100,000	6,100,000
Teachers' Retirement Board	GF	Retirees Health Service Cost	14,566,860	33,004,696	37,504,900	42,653,173
Teachers' Retirement Board	GF	Retirement Contributions	1,012,162,000	1,290,429,000	1,332,368,000	1,375,000,000
GENERAL FUND TOTAL			**8,794,836,982**	**9,693,526,687**	**9,972,614,840**	**10,457,896,773**
State Comptroller - Fringe Benefits	TF	State Employees Retirement Contributions	129,227,978	148,676,431	154,109,044	159,768,860
Debt Service - State Treasurer	TF	Debt Service	547,693,251	614,203,996	680,008,725	747,914,126
TRANSPORTATION FUND TOTAL			**676,921,229**	**762,880,427**	**34,117,769**	**907,682,986**

APPENDIX E: State Agency Deficiencies

Detail on the Total Net Deficiencies of $54.5 million
(The following assumes that holdbacks will not be released by OPM.)

Office of State Comptroller – Miscellaneous –$20.8 million

The agency's projected FY 17 shortfall is comprised of $20.8 million for the Adjudicated Claims account. The FY 17 Revised Budget did not include an appropriation for the account. Approximately $18 million of the projected deficiency is for estimated payments for the SEBAC v. Rowland Settlement. The balance of the projected deficiency includes installment payments for previous settlements against the state. Approximately, $7.3 million of an estimated $20.4 million of anticipated payments were paid in FY 16.

Office of Early Childhood - $16.8 million

The agency's projected FY 17 budget shortfall is composed of:

- $8.1 million in Birth to Three, and
- $8.7 million in Care4Kids

The $8.1 million projected shortfall in the Birth to Three account (21.1% of the total FY 17 available appropriation), is primarily due to a continuation of the FY 16 deficiency as well as an increase in the number of children who require more intensive services.

The Birth to Three account experienced shortfalls over the past several years while under the Department of Developmental Services. After being transferred to the Office of Early Childhood (OEC), the account received a deficiency appropriation of $6.3 million in FY 16. In addition, the average number of children receiving intensive services increased by 10.8% in general Birth to Three programs and 15.3% in Autism related programs. “Intensive” services are those more than 13 hours per month. Although the first 13 hours of service are currently covered within a fixed unit rate, those hours above 13 are paid on a “supplemental” (hourly) basis.

The $8.7 million shortfall in the Care4Kids account is driven by increased caseload due to several factors. The state implemented program changes as a result of the federal reauthorization of the Child Care Development Fund (CCDF), including: (1) a 12 month period of eligibility regardless of changes that would have previously made the child ineligible, (2) three additional months of benefits after individuals are found ineligible due to income at redetermination, and (3) additional months of eligibility for job search activities. These changes essentially keep families on the program longer. While some program restrictions were put in place during the summer of 2016, caseload still increased by 704 members in August (an unanticipated and atypical increase for the time of year). At an average monthly subsidy of $770, these individuals will cost approximately $6.0 million in FY 17. In addition, the increased caseload has led to increased subsidy rates due to the structure of the SEIU contract for child care providers.

Office of the State Treasurer – Total Debt Service - $13 million

Savings targets in the 2016-2017 Biennium produced a $35 million deficiency in FY 16 and are expected to produce a $13 million deficiency in FY 17. The anticipated $13 million deficiency in FY 17 could be reduced to the extent that interest rates remain low relative to budgeted levels in the Treasurer's variable rate portfolio and the Treasurer is able to generate additional savings via the refunding (i.e., refinancing) of bonds at lower rates.

The October 2016 bond sale of $650 million generated more savings in debt service than anticipated primarily due to bond premiums. In particular, the overall demand for bond premiums and the share of bond premiums allocated to FY 17 exceeded expectations and resulted in a much lower projected deficiency than previously reported by OFA. As illustrated in **Figure 7.1**, bond premiums continue to have a significant impact on the debt service budget. Bond premiums are used to offset General Fund appropriations.

Public Defender Services Commission - $3.6 million

The agency's projected FY 17 budget shortfall is composed of:

- $2.4 million in Personal Services;
- $1.1 million in Assigned Counsel; and
- $0.1 million in Expert Witnesses.

The Personal Services account is experiencing a projected deficiency of $2.4 million. Available resources to the account are approximately $5 million less than FY 16 actual expenditures. Though the agency has reduced its staff by 40 positions, including 17 from layoffs and 23 from attrition, the reduction is not anticipated to keep expenditures within the available resources.

The Assigned Counsel account is experiencing a projected deficiency of $1.1 million. Available resources in FY 17 are $3.1 million less than the FY 16 actual expenditures. While the agency has taken measures to reduce expenditures in this account, including assigning cases that previously would have been assigned counsel to staff attorneys for both criminal and child protection cases, the reductions are not anticipated to keep expenditures within the available resources.

