INTRODUCTION

Since 2002, those who have toiled in the fields of Connecticut state budgets have had to get their hands dirty. It has been hard work filled with difficult choices for all involved regardless of party affiliation or branch of government. Coming off unprecedented surpluses between 1998 and 2001 those involved were not prepared for the difficult decisions that lay ahead. Nonetheless all involved took their task seriously and responsibly.

Unfortunately we are now in our sixth consecutive year of difficult budget climates and, frankly it is not getting any easier. It is not easier because over the last three years the state has already limited and reduced programs; raised taxes by approximately $900 million; expended all of the funds previously deposited in the rainy day fund; swept pre-existing fund balances; and borrowed funds using Economic Recovery Notes to make ends meet.

All this and still the state enters FY 2005-06 with a projected $1.2 billion current services deficit and a current services spending plan that exceeds the Constitutional cap on spending (adopted by over 80% of the voters) by about approximately $800 million in each year of the biennium.

While there are difficult choices to be made again, there is reason for optimism. Connecticut citizens enjoyed growth in personal income of 4.1% in FY 2003-04 and a projected 4.5% in the current fiscal year. There is every reason to believe that growth in personal income will remain at a rate of 4.5% per year over the coming biennium.

We have also seen a return to job growth this year with a projected gain of over 7,000 jobs in FY 2004-05 and projected job growth of approximately 17,000 jobs in FY 2005-06 and 14,000 in FY 2006-07. Happily the state is positioned to deposit approximately $300 million into its rainy day funds as soon as the Comptroller certifies the surplus for FY 2003-04. The Navy's decision to select an international consortium to manufacture the Presidential helicopters rather than Sikorsky Industries serves to remind us that the world is a competitive place and Connecticut must maintain a competitive edge and a viable business climate if we are to create and maintain good jobs and an enhanced quality of life.

At the same time, we must continue to invest in the future of our children, by providing funds for education at all levels; we must make investments in environmental protection and, of course, we must invest in a viable transportation system in order to solve transportation problems that have perplexed the state for years.

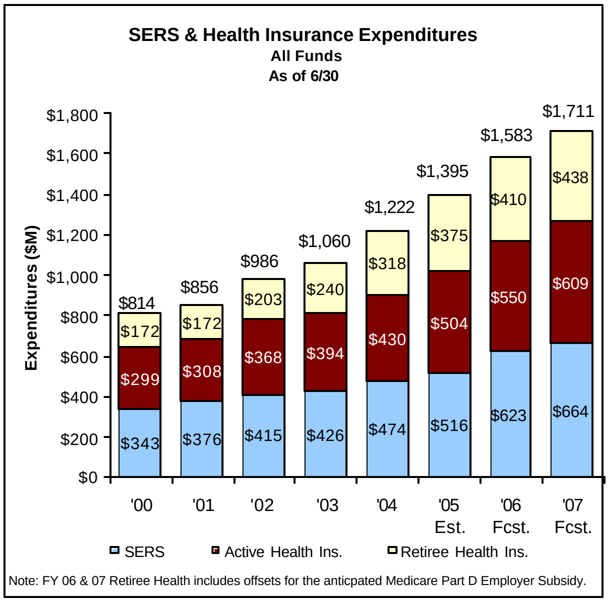
At the same time we must find ways to control those areas of the budget that are increasing at substantial rates.

Governor Rell proposes a course, which invests in all these important areas and breaks new ground in the area of transportation, preschool education, and job creation. In this budget, Governor Rell boldly chooses to obtain over $118 million per year in federal funds to provide a reasonable increase to those private caregivers in our communities that provide for neglected and abused children, members of our community who are disabled, including those with mental retardation, as well as the elderly, whether at home or in nursing facilities.

In order to understand the causes of the deficit we need to understand the drivers of the state's expenditure growth. Several areas of the state budget (many of which are popular, well deserved and appropriate expenditures) are growing at a significant rate. To the extent that the state does not control these areas of growth, it obviously puts pressure on other areas of the budget.

As examples:

- The Department of Children and Families budget will increase by $85.4 million over the biennium



as the state struggles to protect neglected and abused children

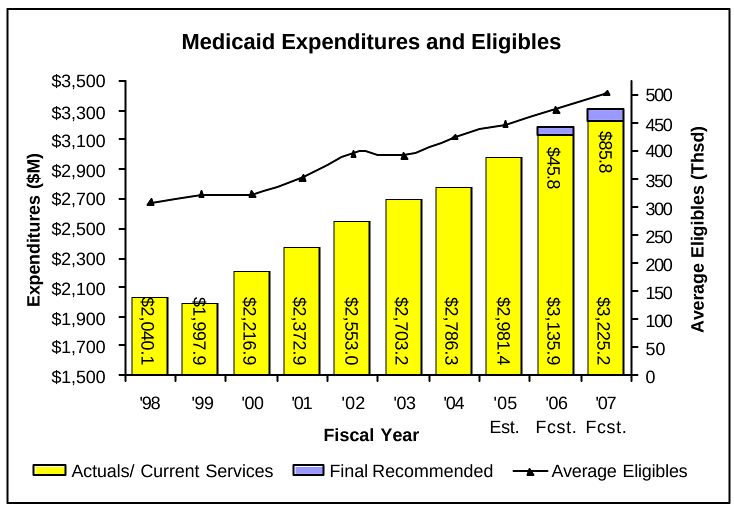
- As the state builds a system of educational reform, magnet school expenditures will grow from $69 million to $99 million, a growth of 42%

- Over the course of the biennium the home care for the elderly account will increase from approximately $38 million to $49 million or an increase of 29%.

As the adjacent chart demonstrates, retirement (SERS) and health insurance costs for state employees have doubled since FY 1999-00. Remarkably, for the first time, the cost of state employee fringe benefits alone will exceed the cost of the Educational Cost Sharing grant (ECS) in the biennium.

Also, Medicaid expenditures continue to swell. Even with the reforms contained in this budget, the Medicaid line item will rise by $329 million over the course of the biennium.

The Teacher's Retirement Fund in the last fiscal year was funded at 65.9% of the statutorily required obligation. Just to keep it at that 65.9% rate it will cost an additional $76 million for FY 2005-06 or a 41% increase. If it were funded at 100% of the statutorily required amount it would require $211 million or 114% above last year's appropriation.



The cost of the Department of Social Services funded child care will increase from $59 million to $71 million, or 20% during the course of this biennium.

At the same time we continue to expand services, as we should and must, for severely abused children, persons with mental retardation or citizens who are afflicted with mental illness.

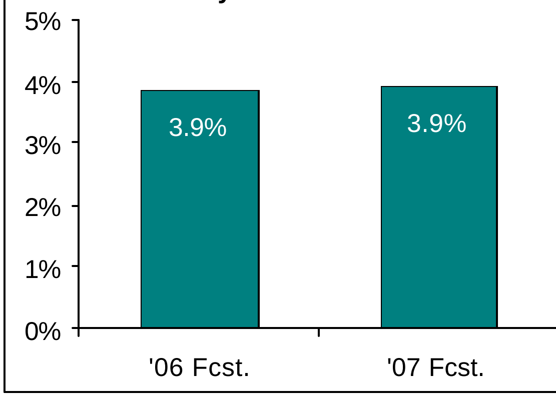
As the FY 2005-07 biennial budget was being prepared, Governor Rell was faced with a projected General Fund structural deficit of $1.1 billion in FY 2005-06, even though FY 2004-05 is expected to end with an estimated surplus of $335.6 million. Further, current services calculations of allowable spending growth under the constitutional spending cap required reductions in spending across all funds.

Given the magnitude of the structural gap and the constraints of the spending cap, Governor Rell is proposing significant structural changes on each side of the ledger – spending reductions and revenue enhancements. While preparing this budget required difficult decisions, it represents what is needed to balance the budget and to preserve the economic health of the State of Connecticut.

After deficiencies, lapses, adjustments, and changes proposed in this budget document, estimated expenditures for all appropriated funds for the current fiscal year are $14.69 billion. General Fund appropriations for FY 2004-05 were passed by the legislature last session but after deficiencies, lapses, adjustments, and changes proposed in this budget document, estimated general fund expenditures for the current fiscal year are $13.60 billion.

Governor Rell is proposing an all funds budget of $15.27 billion for FY 2005-06 and $15.86 billion for FY 2006-07. The FY 2006-07 all funds proposal represents an increase of $591.9 million over the recommended level for FY 2005-06, or an increase of 3.9%. The Governor is proposing a General Fund budget of $14.124 billion for FY 2005-06 and $14.68 billion for FY 2006-07. The FY 2005-06 proposal represents an increase of $528.8 million from estimated expenditures this year, or 3.9%. The FY 2006-07 General Fund proposal is an increase of $556.3 million over the recommended level for FY 2005-06, or an increase of 3.9%.

Nominal Growth In State Spending
By Fiscal Year



Appropriated Funds Of The State
(In Millions)

	Estimated FY 05	Recommended FY 06	Recommended FY 07
General Fund	$13,595.5	$14,124.3	$14,680.6
Special Transportation Fund	929.3	976.2	1,011.5
Mashantucket Pequot & Mohegan Fund	85.0	86.3	86.3
Soldiers', Sailors' & Marines' Fund	3.6	3.8	4.0
Regional Market Operating Fund	1.0	1.0	1.0
Banking Fund	16.0	15.6	15.7
Insurance Fund	19.5	21.1	21.2
Public Utility Control Fund	18.8	19.3	19.6
Workers Compensation Fund	21.1	20.8	20.5
Criminal Injuries Compensation Fund	1.4	2.0	2.0
Grand Total	$14,691.2	$15,270.4	$15,862.3

NOTE: Fiscal 2004-05 estimated General Fund expenditures include a proposed $78.1 million in deficiencies, $137.7 million for prefunding the fiscal 2006 and 2007 Economic Recovery Notes payments, $79.1 million in appropriations for one-time expenses in the upcoming biennium, $57.1 million in carry-forward expenditures in lieu of lapsing, and a $12.2 million surplus adjustment.

Because there are revenue enhancements in this budget, Governor Rell has also made an effort to limit budgetary growth rates. In the first year of the biennium, current services spending was reduced by a net $563.7 million in the General Fund and $623.5 million in all funds. Therefore, $623.5 million of the $1.16 billion structural gap, or 53.8%, is being covered by the spending side. In the second year of the biennium, current services spending for the General Fund was reduced $746.4 million. In the second year, current services spending for all funds was reduced $806.3 million.

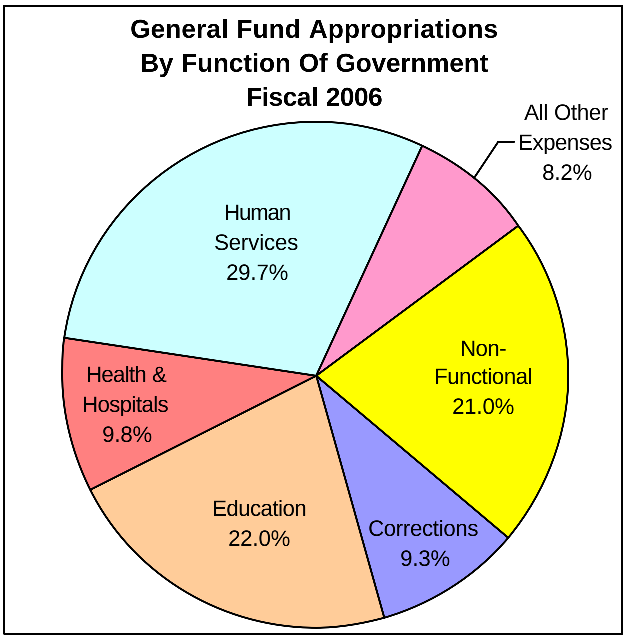
Because deficiencies always occur in budgeting, the governor is taking the approach that room should be left under the spending cap to help cover the appropriations for deficiencies during the year. This is the prudent way to approach the situation. The unadjusted current services budget for all funds would have been $732.0 million and $858.5 million over the spending cap in FY 2005-06 and FY 2006-07, respectively. The final recommended amounts, however, are under the cap by $45.3 million in FY 2005-06 and by $63.6 million in FY 2006-07. These calculations do not reflect the additional spending that is proposed as a part of the expenditure of both federal and state funds generated by the provider tax. That proposal

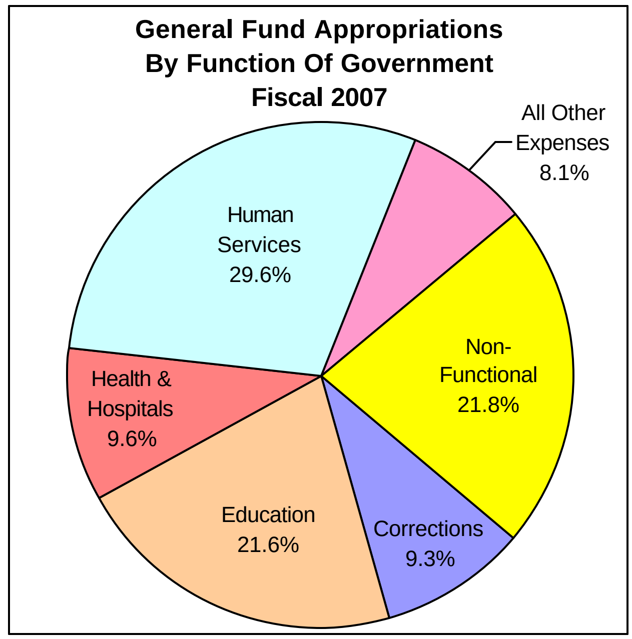
Biennial Budget Spending Plan Summary
(In Millions)

	FY 2005-06 Current Services	FY 2005-06 Recomm.	FY 2005-06 Increase/ (Decrease)	FY 2006-07 Current Services	FY 2006-07 Recomm.	FY 2006-07 Increase/ (Decrease)
Revenue						
General Fund	$ 13,571.3	$ 14,124.7	$ 553.4	$ 13,979.1	$ 14,681.0	$ 701.9
Transportation Fund	944.6	976.4	31.8	968.1	1,011.8	43.7
All Other Funds	221.2	170.4	(50.8)	222.5	170.5	(52.0)
Total	$ 14,737.1	$ 15,271.5	$ 534.4	$ 15,169.7	$ 15,863.3	$ 693.6
Expenditures						
General Fund	$ 14,688.0	$ 14,124.3	$ (563.7)	$ 15,427.0	$ 14,680.6	$ (746.4)
Transportation Fund	985.2	976.2	(9.0)	1,019.4	1,011.5	(7.9)
All Other Funds	220.7	169.9	(50.8)	222.2	170.2	(52.0)
Total	$ 15,893.9	$ 15,270.4	$ (623.5)	$ 16,668.6	$ 15,862.3	$ (806.3)
Balance - Surplus/(Deficit)						
General Fund	$ (1,116.7)	$ 0.4	$ 1,117.1	$ (1,447.9)	$ 0.4	$ 1,448.3
Transportation Fund	(40.6)	0.2	40.8	(51.3)	0.3	51.6
All Other Funds	0.5	0.5	-	0.3	0.3	-
Total	$ (1,156.8)	$ 1.1	$ 1,157.9	$ (1,498.9)	$ 1.0	$ 1,499.9
Expenditure Cap						
Amount Over the Cap with Expenditures for Provider Tax		$ 198.7				
Amount Over/(Under) the Cap	$ 732.0	$ (45.3)	$ (777.3)	$ 858.5	$ (63.6)	$ (922.1)

is detailed in the next section and the section entitled "Caring for the Elderly" and would result in an expenditure in excess of the cap in the first year of the biennium.

For the General Fund in FY 2005-06, recommended expenditures amount to $14.1243 billion and, with revenues of $14.1247 billion, a surplus of $0.4 million is expected. For FY 2006-07, expenditures are $14.6806 billion and revenues are $14.681 billion, for a surplus of $0.4 million. In the General Fund, Human Services remains the function of government consuming the largest portion of resources, accounting for 29.7% of General Fund appropriations in FY 2005-06 and 29.6% in FY 2006-07.





The Constitutional Cap on Spending

Governor Rell believes that the Constitutional cap on spending set forth in Article third Section 18 of the Connecticut Constitution is essential protection for the Connecticut taxpayer. The cap has served voters well; keeping the average rate of growth in state budgets to about 4.5% over the last 10 years.

The cap is not inflexible. With an appropriate gubernatorial declaration and commitment of 60% of the General Assembly, the state can, and has, exceeded the cap, for the most part responsibly. The state has previously appropriated surpluses to pre-pay debt, funded important capital initiatives such as school construction and open space acquisition. Such spending does no disservice to the cap but rather respects the cap by explaining, in a forthright manner, that the state has an extraordinary opportunity to authorize the expenditure of the surplus. The State of Connecticut has an extraordinary opportunity to obtain $237.7 million in federal funds over the biennium, funds which in difficult times can be used to support those who serve our neediest populations. The state can obtain those federal funds by implementing a provider tax and increasing Medicaid rates, using the increased federal revenue from the provider tax (detailed subsequently in this narrative) to fund those rate increases at no net cost to the state. Governor Rell's proposal utilizes these new federal funds for rate increases not only to nursing homes but also to other caregivers who serve our neediest citizens.

The opportunity to obtain these funds is extraordinary not only because of the amount involved (significant in itself) but also because the opportunity may be one which is quickly disappearing. With anticipated changes in the federal Medicaid laws, this may well be the last year that the state can increase it's federal Medicaid base prior to potential changes in the federal law. Governor Rell believes this extraordinary opportunity to capture $237.7 million of federal funds over the biennium would, when coupled with a responsible overall budget plan that otherwise was sufficiently below the cap, constitute a circumstance worthy of a Gubernatorial declaration which would allow the General Assembly to exceed the cap for this limited purpose.

Governor Rell rejects the approach suggested by some that an "off-budget account" be set up and that it be considered outside the cap on spending. She rejects that approach for several reasons:

- To set up such an account is a sham on the taxpayers. It's spending either way and Governor Rell believes that if such spending is important we should say so and let the taxpayers know how the new spending relates to the cap. To continually create exceptions causes confusion surrounding the cap for both public officials and the citizens at large. The cap functions best when it can be applied simply and in a clear and consistent manner.

- Such a precedent could create an endless litany of exceptions. Virtually any tax could be created and its revenue intercepted for an off-budget account and be spent on the cause celebre of the day. It would eventually make a mockery of the cap and its protection that the voters mandated by a 4 to 1 margin.

Statistical Spending Cap Calculations

For FY 2006 and FY 2007

	FY 2005-06 Proposed Budget	FY 2006-07 Proposed Budget
Total All Appropriated Funds - Prior Year	$ 14,617.0	$ 15,270.4
Less "Non-Capped" Expenditures:		
Debt Service	1,871.9	1,713.4
Statutory Grants to Distressed Municipalities	1,309.9	1,342.3
Total "Non-Capped" Expenditures - Prior Year	3,181.8	3,055.7
Total "Capped" Expenditures	11,435.2	12,214.7
Times Five-Year Average Growth in Personal Income	4.06%	3.54%
Allowable "Capped" Growth	464.7	432.9
"Capped" Expenditures	11,899.9	12,647.6
Plus "Non-Capped" Expenditures:		
Extraordinary Spending - Provider Tax Program	0.0	-
Debt Service	1,713.4	1,837.2
Federal Mandates and Court Orders (new $)	116.1	96.5
Statutory Grants to Distressed Municipalities	1,342.3	1,344.6
Total "Non-Capped" Expenditures	3,171.9	3,278.3
Total All Expenditures Allowed	15,071.7	15,925.9
Appropriation for this year	15,270.4	15,862.3
Amount Total Appropriations are Over/ (Under) the Cap	**$ 198.7**	**$ (63.6)**

- By demonstrating her willingness to pursue significant federal funds in a forthright manner, Governor Rell shows that positive outcomes can be obtained without disguising our conduct in a manner that only seeks to confuse the taxpayers with regard to overall state spending levels.

The Governor believes the cap is an important tool of state government budgeting and she does not recommend exceeding it lightly. But in these trying fiscal times $237.7 million of federal money is just too much to leave in Washington. The Governor however insists that if we are going to exceed the cap, we say so, we say why and what for, and that we do so in a manner that is consistent with the Constitution.

Disposition of the FY 2004-05 Surplus

The State of Connecticut is expected to register its second consecutive General Fund surplus for FY 2004-05. As of February 9, 2005, the Office of Policy and Management is estimating the surplus for the current fiscal year to be $335.6 million.

In an effort to mitigate spending cuts and tax increases and stabilize the budget situation, Governor Rell is proposing to use the surplus for a number of initiatives. Critical to her thinking on the surplus disposition is to set aside monies for debt retirement and add to the Rainy Day Fund. The remaining amount will be used largely for one-time purposes so as not to rely on one-time revenue for ongoing purposes.

The current General Fund surplus forecast represents funds available after using approximately $95.3 million for estimated deficiencies, unachieved lapses, and surplus adjustments. About $78.1 million is required for FY 2004-05 deficiency appropriations.

Governor Rell proposes to use the balance of the surplus in the following ways:

- ***Deposit $41.7 million in the Budget Reserve Fund*.** While the FY 2003-04 surplus has not yet been certified because of delays tied to the new CORE financial system, it is expected that it will total approximately $300 million and will be deposited into the Rainy Day Fund shortly thereafter. With the additional deposit of about $40 million from the current fiscal year on September 1, 2005, the fund's level would rise to about $340 million. Pursuant to statute, these funds are transferred and have no impact on the spending cap.

- ***Prefund the FY 2005-06 and FY 2006-07 Economic Recovery Note payments*.** The state issued about $320 million in deficit financing notes for the deficits in FY 2001-02 and FY 2002-03. The state will have to make principal and interest payments on these notes through FY 2008-09. In FY 2005-06, the state is obligated to make a payment of $70.1 million toward these notes; in FY 2006-07, the amount is $67.6 million. Governor Rell proposes to set aside $137.7 million of the surplus to prefund these two annual payments. These funds will be appropriated this fiscal year, but have no impact on the spending cap because debt service is exempt.

Cost of Financing Budget Deficits
(In Millions)

Fiscal Year	Deficit	Debt Service FY '04	FY '05	FY '06	FY '07	FY '08	FY '09	Total
2002	$ 222.0	$ 48.8	$ 48.8	$ 47.8	$ 46.0	$ 44.4	$ -	$ 235.8
2003	97.7	1.0	22.2	22.3	21.6	20.9	20.2	108.2
	$ 319.7	$ 49.8	$ 71.0	$ 70.1	$ 67.6	$ 65.3	$ 20.2	$ 344.0

- ***Innovative Stem Cell Research funding*.** Governor Rell proposes setting aside $20 million of this year's surplus for vital stem cell research. Governor Rell strongly believes that the state and its citizens can benefit immeasurably from this funding. It has two benefits. It will send a clear message that the state wants to be on the cutting edge of research and development in the biosciences areas. It will also boost the state's image as a bioscience-friendly location and promote job growth in the industry. As importantly, Governor Rell believes stem cell research is a vital field of work. It offers hope to those suffering from various illnesses, including Parkinson's and Alzheimer's, that a cure may some day be found for numerous debilitating diseases. The funding will be deposited in the Biomedical Research Fund. These funds will be transferred from surplus during the fiscal year and not appropriated under the spending cap.

- ***Fund Early Retirement Incentive Payouts and Other Personnel Accruals*.** Governor Rell proposes using $47.55 million of the surplus to fund the early retirement incentive payouts from the 2003 early retirement incentive program. Those who chose to retire under the incentive program had to defer payout of their accrued sick and vacation leave until July 1, 2005. Accrued payments will be made in three installments in FY 2005-06, FY 2006-07, and FY 2007-08. About $42.4 million will be set aside from surplus to pay for the General Fund obligations during the biennium. These payments will be appropriated in the current fiscal year and be divided equally between each year of the biennium. Another $5.15 million will be appropriated in FY 2004-05 and will be used during both years of the biennium for payouts associated with former employees whose positions were funded from the Transportation Fund. Governor Rell also proposes to set aside another $15.65 million for non-ERIP retirement and termination accruals in the coming biennium -- $8.15 million in FY 2005-06 and $7.5 million in FY 2006-07.

- ***Miscellaneous appropriations*.** Governor Rell is proposing to appropriate another $15.9 million this fiscal year for various needs through the biennium such as energy contingency funds, implementation of the Medicare Part D program, and settlement of claims.

- ***Carry forward $57.1 million for FY 2005-06 expenditures***. Finally, the Governor's budget proposes to carry forward $57.1 million from the current fiscal year into FY 2005-06 to offset certain expenditures in the first year of the biennium. Major areas of offset are Personal Services and Other Expenses in a number of general fund agencies, $20 million for State Employees Health Services costs, $1.5 million for the Higher Education Alternative Retirement System contribution, $1.9 million for Charter Schools, $1 million for Priority Schools, $1 million for the Open Choice Program, $3.6 million for various Workers' Compensation Claims accounts, and $1.5 million for Community Support Services in the Department of Correction.