The Expert Witnesses account is experiencing a projected deficiency of $120,000. This is due to the agency's inability to meet a holdback of the same amount to this account. Funds in this account are used, in part, to support habeas cases. While on average expert witnesses costs for each case is approximately $2,083, there are several cases anticipated in FY 17 to exceed the average cost.

Office of the Chief Medical Examiner - $276,608

There is an anticipated deficiency in the Office of the Chief Medical Examiner (CME) of approximately $276,608. This includes a shortfall of $244,174 in its Personal Services (PS) account and $32,434 in its Other Expenses (OE) account. There has been a 56% increase in autopsies over two years (1,488 in 2014, 1,933 in 2015 and 2,327 in 2016). Agency funding included in the FY 17 Revised Budget was reduced by approximately 9% from FY 16 actual expenditure levels. The PS account deficiency primarily reflects overtime expenses. Major cost drivers for OE are laboratory services/testing and body transportation.

APPENDIX F: Municipal Aid

Grants Included in Analysis of Municipal Aid

Grant	FY 16 Actuals $	FY 17 Estimated $	FY 18 Estimated $	FY 19 Estimated $	FY 20 Estimated $
Teachers' Retirement System (TRS)					
Debt Service	132,732,646	119,597,971	140,219,021	118,400,521	118,400,521
Retirement Contributions	975,578,000	1,012,162,000	1,290,429,000	1,332,368,000	1,375,000,000
Retirees Health Service Cost	14,566,860	14,566,860	33,004,696	37,504,900	42,653,173
Municipal Retiree Health Insurance Costs	5,392,897	5,392,897	6,100,000	6,100,000	6,100,000
Subtotal	**1,128,270,403**	**1,151,719,728**	**1,469,752,717**	**1,494,373,421**	**1,542,153,694**
ECS and Other Education Aid					
Vocational Agriculture	11,017,600	10,544,937	10,544,937	10,544,937	10,544,937
Transport Of School Children	22,336,353	-	-	-	-
Adult Education	19,999,328	20,383,960	20,383,960	20,383,960	20,383,960
Health & Welfare-Private School Pupil	3,618,668	3,526,579	3,526,579	3,526,579	3,526,579
Education Cost Sharing	2,058,215,809	2,037,587,120	2,037,587,120	2,037,587,120	2,037,587,120
Bilingual Education	2,930,273	3,164,800	3,164,800	3,164,800	3,164,800
Priority School Districts	42,031,867	42,337,171	42,337,171	42,337,171	42,337,171
Young Parents Program	216,462	212,318	212,318	212,318	212,318
Interdistrict Cooperation	6,810,849	6,353,391	6,353,391	6,353,391	6,353,391
School Breakfast Program	2,378,038	2,225,669	2,225,669	2,225,669	2,225,669
Excess Cost - Student Based	139,843,559	135,555,731	135,555,731	135,555,731	135,555,731
Nonpublic School Transport	3,416,985	-	-	-	-
Youth Service Bureaus	2,769,009	2,651,516	2,651,516	2,651,516	2,651,516
Open Choice Program	35,160,537	40,258,605	40,258,605	40,258,605	40,258,605
Magnet Schools	318,723,292	313,058,158	313,058,158	313,058,158	313,058,158
Charter Schools	99,033,000	110,805,838	110,805,838	110,805,838	110,805,838
After School Programs	5,095,123	4,866,695	4,866,695	4,866,695	4,866,695
Subtotal	**2,773,596,752**	**2,733,532,488**	**2,733,532,488**	**2,733,532,488**	**2,733,532,488**
Property Tax Relief					
State Property PILOT	71,356,484	66,730,441	66,730,441	66,730,441	66,730,441
Pequot Grants	61,687,907	58,076,612	58,076,612	58,076,612	58,076,612
College & Hospital PILOT	122,919,655	114,950,770	114,950,770	114,950,770	114,950,770
Disability Exemption	400,000	374,065	374,065	374,065	374,065
Distressed Municipalities	5,549,101	5,423,986	5,423,986	5,423,986	5,423,986
Elderly Circuit Breaker Tax Relief	20,505,900	19,176,502	19,176,502	19,176,502	19,176,502
Elderly Homeowners' Freeze Tax Relief	94,757	112,221	112,221	112,221	112,221
Veterans' Property Tax Relief	2,896,990	2,777,546	2,777,546	2,777,546	2,777,546
Town Aid Road	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
LoCIP	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Grants for Municipal Projects	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Municipal Revenue Sharing Account/Fund	-	185,000,000	236,000,000	236,000,000	275,000,000
Subtotal	**435,410,793**	**602,622,143**	**653,622,143**	**653,622,143**	**692,622,143**
GRAND TOTAL	**4,337,277,948**	**4,487,874,359**	**4,856,907,348**	**4,881,528,052**	**4,968,308,325**

APPENDIX G: Budget Reserve Fund

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

Budget Reserve Fund Activity and Balance (FY 00 – FY 16)
In Millions of Dollars

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	406.0	(170.4)	**235.6**

APPENDIX H: Tax Expenditure Sources, Methodologies, 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.