In summary, Governor Rell proposes to:

- Deposit $41.7 million in the Budget Reserve Fund.
- Pre-fund $137.7 million in Economic Recovery Note deficit debt service payments.
- Appropriate $79.1 million under the spending cap this fiscal year for largely one-time expenses in the coming biennium.
- Transfer an additional $20 million to the Biomedical Research Fund for stem cell research purposes.
- Carry forward $57.1 million in anticipated lapses to offset appropriations in FY 2005-06.

Use of FY 2005 Surplus

(In Millions)

Surplus as of February 9, 2005	$ 335.6
Pre-fund FY 06 & FY 07 ERN costs	(137.7)
FY 2005- Additional Appropriations	(79.1)
Carry forward of Funds to FY 2006	(57.1)
Stem Cell	(20.0)
Deposit to Rainy Day Fund	(41.7)
Revised Balance 6/30/05	**$ -**

With the deficiency appropriation this fiscal year of $78.1 million and the additional appropriation of $79.1 million outlined above, the state will be appropriating up to the spending cap as it closes out FY 2004-05.

Tax Changes and Revenue Enhancements

Governor Rell's first budget submission recognizes that the fiscal and budget climate still leaves much to be desired. Job growth in Connecticut has lagged the nation and, therefore, revenues have failed to keep up with the pace of expenditure patterns. Consequently, the state continues to face a substantial structural gap. As such, the biennial budget submission proposes a series of tax increases together with spending reductions to bring the budget into better structural balance. However, Governor Rell has approached the revenue side of the budget with great caution. Because of the continuing fiscal crisis, it was necessary to continue to delay implementation of a series of tax cuts previously passed into law. Where tax increases are proposed, they focus on areas that will help create important investments for the future quality of life in Connecticut and not do fundamental damage to the economy.

Total tax increases in this biennial budget are limited to about $140.3 million, excluding the adoption of a nursing home provider tax which helps generate significant federal revenue and more adequately reimburses a myriad of private providers in our communities.

Increasing the cigarette tax

Governor Rell's biennial budget proposes to increase the cigarette tax from $1.51 to $2.25 per pack effective July 1, 2005. The tax increase would generate about $104 million in FY 2005-06, including sales tax generated on the cigarette tax increase and the floor tax for existing inventory. In FY 2006-07, the total raised would be $87.6 million.

Even after the proposed increase, New Jersey, Rhode Island and New York City will have cigarette taxes that are higher than Connecticut's.

Increasing taxes on other tobacco products

Notwithstanding the passage of the cigarette tax increase back during the 2002 session, taxes on other tobacco products have remained the same since 1989. To ensure equity, the biennial budget proposes to increase these tobacco products' taxation from 20% of the wholesale price to 90%. A proportional increase in the tax on snuff is also proposed, from 40 cents to $1.80 per ounce.

In all, the taxes in this category, together with sales taxes will generate an additional $15.7 million in FY 2005-06 and $15.4 million in FY 2006-07.

Increasing alcohol taxes

Governor Rell's budget also proposes to increase the alcoholic beverages tax by 15%, which generates $7.9 million combined with the sales tax and floor tax in FY 2005-06 and $7.1 million in FY 2006-07.

Taxes on alcoholic beverages have not been increased since 1989.

Corporation tax changes

For the past two income years, businesses have had to pay a tax surcharge of 20 and 25% respectively. The Governor is proposing to phase out the corporate surcharge, in a realistic manner over the course of three years.

Effective for business income year 2005 (January 1, 2005 for most businesses), the biennial budget proposes a reduced surcharge of 15%. The surcharge would be reduced to 10% in business income year 2006 and eliminated in business income year 2007. The surcharges would raise $67.1 million in FY 2005-06 and $10.9 million in FY 2006-07. The surcharge would sunset effective December 31, 2006 for most companies.

A second initiative on the corporate tax front is to return to a net operating loss carryforward provision of five years, from the 20 years in current law. The law was changed in 1999 to allow companies to carryforward losses for 20 years and offset future income and thereby reduce state taxes. The state had a five-year carryforward provision for a number of years and will return to that framework. The 1999 change has yet to impact companies, as the provision would not have benefited businesses until income year 2006. Thus, the change back to five years does not increase taxes currently paid, but reduces potential offsets beginning next business income year. The change in the carryforward provision raises $7.4 million in FY 2005-06 and $17.9 million in FY 2006-07.

The proposed biennial budget also eliminates the research and development tax credit exchange program effective for the 2005 income year. Under this program the state actually pays companies under the guise of a tax credit for investments the companies have made. The business receives these funds regardless of job creation or other long term commitments usually required with state subsidized investments. As the economy has recovered, the amount of venture capital available in the state has continued to improve. Given the continuing budget situation, the state can no longer afford to make these payments, but will be providing important investments in other areas. For example, $15 million more in bond funds are being proposed for the Manufacturing Assistance Act (especially to help manufacturers diversify) and $20 million from the current year surplus for stem cell research. The elimination of the exchange program saves $20 million in FY 2006-07.

Lastly, the biennial budget proposes to modify the Insurance Reinvestment Tax Credit. The original purpose of the credit was to create new jobs by encouraging small insurance startups and specialty insurance businesses to locate in Connecticut. It was also meant to stimulate investment in companies engaged in the insurance business or providing services to insurance companies. However, the law has seen limited success and is extremely costly per job created. The Governor's proposal will disallow any tax credits for investments made after December 31, 2005. Investments made before that date will continue to be eligible for tax credits. The proposed repeal will not impact tax credits already earned.

Deferring proposed tax cuts

Governor Rell calls for maintaining the current property tax credit at $350 for income years 2005 and 2006. Beginning in income year 2007, Governor Rell calls for increasing the property tax credit in $50 increments until it reaches its original $500 amount in income year 2009.

One other minor income tax cut is being deferred. First, the phase-in of a higher singles' exemption will be delayed for two more years. For income year 2004, the singles' exemption stood at $12,625. Instead of going to $12,750 as of income year 2005, the level will stay at the 2004 level until income year 2007. The proposal saves $7 million in FY 2005-06 and $20 million in FY 2006-07.

Finally, Governor Rell is proposing a further two-year delay in the continuation of the phaseout schedule for the state succession tax. Rates will not be reduced again until January 1, 2007. This change will mean a revenue gain of $11 million and $26 million in each year of the biennium. The state's scheduled gift tax phaseout will also be delayed another two years. Rates for the gift tax will now not change until January 1, 2008, saving the state $6 million in FY 2006-07.

Claiming bottle escheats

Governor Rell is proposing that unclaimed bottle escheats revert to the state. This is expected to generate $20 million annually. It is hard to justify allowing unclaimed bottle deposits to remain in the private sector when the state continues to experience budget imbalances and the subsequent reduction of vital programs. Like any other unclaimed property of the citizens of the state, the bottle deposits should revert to the state to benefit the public good.

Miscellaneous revenue changes

Increasing the Department of Revenue Services (DRS) staffing – By adding additional staffing to clean up tax appeals, increasing audit and investigation activities to ensure all taxpayers pay their fair share, it is estimated that general fund revenue can increase by $19.5 million in year one of the biennium and $24.6 million in year two.

The budget also calls for securitizing unclaimed property in the second year of the biennium to gain $40 million. Governor Rell is committed to removing this item from the budget in the adjustment year if unneeded. To help balance FY 2006-07, $41 million in excess general revenue will be moved from FY 2005-06 to FY 2006-07. Other miscellaneous revenue changes are itemized in the accompanying chart.

Other significant revenue changes

Other significant revenue changes are detailed in other sections of this narrative. (Gas tax and rail surcharge is in the section entitled "Breaking the Gridlock"; veterans pension exemption is in the section entitled "Veterans Benefits"; and provider tax is in the section entitled "Caring for the Elderly"

Classification of Revenue Changes
General and Special Transportation Fund
(In Millions)

	Fiscal 2006	Fiscal 2007
Tax Increases/(Decreases)		
Cigarette Tax	$ 104.0	$ 87.6
Tobacco Products and Snuff	15.7	15.4
Alcoholic Beverages	7.9	7.1
Aviation Services	0.2	0.2
Eliminate R&D Credit Exchange	-	20.0
Exempt 50% of Military Pensions	(2.5)	(2.5)
Campaign Finance Deduction	(0.5)	(0.5)
Motor Fuels Tax (1¢ FY '06, 1¢ FY ' 07)	15.5	30.8
Subtotal Real Tax Increases	$ 140.3	$ 158.1
Tax Deferrals/Eliminations		
Delay Restoration of $500 Property Tax Credit	$ 105.0	$ 105.0
Extend the Increase in the Singles Exemption	7.0	20.0
Impose 15% surcharge in IY '05 and 10% in IY '06	67.1	10.9
Reduce Net Operating Losses from 20 yrs. to 5 yrs.	7.4	17.9
Defer Phase Down in Gift Tax - 2 years	-	6.0
Defer Phase Down in Succession Tax - 2 years	11.0	26.0
Subtotal Deferrals/Eliminations	$ 197.5	$ 185.8
Revenue Measures		
Non-resident Gaming Withholding	$ 6.0	$ 6.0
Intercept for the Emergency Spill Response Account	(12.0)	(12.0)
Provider Tax	139.2	139.2
Appellate Revenue Option	5.8	7.2
Audit Revenue Option	13.7	17.4
Bottle Escheats	20.0	20.0
Compensation to Family Members of Deceased Veterans	(0.3)	(0.3)
Federal Grants due to recommended expenditure changes	(76.6)	(69.5)
Federal Grants due to Provider Tax Program	118.6	119.1
Energy Conservation and Load Management Fund	12.0	12.0
Boating License Increased Fees to the General Fund	2.0	-
Defer GAAP Accounting	(17.0)	(17.0)
Banking Fund - Transfer Portion	-	20.0
Insurance Fund - Transfer Portion	-	5.0
Transfer Resources from FY '06 to FY '07	(41.0)	41.0
Securitize Unclaimed Property	-	40.0
Tobacco and Health Trust Fund - Eliminate Transfer	12.0	12.0
Reduce Funding for the Mashantucket Pequot Grant	48.7	48.7
Sweep Safety Inspection Account	1.0	-
Increase Billboard Licenses	0.4	0.4
Reduce Transfer to Conservation Fund	1.0	1.0
Reduce Transfer to Emission Enterprise Fund (2 yrs.)	4.9	2.5
Reduce Transfer to the TSB	9.0	9.0
Subtotal Revenue Measures	$ 247.4	$ 401.7
Grand Total	**$ 585.2**	**$ 745.6**

Reforming Government

Change a program and you change the way we address a particular problem; change the method by which public officials act and are judged and you can restore the public trust and impact the way government does business for decades. In her brief tenure, Governor Rell has worked tirelessly to restore the public's faith in government. By Executive Order and her own personal code of conduct, she has made great strides in that direction. It will be necessary for the legislature to pass these recommended reforms concerning the way we judge and hold public officials (elected or non-elected) accountable; the way we contract for private services; and the way we allow those who seek public offices to raise funds for campaign purposes.

Citizens' Ethics and Government Integrity Commission

In an effort to further sustain fair and proper conduct by Connecticut state government officials, the Governor recommends that, the State Ethics Commission be converted into the Citizens' Ethics and Government Integrity Commission.

The Commission will consist of three separate levels, each playing a critical role in the vigilance and review, and, if merited, disciplinary action which will be imposed on any person or business found to be in violation the state Ethics Code. The three levels are comprised of Commission office staff divided into three different sections; the nine-member Commission itself; and a panel of Judge Trial Referees.

Citizens' Ethics and Government Integrity Commission

Judge Trial Referees (JTR)

- Retired Superior Court Judges
- If probable cause is found by the Commission, JTR's would conduct hearings and make rulings on whether a violation occurred
- Previously, this function was performed by the members fo the Commission

Nine (Appointed) Commission Members

- Appointment of the nine Commission members would remain with the Governor and legislative leaders, but new restrictions would govern the actions and activities of Commission members
- The make-up of the Commission will remain the same. Terms will be staggered and members are limited to serving one term

Furthermore, the Commission staff is divided into the three distinct sections of Enforcement Division, Legal Division and Public Information Office.

Commission Staff Structure

	Class Title
Enforcement Division	**Enforcement Counsel** Principal Attorney Principal Attorney Legal Investigator Paralegal Specialist 2
Firewall	
Legal Division	**General Counsel** Principal Attorney Principal Attorney Legal Investigator
Public Information Office	**Executive Director** Director of Disclosure and Public Information (Ethics) Management Analyst 2 Management Analyst 2 Fiscal/Administrative Supervisor (Unclassified) Accountant Administrative Assistant

The Enforcement Division is headed by the Enforcement Counsel and made up of attorneys and investigators who would be responsible for investigations, filing complaints, and presenting evidence at hearings concerning any suspected improprieties and violations.

A firewall exists between the Enforcement Division and the Legal Division to thwart information received by the Legal Division from becoming a basis by which the Enforcement Division could initiate or investigate a complaint.

The Legal Division is led by the General Counsel and is entrusted with responding to inquires and providing guidance with regard to the Ethics Code. The division will provide information, verbal advice and written staff opinions to those subject to the Code and members of the public.

The third division is the Public Information Office, for which the Executive Director is responsible. The personnel that make up this division will hold the responsibility for training, media relations, lobbyist reporting and statements of financial interest, and maintaining the Commission's website. The composition of the actual Commission itself, which is comprised of nine members, shall remain the same. Terms will be staggered and members are limited to serving one term. An ever-increasing focal point will be the method in which the panel comports and holds itself to the standards in the reinforced Code of Ethics. These strengthened standards prohibit political contributions to anyone subject to the code, mandate that members recuse themselves from actions when their appointing authority is the subject of an investigation or advisory opinion, and apply a one-year prohibition on Commission members or staff from practicing before the committee itself.

The final component in a three-tier Commission is the panel of Judge Trial Referees (JTR). These JTR's are retired Superior Court Judges to be assigned by the state's Judicial Branch and whose services shall only be requested should the nine-member Commission find probable cause in its cases presented by the Commission Enforcement Division. The JTR's would then hold hearings and make rulings on whether a violation has occurred—responsibilities that were once held by the Commission itself under the previous organizational mandate.

Contracting Reform – Fairness Over Favoritism

On July 8, 2004, Governor Rell announced the formation of the Governor's Task Force on Contracting Reform. The Task Force was charged with reviewing and recommending improvements in the procedures used by the State of Connecticut to purchase goods and services, including establishing a strong and proactive structure to implement uniform procedures and practices, elevating the state's commitment to clear ethical standards and conduct, improving professional development opportunities for state employees, and strengthening the state's enforcement, investigatory and accountability capabilities.

As a result of the work of the Task Force and as part of the Governor's "Fairness Over Favoritism" package, the Governor is proposing the creation of a Contracting Standards Board.

The Contracting Standards Board will:

- Develop a Uniform Procurement and Contract Code for state agencies to be submitted to the General Assembly by January 2007. This Code will aim to:
    - Provide transparency in contracting and increase public confidence in the process
    - Ensure all businesses and contractors are treated fairly
    - Maximize the use of small businesses and minority-owned businesses
    - Foster increased competition.
- Review agency contracts and determine if tax dollars are being spent wisely. The Board will have the authority to terminate a contract for just cause. The Board can also suspend a contractor from doing business with the state for up to six months or disqualify a contractor for up to 5 years.
- Assume the duties of the Properties Review Board effective October 1, 2007. The Properties Review Board will cease to exist on that date.

Additionally, the Governor is recommending the adoption of a False Claims Act which will provide for subpoena powers for the Chief States Attorney and shared Civil Investigative Demand power for the Attorney General to be utilized in conjunction with the Contracting Standards Board.

Campaign Finance Reform – Reducing the Influence of Special Interest and Big Money

Changes to Connecticut's campaign finance laws have been included in Governor Rell's proposed "Fairness Over Favoritism" package. Through this new approach the influence of special interests would be dramatically scaled back by reducing the role of lobbyists, Political Action Committees (PACs) and wealthy donors. Campaigns would be encouraged to stick to spending limits and the rampant use of negative campaign advertising would begin to be curbed.

Campaign contributors would be limited by:

- Banning all campaign contributions from lobbyists and their PACs
- Banning all campaign contributions from state contractors
- Lowering campaign contribution limits for individuals, candidates and PACs
- Expanding requirements for electronic filing of campaign finance reports
- Banning the use of "ad books"

Governor Rell is also proposing a $100 state income tax deduction for contributions to campaigns that agree to voluntary spending limits. The goal is to increase public participation in financing campaigns. The voluntary spending limits would be as follows:

Governor: $3 million without a primary; if there is a primary, $1.25 million for the primary, $2.25 million for general election; $250,000 for Convention

Other Constitutional Officers: $500,000 without a primary; if there is a primary, $175,000 for the primary, $425,000 for general election; $15,000 for Convention

State Senator: $80,000 without a primary; if there is a primary, $35,000 for the primary, $65,000 for the general election; $5,000 for Convention

State Representative: $20,000 without primary; if there is a primary, $6,500 for the primary, $17,500 for the general election; $2,500 for Convention

Under the Governor's proposal, any person or organization purchasing campaign literature or advertisements making claims about a candidate must provide to that candidate copies of this material 24 hours before submitting it for publication, mailing or broadcast.

Expanding Electronic Campaign Finance Reporting

In an effort to provide greater accessibility to the financing of campaigns, the Governor proposes that campaign finance reporting laws be revised to sharply lower the threshold at which the electronic filing of reports is required, and expand the number of campaigns and committees required to file such reports.

Currently, campaigns for statewide office – Governor, Lieutenant Governor, Attorney General, Comptroller, Treasurer and Secretary of the State – must file electronically if they raise or spend $250,000 or more during a campaign or calendar year. Under Governor Rell's proposal, the electronic filing threshold would be lowered to $35,000, and campaigns for state Representative and state Senator would be added to the list, along with political committees.

Governor Rell's Campaign Finance Reform Proposals

Campaign Contribution Limits

Contributor Sources					
Candidate Committee For	**Individual**	**Party Committee**	**Political Committee Formed by Two or More Individuals**	**Political Committee Formed by a Business**	**Political Committee Formed by an Organization**
	Current/ **Proposed**	Current/ **Proposed**	Current/ **Proposed**	Current/ **Proposed**	Current/ **Proposed**
Governor	$2500/ **$1250**	Unlimited/ **$5000**	Unlimited/ **$2500**	$5000/ **$2500**	$2500/ **$1250**
Lieutenant Governor, Secretary of the State, Comptroller, Attorney General	$1500/ **$750**	Unlimited/ **$3000**	Unlimited/ **$1500**	$3000/ **$1500**	$1500/ **$750**
State Senator, Judge of Probate	$500/ **$250**	Unlimited/ **$1,000**	Unlimited/ **$500**	$1000/ **$500**	$500/ **$250**
State Representative	$250/ **$125**	Unlimited/ **$500**	Unlimited/ **$250**	$500/ **$250**	$250/ **$125**
Undetermined Office (Exploratory Committee)	$250/ **$125**	Unlimited/ **$500**	$250/ **$125**	$250/ **$125**	$250/ **$125**

All limits are per election
Primary considered separate election

Breaking the Gridlock

A sound transportation system is essential to Connecticut's economic and social health and welfare. Virtually all of our citizens utilize our transportation system. Everyone has experienced rush hour traffic. Improvements to I-95 and other highways need to be undertaken to ease traffic congestion. With Governor Rell leading the way, we need to summon the will to get it done. Our commuters have long suffered with unreliable, outdated train cars which should have been replaced a decade ago. How do we expect to attract more people to the trains without providing quality service, clean stations, and adequate parking? Recognizing this need, Governor Rell is proposing the largest capital investment in two decades in Connecticut's transportation system including:

- $667 million for new rail cars for use on the New Haven Line
- $300 million for new rail maintenance facilities
- $187 million for operational improvements and congestion mitigation measures for Interstate 95 between Greenwich and North Stonington
- $150 million for improvements to other state and interstate roads; and
- $7.5 million for new transit buses.

These dollars will leverage an additional $359 million in MTA/New York State funds for rail cars.

Governor Rell's proposal recognizes there is no single action that will solve Connecticut's transportation problems. It recognizes that there is no single funding source capable of satisfying all of Connecticut's transportation needs. Instead, it adopts a balanced approach which utilizes a number of strategies in a coordinated plan.

Each year over 33 million riders travel on the New Haven Line commuter rail service, making it one of the busiest commuter railroads in the nation. Most riders travel between points in Connecticut and Grand Central Station in New York City; others travel between points in Connecticut. Ridership continues to grow annually.

Encouraging commuters to use the rail system rather than driving to work is an essential element of the state's effort to reduce highway congestion and improve mobility in southwestern Connecticut. However, attracting commuters has been hampered by both the decreasing reliability and age of the rail fleet.

During the current biennium, the state has taken a number of steps to address rolling stock equipment needs. For example, the oldest of the New Haven Line cars are undergoing a major upgrade which includes the replacement of most of their major component systems in order to improve reliability. This reconditioning effort is expected to add ten years to the useful life of the cars.

Earlier this year the state purchased the first of 38 cars from Virginia Railway Express. Those cars will free up additional coaches for use on the New Haven Line. The Department of Transportation is also in the process of securing additional locomotives to supplement the current fleet. This new equipment will improve reliability and increase flexibility in meeting the growing demand on the New Haven Line.

While these short term actions will help to address immediate issues and needs, the state must act now to replace its aging rail car fleet. Governor Rell's budget proposes spending $667 million over the next decade to acquire 342 self-propelled rail cars for use on the New Haven Line. These cars are expected to be delivered between 2009 and 2015 and will replace the oldest cars on the New Haven Line. The delivery date is the result of the time required to design, test and build new cars which meet Connecticut's unique operating needs.

Given the changes in rail car design, configuration and systems over the last three decades, a substantially enhanced maintenance facility will be required to support the new rail cars. Governor Rell's proposed budget includes $300 million for the construction of this facility. This construction process needs to begin immediately so it will be operational when delivery of the new cars begins.

Governor Rell has also directed the Department of Transportation and the Office of Policy and Management to develop a plan for creating and financing additional parking along the New Haven Line. Additional parking facilities in New Haven and Bridgeport have been funded and are in the design stage. In addition, new stations with enhanced parking facilities are planned in the Fairfield and the West Haven/Orange area.

A balanced program also requires action to improve Connecticut's other transportation systems. Governor Rell's proposal includes $344.5 million to address those needs, including:

- $187 million for improvements to Interstate 95. The improvements include the construction of operational lanes at several locations in southwestern Connecticut. The lanes, which facilitate vehicle movement and reduce congestion, are based on the success of similar lanes in the Stamford area. Improvements planned for I-95 east of New Haven include operational lanes, reconstruction of priority intersections and median improvements
- $150 million for improvements to other state and interstate highways
- $7.5 million for new transit buses.

The above expenditures recommended by Governor Rell are in addition to the annual funding of about $180 million which supports the state's on-going transportation capital program, including $117 million for highways and $34 million for public transportation.

With regard to air traffic, Governor Rell will also institute programs to bring other major air carriers to Bradley and Tweed airports. Those programs will improve the climate for business growth in nearby cities.

Financing Plan

Just as no single initiative will meet Connecticut's transportation needs, no single funding source can pay the extraordinary costs associated with this initiative. Governor Rell proposes to fund this transportation investment through reallocation of existing resources, user fees, and additional tax revenue. The state will also work to maximize the federal funds available for this initiative.

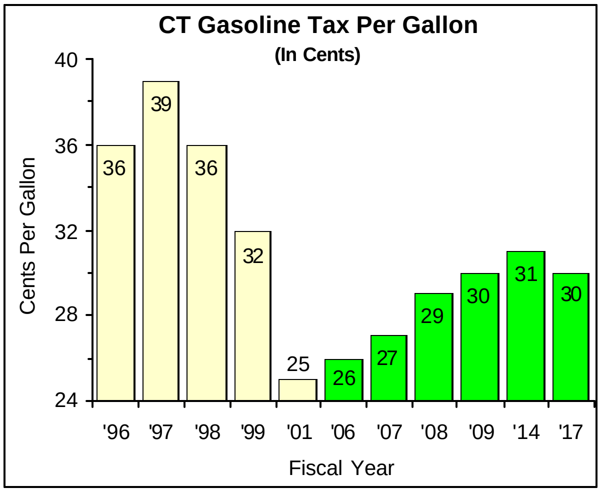
The Transportation Strategy Board (TSB) Project Account was established in 2003 to provide a source of funding for transportation projects. Governor Rell proposes to utilize that fund in three ways:

- Between FY 2004-05 and FY 2014-15, funds from the TSB project account will be utilized to pay part of the capital cost of the New Haven Line revitalization program. $5 million will be utilized in FY 2004-05, $20 million in FY 2005-06 and $15 million per year in each fiscal year from 2007-2015
- After 2015, $15 million a year will go toward debt service on bonds issued to support the New Haven Line revitalization program
- $9 million in revenue which would have gone into the TSB Project Account will remain in the Transportation Fund to help offset the increase in debt service on bonds issued to support the highway portions of the Governor's transportation initiative.

Under the Governor's plan, about $300,000 a year will remain available to support the operations of the Transportation Strategy Board.

Beginning on January 1, 2008, a portion of the cost of the new rail cars will be borne by those using the New Haven Line service by instituting a $1.00 per trip ticket surcharge on all tickets for trips on the New Haven Line originating or terminating in Connecticut. The surcharge is expected to generate about $20 million a year in revenue which can only be used for the New Haven Line revitalization program. The surcharge will end on June 30, 2015.

By using ticket surcharge funds and a portion of the funds from the TSB project account which together are expected to generate about $300 million to pay directly for the project costs, the level of bonding and debt service required can be reduced, resulting in a savings of about $245 million when compared to the cost of borrowing. .



The Department of Transportation will reallocate about $170 million in future state and federal funds to help meet the cost of these initiatives.

Over the past decade, Connecticut's gas tax has been reduced substantially. Those reductions collectively amount to over one billion dollars. However, given the serious challenges facing Connecticut's transportation system, modest increases in the gasoline tax are needed. Even after the proposed changes, Connecticut's gas tax will be significantly lower than it was in the mid-1990's.

Under the plan, the gas tax will increase by one cent per gallon on July 1, 2005; one cent per gallon on July 1, 2006; two cents on July 1, 2007; one cent on July 1, 2008 and one cent on July 1, 2013. The tax will be reduced by one cent on July 1, 2016, bringing the total increase down to five cents.

Balancing the Transportation Fund

The Special Transportation Fund (STF) supports the state's transportation operating and capital spending programs. Its financial health directly affects the state's ability to meet the needs of its transportation system.

The Special Transportation Fund is projecting a current service operating deficit for FY 2005-06 and FY 2006-07. A number of factors, including the growth in bus and rail subsidies and increased payroll and fringe benefits costs, are contributing to the shortfall. Without action, the deficit is projected to be approximately $40 million in FY 2005-06 and $51 million in FY 2006-07. Clearly action is required to avoid this situation and ensure that the fund can meet the needs of the state's transportation system.

This budget proposes to balance the fund through a mixture of spending reductions and revenue changes, including spending reductions in the Departments of Transportation and Motor Vehicles, deferral of some statutory transfers to other accounts, a bus fare increase and use of a portion of the gas tax increase. Some of these changes will cause users added expense, but are necessary in order to maintain balance to the Special Transportation Fund.

Education – From Birth through College and Beyond

Governor Rell's Early Childhood Investment Initiative

The future belongs to those who believe in the beauty of their dreams.

Eleanor Roosevelt

Governor Rell's budget has recommended a series of bold, dramatic and innovative programs to enhance the education of preschool children. By providing strategically placed funding in critical education programs, Governor Rell's proposed budget will help Connecticut's children attain the skills they need to achieve their dreams in the new 21st century global economy.

Governor Rell's education budget begins with a new approach towards the education of its youngest citizens. For every child born in the state, Governor Rell, working through the Connecticut Children's Trust Fund, is planning to ensure that every set of parents and caregivers have regular, essential information during the first four years of that child's life. This program, Great Beginnings, will help parents and caregivers recognize the developmental milestones that are the beginnings of a child's cognitive learning.

Governor Rell believes that all children must come to school with the skills they need to achieve. Building upon the Great Beginnings program, Governor Rell's budget recommends a revamping of the School Readiness program. With a series of funding increases, Governor Rell will increase accountability, expand the program to the whole state, and ensure the financial stability of existing state funded School Readiness programs.

In the budget, Governor Rell has created an Early Childhood Investment Advisory Cabinet, made up of commissioners from the child related agencies of Education (SDE), Social Services (DSS), Public Health, Children and Families, and Mental Retardation. The Cabinet will ensure the coordination of the services offered by the various departments for preschool youngsters, recommend management enhancements and propose service improvements to the School Readiness system. The Governor's budget also creates the Early Childhood Research and Policy Council which will bring together members of Connecticut's education, business, and philanthropic communities to advise the Early Childhood Advisory Cabinet.

The Cabinet will set the standards for School Readiness by requiring all state-funded School Readiness programs to adopt the high quality Connecticut Preschool Curriculum. As part of their mission, the Cabinet will also establish a rating system for the School Readiness programs that will help parents and caregivers pick the best preschool for their children. Finally, the Cabinet, in concert with the Council, will advise SDE in the development of an assessment tool to measure the success of our preschool programs.

Most exciting for parents in non-School Readiness communities, Governor Rell's budget is recommending $5.5 million in each year for a new program that reaches out to parents who have not been able to access the program unless they lived in one of the state's poorest and academically challenged communities. As the results of the *No Child Left Behind* assessments have demonstrated, achievement gaps exist in communities that are not traditionally believed to have such gaps. This program, in partnership with $1 million in debt service financing (and $250,000 for technical assistance) will eventually lead to the creation of up to 1,000 more slots in communities that have needy, underserved preschool populations.

Governor Rell is also concerned about the approximately 7,000 children who are projected to be in the existing School Readiness program during the biennium. Providers in these programs have struggled financially, often with unmet capital needs. Staffing has been problematic, with high turnover. To address these problems, Governor Rell's budget recommends $2 million in FY 2005-06 and $4 million in FY 2006-07 to increase slot funding from $7,500 to $7,750 and finally to $8,025. This increased revenue will help stabilize finances for School Readiness centers. Additionally, the budget will provide $2 million in capital funding to address unmet needs for enhancement and expansion of existing preschool facilities. Finally, to reduce staff turnover in the centers, and increase education credentials for workers in the centers, $1 million for about 330 scholarships is provided.

As a final measure of how well the state's preschool programs are working, Governor Rell's budget includes $400,000 to finance the creation of a developmentally appropriate kindergarten assessment program. When finally implemented, this test will provide decision-makers, parents and education professionals with empirical data with which to answer the question, "How well are we doing?" Connecticut needs its preschool population to succeed, to come to kindergarten ready to achieve.

Investing in Education Technology

The Connecticut Education Network

Governor Rell has long championed the use of technology in Connecticut schools as a way to train all of the state's students in 21st century workforce competencies. The budget, which includes two initiatives to expand the use of technology in the state's schools, offers the potential to increase the technological competencies of state students.

As Lieutenant Governor, Governor Rell helped create the Connecticut Education Network. The Connecticut Education Network (CEN) is a statewide information technology infrastructure initiative created to link every public school district, every college and university campus and every library with one another using a state of the art network to provide advanced research and education capabilities. The CEN provides vastly enhanced access by students in schools and colleges to each other across institutional borders, to the Internet, and to the next generation Internet2 research and education network. In 2005, Connecticut will be the first state in the nation to complete an all optical fiber based network an accomplishment that if properly leveraged, provides the potential for great advances in education, research and workforce development.

The network is the primary source of Internet access for almost every public school district in the state and it is increasingly important as a secure, redundant connection for online learning, parent/student home access, online testing and other state education initiatives. The CEN also links all of the University of Connecticut and Connecticut State University campuses to one another and the Internet. The community colleges, libraries and private colleges also depend on the CEN for education resources and in some cases Internet access.

To date, the state's investment of approximately $24.5 million in capital funding has been matched by approximately $12 million in federal Universal Service funds. Additional bond funds of approximately $10 million over the biennium will be matched at approximately one to one with federal funds to complete annual payments 3 and 4 of a five-year contract for fiber optic leases.

Additionally, for the first time, the operation of the CEN will be budgeted. While the first stages of the network in central and coastal Connecticut included 20 year bond-eligible leases for fiber-optic cable, the final stages of the network build-out to rural Connecticut and libraries are structured with traditional monthly telecommunications service fees which require traditional operating budget support. These fees will also be matched one to one by federal E-Rate dollars.

The network will be completed during 2005 and the program's focus will necessarily shift from construction and build out to operational support. To date, all of the staff working full-time on the network have been hired by the University of Connecticut to support the Department of Information Technology's responsibility to build the network. Staff costs are funded through a combination of user fees from higher education institutions and from DOIT's transfer of project management funding to UConn. Once construction is completed, it is essential that the state properly maintains its investment and provide the staff resources to leverage its great capacity and educational promise. Therefore, Governor Rell is recommending $3,460,747 in FY 2005-06 and $3,739,119 in FY 2006-07 to finance the operations of the CEN.

Laptop Computers

Governor Rell believes fervently in the importance of educating our students in the use of 21st century technology. At the same time, we need to do a better job of teaching writing skills to our students so they are able to communicate properly through the written word.

Toward this end the Governor proposes funding in the biennium to place laptop computers on the desk of every 9th and 10th grade English class in the State of Connecticut. These will serve to utilize today's technology in educating our students to develop quality writing skills, putting them at a competitive advantage with their peers from other states upon graduation. Importantly, in addition to the hardware and incidental costs, the Governor's budget includes training funds for teachers as well as funds for curriculum development.

Reducing Racial Isolation and Improving Urban Education

It continues to trouble Governor Rell that there is an achievement gap that divides Connecticut's children. To move into the 21st century economy, Governor Rell believes that children should not be racially isolated and that urban education must improve so that all of the state's children succeed academically.

In the landmark 1996 "Sheff v. O'Neill" case, the Supreme Court found that the "children of Hartford had waited long enough" to attend school in good and integrated schools. Since then, the state has invested hundreds of millions of dollars to increase school choice options, allowing the children of Hartford and other racially isolated communities, to attend integrated, superior schools. Unfortunately, the pace at which Hartford's children are being placed in integrated schools has not been fast enough for the "Sheff" plaintiffs who have taken the state back to court.

Governor Rell is also concerned about the alacrity with which programs that reduce racial isolation and improve urban education are proceeding. Therefore, her budget is recommending fundamental changes to two of the major school choice components: Magnet Schools and Project OPEN Choice. With the proposed changes, Governor Rell is hopeful that the programs will increase the number of children who are in positive, integrated educational settings.

Operating magnet schools, in the Hartford region particularly, has fallen to the Regional Education Service Centers (RESCs). Each year, the RESCs have needed additional subsidies from the state in order to balance their books. In order to return financial stability to the magnet schools, Governor Rell is recommending a gradually increasing subsidy of $6,250 per child in FY 2005-06 and $6,500 perchild in FY 2006-07. Districts that participate in the program will have to fully finance their share of the program. Restoring financial integrity to the RESCs and to the magnet schools they operate will give surburban parents confidence to allow their children to attend them. Last year, word of imminent financial problems for RESC-operated schools seemed to dampen demand for the magnet school seats. Since the RESCs are key partners in operating the magnet schools, their financial health is an important element to the success of the magnet schools.

To encourage early participation in the OPEN Choice program, Governor Rell is proposing the continuation of a pilot kindergarten program (at about $700,000) that began this fiscal year in the Hartford area. This program offers the full-day programming combined with some state funded academic remediation. As an additional incentive, Governor Rell is proposing funding to reduce bus rides for all children to less than three hours daily. Subsidies for both transportation and programming will increase. For transportation, the grants will increase from $2,100 per year to $2,850 peryear. Program subsidies will increase for the receiving districts from $2,000 this year to $3,000 in FY 2005-06 and $3,500 in FY 2006-07.

Special Education

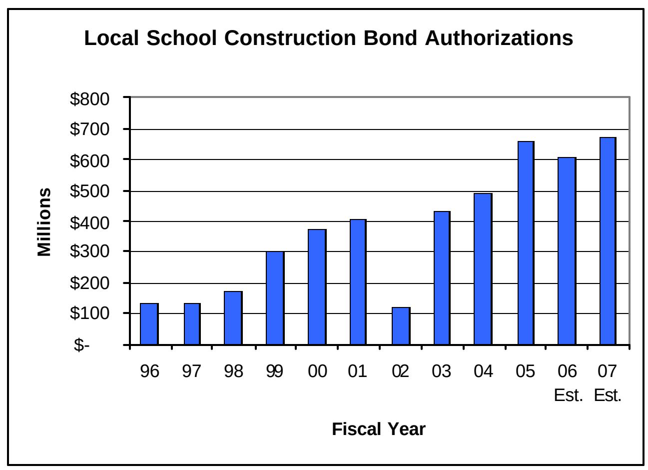
Subject to certain limitations, the state historically assists local school districts by sharing in the costs of educating those students with special education needs that are so significant the costs associated with them are five times the average educational expense of students. Due to the state's financial difficulties, the implementation of a higher reimbursement rate for communities was delayed. Governor Rell's budget implements the increased reimbursement rate. In real dollars, that means that the State of Connecticut will increase it's commitment to special education by over $25.5 million per year representing a unprecedented increase of over 38% to support local Board of Educations and this very deserving population.

Educational Finance and Accountability

The Educational Cost Sharing formula (ECS) has been the major distribution vehicle of education funding since the Connecticut Supreme Court's Horton v. Meskill decision. It has been amended numerous times for various reasons. At the same time, independent means for funding alternative education such as magnet schools, Regional Vocational-Technical schools, public charter schools and other various programs have risen. Connecticut needs to review these various funding streams from the point of view of equity, accountability and their relationship to one another. Accordingly, Governor Rell calls for the creation of the Commission on Educational Finance and Accountability to review the interrelationship of the various funding streams and accountability that they bring to the educational process. While we await the Commission's findings, the Governor has proposed a 2% increase into our current ECS funding stream.

School Construction

One of the often overlooked ways that the state supports local educational efforts is in financing school construction, roof replacement, new construction or substantial expansions. The state is a full partner in financing the capital costs of education financing by anywhere from 20% to 80% depending on the wealth of the municipality.



In order to keep this commitment, the Governor proposes $605 million in FY 2005-06 and $675 million in FY 2006-07 for public elementary and secondary school construction grants. This represents 56% of the entire General Obligation bonds proposed by the Governor for the biennium. The following chart demonstrates the significant increases the state made and continues to make toward local school construction.

Higher Education

One of Connecticut's great successes over the last decade has been of flourishing of its institutions of higher education. Buoyed by a renewed capital commitment to upgrading our campuses at all levels, our universities and colleges have been able to attract and maintain dedicated and highly qualified faculty and administration at all levels. These faculty members have demonstrated a commitment to students, learning and research. Their commitment extends to the State of Connecticut itself during both good and difficult fiscal times.

The Governor's budget continues the commitment to these institutions providing $168 million over the biennium in capital funds in the UCONN 21st century program, $165.3 million to Connecticut State University System for substantial campus improvements at Eastern, Western, Southern and Central state universities and $162.6 million to the Community Technical College system. Even in these difficult fiscal times, the Governor's budget call for a 2.4% increase in the first year of the biennium and another 1%

increase in the second year of the biennium to increase the block grants that support these vital institutions.

Moreover, the Governor's budget continues the commitment of scholarship funds for Connecticut residents who attend either public or private colleges.

Finally, Governor Rell is proposing an absolute one year tuition freeze for the students at University of Connecticut (UCONN), Connecticut State University (CSU) and Community Technical Colleges (CTCs). It is necessary we maintain our commitment to college affordability and accessibility of higher education to students and families. A review of the fiscal health and operating funds of each institution demonstrates an ability through continued careful management to maintain such a freeze for the benefit of students and their parents. The table below summarizes the FY 2003-04 year end figures for both the foundations and operating funds.

Constituent Unit	Foundation Assets ($Millions)	Operating Fund ($Millions)	Assets and Operating Fund ($Millions)
UCONN	298	58	356
CSU	33	49	82
CTCs	19	45	64

The Workforce Initiative: Preparing Connecticut Workers and Future Workers for the Jobs of the 21st Century

With the issuance of Executive Order Number 2, Governor Rell expanded the scope and the membership of the Jobs Cabinet. The Governor specifically charged the Jobs Cabinet to explore, identify and report on policies and actions necessary to ensure that Connecticut leads the nation in building a trained and employable workforce. Governor Rell moved the talent and innovation discussion forward by directing the Cabinet to convene a jobs summit.

While Connecticut has long been considered a great place to live, work and raise a family, trends in the global, knowledge-based economy are creating new challenges. The Governor's Jobs Summit was a key step in Governor Rell's effort to formulate a comprehensive work force and economic development plan for Connecticut. At the January 31st summit, business leaders, state legislators, policymakers and others heard national experts discuss challenges Connecticut faces in maintaining its leadership role and economic competitiveness in the global economy.

"Jobs are a top priority for my Administration. So far the economic recovery, in Connecticut and around the country, has been slow and largely 'jobless.' The next step is adding the jobs, and we need to jumpstart that process," Governor Rell said. "Our economic success, now and in the future, depends on creating and retaining an educated work force – one trained to thrive in a knowledge- and innovation-based economy."

The Governor's budget includes a wide variety of initiatives and program activities, some which require additional state funding and some that will require the coordination and cooperation of the public and private partners brought together through the Jobs Cabinet. "Two factors have historically kept Connecticut competitive: talent and innovation," Governor Rell said. "Those factors, nurtured by education, will be mainstays of our success in the future, too. They have to be updated, however, to meet the challenges of the 21st century, using 21st century teaching skills and 21st century resources." The list below summarizes these programs and initiatives which involve many state agencies including the State Department of Education (SDE), Department of Higher Education (DHE), Department of Economic and Community Development (DECD), Office of Policy and Management (OPM) as well as Connecticut Development Authority (CDA) and Connecticut Innovations Inc. (CII).

- Early Childhood Education Investment Initiative- A major investment in early childhood education is expected to boost academic achievement. There is, unfortunately, an achievement gap separating Connecticut's children. Since "good educational experiences in the preschool years can have a positive experience on school learning." (National Research Council, *Eager to Learn*, 2000), this initiative will help reduce Connecticut's achievement gap. Connecticut's 21st century economy needs all of its citizens to succeed academically.

- Investing in Educational Technology -- With two major initiatives, the budget will increase the technological competencies of Connecticut's students. First, the budget will finance the operating costs for the Education Network which is the primary source of Internet access for every public school in the state. Additionally, the budget will finance laptops for every ninth and tenth grade English classroom in the state. By the time a student graduates from a public school in Connecticut, he will have learned many of the technological skills needed for succeeding in a 21st century economy.

- Create a Seamless Pre K-16 Public Education System — Through the Jobs Cabinet, the whole public education continuum, from preschool through college, will be aligned to increase success during each phase of a student's educational journey. Success in each level, from pre-school through high school, could portend a bright future either in further educational opportunities such as college or in good, well-paying 21st century jobs.

- Post-Secondary Strategies for Economic Competitiveness -- Convene a quarterly meeting of Board Chairpersons from the higher education systems, public and private, and the chairpersons from the State Boards of Education and Higher Education to develop planning and policy guidance for the Jobs Cabinet with respect to long-term educational strategies that support the state's economic competitiveness.

- Loan Forgiveness Program — Provide an additional $1.75 million in funding for the Department of Higher Education's Loan Forgiveness and Education and Health Initiatives. Both of these are to provide financial assistance and incentives to encourage workforce growth in shortage areas such as nursing and teaching.

- Retraining Workers – Provide $3 million for the Department of Labor's 21st Century Skills Fund to help train/retrain workers who have lost their jobs, especially older workers who might need technology skills to get a job in this 21st century economy.

- Workplace Literacy -- Using existing funding, expand the availability of workplace literacy programs for employers who employ persons with limited English proficiency or who have limited literacy utilizing existing funding. The CETC would encourage state and local partnerships to improve literacy proficiency.

- Workforce Development Funding – Provide an additional $2.5 million for job creation and job training programs including the Jobs Funnel, Connecticut Career Ladder Pilot Program, Connecticut Career Choices (CCC) and the Small Business Innovation and Research Program (described in-depth later).

- Streamlining One-Stop Business Services -- Create and regularly convene a Commissioner Steering Committee comprised of the agencies that are participants in the on-line permitting, licensing, and registration system to create a network of business development in each agency.

- Make CT-CLIC Transactional -- Over 27 agencies administer about 900 licensing/permitting activities for businesses in the state. Businesses may download applications but must submit applications and fees through the U.S. Mail or by hand delivery. A total of $500,000 is earmarked for the initiative to begin the process of bringing e-business to the state agencies. The process would include electronic applications and payment of fees that would reduce the application and processing time.

- A Next-Generation Manufacturing Program -- Use existing Manufacturing Assistance Act (MAA) for a "Next Generation Manufacturing" initiative that would retrain older manufacturing workers, reclaim tech-talent dislocated through outsourcing, and provide technical assistance to small/medium manufacturers to promote market growth.

- "One-Voice" Marketing of Connecticut -- Create an integrated marketing program though existing resources among DECD, CDA, and CII so they all speak with "one voice." The three agencies will develop an aggressive marketing campaign to compete for business in the global marketplace.

- Stem Cell Research – Provide grants to qualified companies that wish to locate or expand in Connecticut in the promising and exciting field of stem cell research. Connecticut should be in the lead in discovery of new cures for life-destroying illnesses.

In addition, the Governor has asked the Jobs Cabinet to plan a Spring summit on math and science education to develop strategies to strengthen the performance of Connecticut students in these critical areas. The Governor is also proposing a series of changes to the state's small and minority-owned business set-aside program including expanding the scope of the program, instituting various enforcement measures as well as centralizing enforcement.

Specific workforce program enhancements requiring additional funding include:

- The Jobs Funnel, a joint public/private effort, initially started in Hartford as a partnership between unions, non-profit agencies and the state, has expanded to other areas including New Haven, Bridgeport, Norwalk and Waterbury. The building trades unions and private business have played an integral role in the success of the Jobs Funnel. Focused on preparing graduates for jobs in the construction trades, the Jobs Funnel has expanded to include hospitality, retail and health care occupations. Over 3,400 people have been served with approximately 750 graduated, having gone from welfare, homeless shelters and chronic unemployment to good paying jobs with an average salary of $16/hour and rewarding careers.

- The Connecticut Career Ladder Pilot has established a continuum of educational and training programs that lead to career advancement in occupations with projected workforce shortages such as healthcare, childcare, technology. The pilots are building linkages between education and training institutions, working with community based providers to support workforce development, increase education and skills workforce of entry level workers and support career advancement. For example, entry level certified nurses assistants are being supported through curriculum and support service strategies into allied health and nursing careers.

- Connecticut Career Choices (CCC) is at the core of the State's Technology Workforce Strategy. This initiative focuses on fostering interest in technology careers, adapting existing curriculum to industry-recognized skill standards in specific technology areas and creating greater ties between technology businesses and education. Currently, over twenty partners guide and support the operations of ten IT and six health-career pilots that make up the CCC initiative in multiple school districts across the state in urban, suburban and rural settings. CCC also includes a strong experiential learning component comprised of internships and career mentoring programs and has engaged key industry leaders to embrace the initiative and participate.

- Under the Small Business Innovation and Research (SBIR) program, Office of Workforce Competitiveness (OWC) will continue to work on creating a clearinghouse and technical assistance center to assist small business in pursuing Federal SBIR Funding. The SBIR Program offers small firms the opportunity to compete for set-asides from federal research and development budgets to advance product development. This center will conduct outreach and marketing of the SBIR program to Connecticut companies and provide technical support, expert mentoring and proposal development assistance to participating businesses.

Governor Rell has seen the significant changes that are occurring. She has both listened and been encouraged by the enthusiasm and willingness of both the public and private sector to work cooperatively on these issues and is proposing a series of programs and initiatives to deal with the challenges and opportunities facing Connecticut of the global knowledge economy.

Caring for the Elderly

Helping those who help others – the provider tax

Many of the services that are offered to some of Connecticut's neediest citizens are paid for by Connecticut taxpayers but are delivered by private entities. Whether it be nursing homes caring for the elderly and the disabled, group homes that provide residences for persons who are mentally retarded, home care workers who provide services to the elderly and the infirm, or institutions that care for neglected or abused children, these private providers are our partners in caring for the neediest of Connecticut's citizens, our family members and neighbors. Many of them continue to provide these services with dwindling resources and as their partner we owe them every reasonable effort to maximize our abilities to fund and deliver available resources so that they can continue their important work.

In recent years the state has provided rate increases that generally range from 1% to 1.5% and only rarely as much as 2%. The Governor believes that as a state we have the ability to obtain additional federal resources that will allow an increase of 4% in the next fiscal year as well as a continuation of that increase in the base of the second fiscal year of the biennium. By imposing a tax of 6% on nursing home services, the state can utilize the funds generated by that tax to increase Medicaid rates. Because nursing home Medicaid rates are reimbursed 50% under the Federal Medicaid program, over $118 million federal dollars will flow into this state as shown in the chart below.

Nursing Home Provider Tax

	FY06	FY07
Revenue:		
Provider tax (6% of gross patient care services revenue)	139,221,910	139,221,910
Federal reimbursement resulting from nursing home rate increases plus increased spend down costs	102,320,360	102,831,962
Additional revenue related to rate increases for other providers	16,298,786	16,298,786
Total Revenue	257,841,056	258,352,658
Expenditures:		
Rate Increases for Nursing Homes (Medicaid) (net 4%)	187,640,720	188,578,924
Self Pay Spend-Down (Medicaid)	17,000,000	17,085,000
Rate Increases for Other Providers (4%)		
Residential Care Homes	2,000,000	2,000,000
Home Health	7,256,000	7,256,000
Home Care Waiver	3,456,000	3,456,000
Home Care State Funded	1,728,000	1,728,000
Intermediate Care Facilities for the Mentally Retarded	2,260,000	2,260,000
Personal Care Attendants	500,000	500,000
Assisted Living Services Agencies	200,000	200,000
Private Grant-Funded Providers		
Department of Mental Retardation	17,387,756	17,387,756
Dept. of Mental Health and Addiction Services	6,370,897	6,370,897
Department of Children and Families	10,684,756	10,684,756
Children's Trust Fund	290,979	290,979
Department of Correction	1,048,258	1,048,258
Judicial Department	2,567,202	2,567,202
Subtotal, rate increases for other providers	55,749,848	55,749,848
Total Expenditures (Appropriations)	260,390,568	261,413,772
Net Cost	(2,549,512)	(3,061,114)

The additional federal dollars will be sufficient to fund a new 4% net increase in Medicaid rates not only to every nursing home in the state but also to those many other caregivers in the state who provide services to the mentally retarded, abused and neglected children, and homebound elderly. These rate increases will assist our partners in efforts to stabilize their workforce, meet rising expenses and continue to provide their valuable services.

It also will provide an increase in rates for these caregivers and nursing homes that is several times the increases that they have received in recent years as indicated in the chart below.

Since it is compliant with existing Medicaid regulations and will likely require only a Medicaid state plan amendment, the Governor's proposal (unlike others pending before the legislature) would not require a federal waiver but could be instituted immediately. This is a critically important component because the window to take advantage of this federal opportunity may be closing shortly.

Enhanced Provider Rates

	FY 02	FY 03	FY 04	FY 05	FY 06
Nursing Homes	2.5%	2% eff. 1/1/03	2% eff. 1/1/04	1% eff. 1/1/05	4.0%
Intermediate Care Facilities for the Mentally Retarded	2.5%	0.0%	2% eff. 1/1/04	5.0%	4.0%
Assisted Living Services Agencies	2.7%	0.0%	2.0%	0.0%	4.0%
Personal Care Attendants	2.7%	0.0%	2.0%	0.0%	4.0%
Home Health Agencies	2.7%	0.0%	2.0%	0.0%	4.0%
Private Grant-Funded Providers	3.5%	1.5% eff. 11/1/02	0.0%	1.5% eff. 10/1/04	4.0%

Finally, and most importantly, the Governor's proposal respects Article III, Section 18 of the Constitution of the State of Connecticut, known generally as the constitutional cap on spending. Because the opportunity to take advantage of this $118 million of federal funds may end soon, the Governor considers this an opportunity to constitute extraordinary circumstance within the context of Article III, Section 18. Accordingly, within-and only within-the context of a responsible budget agreement, the Governor would be willing at the appropriate time to issue the requisite declaration and with a 3/5ths vote of both houses of the General Assembly to allow an expenditure in excess of that otherwise allowed, pursuant to the proposal increase.

The Governor, however, is not supportive of other proposals which would seek to circumvent Article III, Section 18 rather than confront the issue directly. Creating large pools of funds by diverting substantial state tax dollars to be utilized in a manner outside the province of the constitutional cap would be a dangerous precedent that would soon rob the voters of the protection against runaway state spending that they, in their wisdom, required and which we are all sworn to uphold. Indeed, such a precedent could begin an unending procession of special interest groups seeking dispensation from the cap – a cap passed by voters by a 4 to 1 margin.

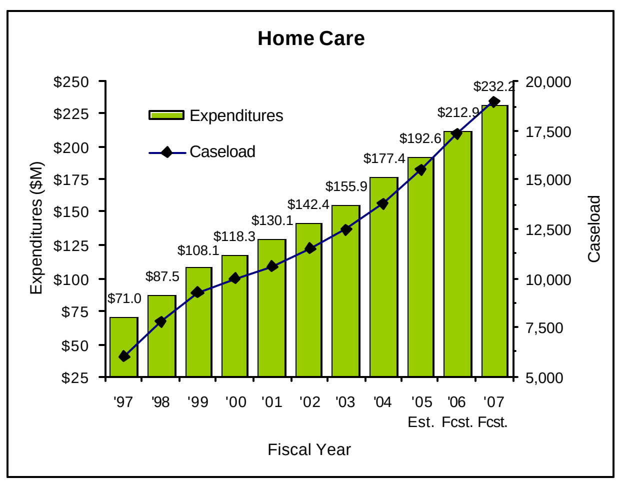
Providing Real Choices for Long-Term Care

Over the last ten years, Connecticut has significantly improved its long-term care system. By developing and expanding options for home and community-based long-term care, real choices are available to individuals and families, allowing them to remain in their communities for as long as possible. Governor Rell's biennial budget continues to build upon this commitment.

Expanding home care eligibility

The Connecticut Home Care (CHC) Program for Elders provides to those seniors 65 years and older who are at risk of nursing home institutionalization the necessary services to keep them at home and in the community. An array of services, ranging from medical to support services, is available to assist elders in the community.

In 1997, Connecticut instituted a no waiting list policy on both the state-funded and federal Medicaid waiver portions of the CHC. This commitment to home care options and the development of assisted living initiatives outlined below, have resulted in a tremendous increase in the number of individuals receiving home care and assisted living under the CHC. Due to Connecticut's strong support for home care options, enrollment in the CHC program has more than doubled, increasing from 6,024 in December 1994 to 14,800 as of December 2004.

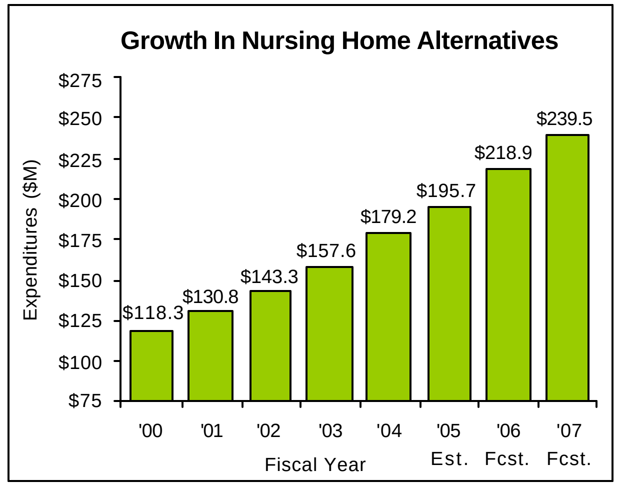


In addition, in 2000, Connecticut instituted a "medically needy" component to the state-funded portion of the CHC, allowing individuals to "buy-in" to the program and avoid unnecessary entrance into a nursing home. Prior to 2000, an individual who was as little as one dollar over the required income levels would be denied access to home care services though the same individual would be eligible for nursing home care through Medicaid. In order to implement a similar change to the Medicaid waiver portion of the CHC, federal approval is necessary. Several years ago, Connecticut requested federal approval but it has not been forthcoming to date. Governor Rell will continue to attempt to secure federal approval for this important component of the CHC.

Approximately $2.0 million is included for FY 2005-06 and $2.2 million for FY 2006-07 to maintain this initiative of the CHC program that provides Connecticut's elders with choices as to where they receive their long-term care. And for many, it will potentially delay or eliminate the need for costly nursing home care.

All told, the Governor's budget calls for spending approximately $218.9 million for alternatives to nursing homes in FY 2005-06 and $239.5 million in FY 2006-07.

Expanding assisted living options



Over the last few years, one of Connecticut's most important long-term care initiatives was the expansion of assisted living services in new subsidized assisted living communities, state-funded congregate housing, and federally financed HUD complexes. In addition, in August 2002, the General Assembly authorized the implementation of two new assisted living pilots aimed at helping individuals who reside in private pay assisted living facilities. These alternative housing and living arrangements provide alternatives to nursing homes that keep seniors in their communities in a manner that provides both dignity and high quality of life. They are creative and vital components of our service delivery system for the elderly and disabled. The Governor's biennial budget continues funding for these important alternatives for long term care.

Preserving the Safety Net While Controlling Costs

The Governor's budget preserves Connecticut's safety net for those most in need, while recommending a number of difficult, but necessary, reforms to control expenditure growth. Despite the major restructurings and reforms of human services implemented in the past, demographic trends, health care inflation and increasing caseloads continue to make it difficult for the state to maintain a relatively rich benefit and expensive human service system.

We need to develop creative programs and sensible restrictions if we are to continue to serve the maximum number of people. According to the federal Centers for Medicare and Medicaid Services, overall health care spending increased 8.5% in 2001 and 9.3% in 2002, while Medicaid growth was even higher: 10.2% in 2001 and 11.7% in 2002. Increases in pharmaceutical spending and inpatient and outpatient hospital costs have been major cost drivers. A Kaiser Commission on Medicaid and the Uninsured survey estimated that state spending on Medicaid grew 9.5% in FY 2003-04 and 5.5% in FY 2004-05, with that spending continuing to grow faster than state revenues. The Rockefeller Institute of Government estimates that state tax revenues, adjusted for inflation and legislative changes, declined from 1998 through 2003, until beginning to turn up again in 2004.

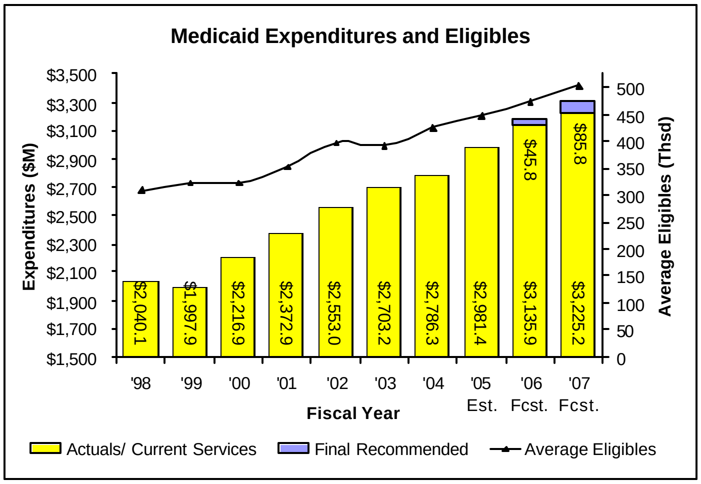
In addition to spending, Medicaid enrollment also saw significant increases nationally. Enrollment grew 8.3% in FY 2000-01, 9.8% in 2001-02, 5.9% in 2002-03, and 5.2% in 2003-04, and is expected to grow by 4.7% in FY 2004-05. The economic downturn increased the number of low-income families as well as the number of uninsured, resulting in an increase in families and children on Medicaid. However, enrollment among seniors and people with disabilities whose health care needs are greater and substantially more costly than low-income families also experienced growth. The elderly and disabled populations account for more than 70% of Medicaid's program costs while making up only about 25% of the enrollees. Families and children make up the balance of enrollees and account for the remaining spending. The combination of the demographic trends that reflect the aging of the nation and state tax revenues that have not kept pace with health care growth has forced many states to implement cost control measures, especially in state Medicaid programs.

While policy decisions enacted in Connecticut over the last several legislative sessions have resulted in reductions to the Medicaid and other human services programs, those reductions have been far less severe than in other states. Nevertheless, changes in Connecticut were very controversial and painful, including the introduction of co-pays and premiums and the reduction in benefits, service levels, and eligibility. These changes were and continue to be essential if the state is to continue to provide quality services to the most needy.

The demands of a balanced budget mean that even the programs that serve those in greatest need must share the burden as expenditures in many areas are reduced. The Governor's budget proposes a number of reductions which, while modest in comparison to those made in previous years, are nonetheless difficult. At the same time, the Governor's Budget contains a number of significant improvements and expansions, especially in the areas of nursing home rate increases, supportive housing, funding to address services for abused and neglected children, and reducing the waiting list and serving those citizens with mental retardation.

Significant Changes to the Department of Social Services Budget

In an effort to control costs, the Governor's budget eliminates or reduces support in several program areas. Disproportionate share payments to hospitals will be reduced in FY 2006-07 by a total of $15 million. The budget also eliminates the one-of-a-kind subsidy provided to the Connecticut Children's Medical Center in FY 2006-07. The medical center will continue to receive the maximum Medicaid rate as allowed under federal rules. A number of program changes are proposed for non-citizens. Effective July 1, 2005, the state-funded Temporary Family Assistance and Medicaid programs for non-citizens will be eliminated; and while the state-funded food stamp program will not be eliminated, program benefits will be frozen at FY 2004-05 levels and the program will be closed to intake. These changes to programs for



non-citizens will result in savings of $7.3 million in FY 2005-06 and $7.9 million in FY 2006-07.

As health care costs continue to consume a greater percentage of the state budget each year and with Medicaid costs continuing to escalate, the budget attempts to control rising health care costs in order to sustain the most critical components of the social safety net. To that end, the budget proposes some reductions in Medicaid benefits as well as service limitations. Included in these reforms are proposals to: (1) restructure the Department of Social Services' prior authorization requirements for skilled nursing and home health aides to assure medical necessity for a savings of $1.3 million in FY 2005-06 and $2.6 million in FY 2006-07; (2) require DSS to develop review procedures for behavioral health services requiring meaningful treatment plans for a savings of $1.9 million in FY 2005-06 and $8.5 million in FY 2006-07; (3) establish medical criteria for admissions to and continued stays at Chronic Disease Hospitals saving $403,000 in FY 2005-06 and $806,000 in FY 2006-07: and (4) require prior authorization for non-hospital inpatient detoxification in order to assure stays are reasonable and managed appropriately saving $130,000 in FY 2005-06 and $260,000 in FY 2006-07.

Recognizing that the vast majority of the state Medicaid program is mandated under federal requirements, federal law does allow for nominal co-payments. Certain assistance categories, however, are exempt from co-payment requirements: children under age 21, women who are pregnant, persons living in a nursing facility, family planning drugs or supplies, certain nutritional supplements, and individuals enrolled in managed care organizations. As a way to further deal with rising medical costs, the budget includes the imposition of co-payments, to the extent permitted by federal law, on doctor, outpatient and pharmacy visits. The budget assumes savings of $7.8 million in FY 2005-06 and $8.3 million in FY 2006-07.

Similar to the Medicaid program, the federal government mandates a certain level of services under the Title XXI or HUSKY B component, a non-Medicaid program providing health care to children in households with income between 185% and 300% of the federal poverty level (FPL). As of January 2005, the HUSKY B program provided health insurance to over 14,500 children at an estimated cost of $28.9 million. The Governor is proposing to increase premiums for participants in the HUSKY B program. If a family's income is between 185% and 235% of the FPL (income band 1), a monthly premium of $30 per child will be required up to a family maximum of $50 per month per household. Families with income between 236% and 300% of the FPL (income band 2) will pay a monthly premium of $50 per child up to a family maximum of $75 per month. Currently, income band 1 pays no premium and income band 2 pays a monthly premium of $30 per child up to a family maximum of $50 per month per household. The budget assumes savings of $2.2 million in FY 2005-06 and $4.8 million in FY 2006-07.

To assure the viability of health plans participating in managed care, the Governor proposes a 2% rate increase effective July 1, 2005 for managed care organizations participating in HUSKY A. Approximately $14.5 million has been budgeted for this rate increase in FY 2005-06.

Realizing that many of Connecticut's acute care hospitals are depending upon the financial relief that was approved last session, the inpatient rate increase scheduled for April 1, 2005 will move forward at a cost of over $3.0 million in FY 2005-06. While the Governor remains committed to increasing the hospitals' cost per discharge by increasing the floor over the next three years, the budget proposes a reasonable six month delay in future increases scheduled during the biennium, with the April 1, 2006 increase delayed until October 1, 2006, and the April 1, 2007 increase delayed until October 1, 2007.

Reforming and restructuring health insurance for low-income workers

The Governor is proposing reforms in three areas affecting low-income workers. The first proposal is a restructuring of Transitional Medicaid. Currently, when a HUSKY family becomes ineligible due to earned income, they are provided with an automatic extension of Medicaid coverage for 24 months. The 24 month extension is composed of two twelve-month parts. The first twelve months is a mandatory extension required by federal law, while the second twelve months is an optional extension provided under Connecticut's Medicaid state plan. Under federal law, states must provide transitional medical coverage for up to twelve months to anyone transitioning off state cash assistance when increased earnings make the client ineligible for cash assistance. In Connecticut, however, families that become income ineligible due to increased earnings have been automatically provided with an additional twelve month extension of Medicaid coverage for a total coverage period of twenty-four months. This additional coverage was adopted as part of Connecticut's original welfare reform program.

Rising health care costs and the state's financial situation have combined to make Connecticut's additional 12 months of optional coverage unaffordable. Accordingly, the budget reflects a reduction in transitional Medicaid coverage for families who become ineligible due to earnings from 24 months to 12 months, the extension required by federal law. Since this proposal does not affect client eligibility for the first year of the biennium, no savings are reflected in FY 2005-06. However, savings of $13.4 million are projected in FY 2006-07 as clients reach the 12 month coverage limit.

The second reform seeks to extend coverage to low-income working families. Under the Governor's proposal, the Department of Social Services expects to expand the Medicaid program to make employer-sponsored health insurance accessible to low-income workers. A pilot subsidy program will be established for working families who are currently not income eligible for Medicaid and who cannot afford premiums for the health insurance coverage offered to them by their employers. The pilot program would require a modest General Fund expansion to allow DSS to offer health insurance premium assistance for low-income workers.

This proposal requires approval by the federal Centers for Medicare and Medicaid Services of a Medicaid waiver allowing DSS and the Office of Health Care Access (OHCA) to start the process of establishing a pilot health insurance premium subsidy program. The waiver model would establish a capped non-entitlement program for up to 3,000 enrollees. Federal reimbursement for such an initiative could be as high as 65%. While the precise nature of the pilot is subject to federal review and approval, the Governor nonetheless believes it is important to budget for this program, which is expected to result in new costs of $3.6 million in both years of the biennium.

As a third reform affecting low-income workers, the Governor proposes implementing a premium assistance strategy for HUSKY A families, which will allow Connecticut to utilize public Medicaid funds to help families purchase health insurance from their employers. Currently, there are a substantial number of state assisted clients receiving full HUSKY A benefits who are employed but who fail to participate in their employer sponsored health plans due to high co-pays, premiums or other cost sharing requirements. Under this initiative, DSS will develop a "wrap-around" program that will coordinate coverage between the Medicaid program and private insurance plans, assuring no loss of benefits and no change in coverage. A premium assistance program would reduce Medicaid expenditures by ensuring employers contribute to health care coverage for the HUSKY A population, thus extending the efficiency and effectiveness of the state's precious health care dollars.

Under federal rules, states may establish and modify a premium assistance program under Section 1906 of the Social Security Act by amending the existing Medicaid state plan. While no waivers are currently anticipated, federal rules require that states must ensure that Medicaid clients who participate in a premium assistance program receive the same benefits as other Medicaid clients.

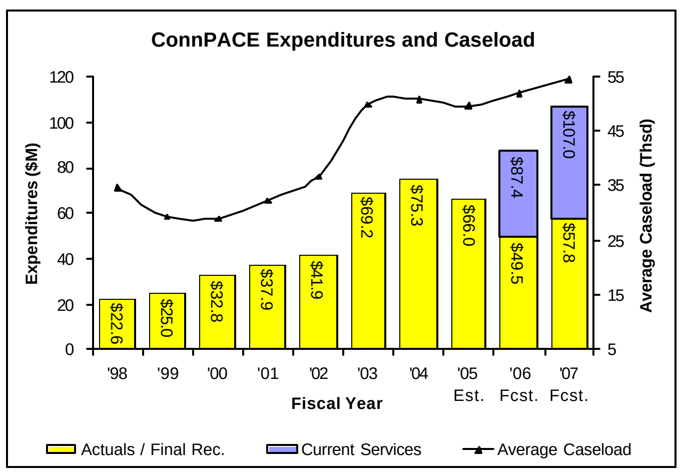
Due to the complexity of this initiative, implementation will likely occur in FY 2006-07 with client enrollment staggered throughout the year. The budget assumes FY 2006-07 savings of $5.0 million, with costs for administrative efforts needed to implement the program of approximately $500,000 beginning in FY 2005-06.

Medicare Part D Prescription Drug Benefit

In December 2003, President Bush signed into law the Medicare Prescription Drug Improvement and Modernization Act of 2003 (Public Law 108-173), providing prescription drug coverage to all seniors and individuals with disabilities eligible for benefits under the Medicare program. For calendar years 2004 and 2005, the law provides for a $600 per year subsidy for prescription drug costs for the state's poorest elderly. To ensure that the state maximizes the federal benefits and funding available as a result of the Medicare changes, state legislation was adopted requiring, as a condition of eligibility, that ConnPACE clients with annual income at or below 135% of the federal poverty level (FPL), who are Medicare Part A or Part B eligible, obtain a Medicare-approved drug discount card. ConnPACE participants at or below 135% FPL are required to exhaust their $600 per calendar year subsidy before ConnPACE will assist with the purchase of their prescriptions. Under the legislation that was adopted, ConnPACE participants pay no more than the current $16.25 co-pay and in certain situations may pay a lower amount.

The Medicare drug discount card program is an interim step toward a more comprehensive drug benefit. A new Medicare prescription drug program, Medicare Part D, is slated to begin providing benefits in January 2006. These benefits will be available through prescription drug plans or through integrated health plans that provide prescription drug coverage in addition to other Medicare covered services. Beneficiaries must bear certain costs, including premiums, deductibles, and co-pays, although there are significant exceptions made for low-income and institutionalized individuals. Except for those with low income, beneficiaries with total drug costs exceeding the initial benefit limit of $2,250 annually are responsible for covering any additional drug costs until their out-of-pocket expenditures reach $3,600, at which point catastrophic coverage under Medicare Part D becomes effective with only nominal cost-sharing. (The gap in coverage between $2,250 and $5,100 is often referred to as the "donut hole".)

ConnPACE: To ensure that ConnPACE enrollees are not negatively impacted by Part D, Governor Rell is proposing that ConnPACE wrap around the Part D benefit, and that no ConnPACE recipient pay more for medications than the current $16.25 co-pay and $30 annual registration fee. (For less expensive drugs, an enrollee may actually pay less than the traditional ConnPACE co-pay.) To successfully wrap around coverage and to ensure that the use of federal dollars is maximized, enrollment in a Medicare Part D plan must be a condition of ConnPACE eligibility, similar to what was done in ConnPACE with respect to the Medicare drug discount card. Because the Part D benefit varies based on income and asset levels, ConnPACE enrollees will be required to provide asset information as a condition of eligibility. This will ensure that those eligible for the federal subsidy are enrolled in Part D. We are *not* implementing an asset test under ConnPACE. The information is needed for the state to maximize the use of federal dollars.



Medicaid: An estimated 61,900 low-income persons are considered "full benefit dual eligibles" in that they are eligible for full benefits under Medicaid and they also qualify for Medicare. To ensure no break in coverage, full benefit dual eligibles will be required to enroll in Medicare Part D by January 1, 2006, and will receive Part D-covered drugs through Medicare. Medicaid will continue to cover drugs not covered by Part D, such as certain over-the-counter drugs.

In order to finance the new Part D prescription benefit, Public Law 108-173 calls for a “phased down state contribution” (often referred to as the “clawback”). The clawback is the state’s monthly payment to the federal government to defray a portion of the Medicare drug expenditures for full benefit dual eligibles whose Medicaid drug coverage is assumed by Medicare Part D. The clawback amount is a percentage (90% in 2006, declining by 1.67% per year until it reaches 75% in 2015) of the state’s share of Medicaid prescription costs for covered Part D drugs for beneficiaries who are full-benefit dual eligibles. Essentially, the federal clawback formula requires states to pay the federal government, on a monthly basis, an amount based on the number of beneficiaries participating in Medicare Part D multiplied by the state portion of calendar year 2003 per capita cost (baseline) trended forward by the growth in per capita drug spending nationally. In Connecticut, the clawback amount is projected at $49.6 million in FY 2005-06 and $109.2 million in FY 2006-07.

State Retirees and Teachers: A key policy objective of the Medicare Part D prescription drug benefit is to maximize the number of retirees currently receiving employer-based drug coverage. To achieve this objective, the program offers a subsidy to employers providing prescription drug coverage to its retired employees who are eligible for the Medicare Part D drug benefit but who do not enroll in the program. Employers are eligible to receive the subsidy by providing drug coverage that is at least actuarially equivalent to the standard Medicare Part D coverage. The state, as an employer, currently provides prescription drug coverage to state retirees that exceeds the coverage proposed under Medicare Part D. The state, therefore, has the opportunity to receive the employer subsidy without changing its current prescription drug coverage. The subsidy is 28% of the allowable costs for each qualifying retiree enrolled in the state’s health plan and is expected to total $28.6 million in FY 2006-07. The Teachers’ Retirement Board also provides prescription drug coverage, but at this time it is unclear whether this coverage would be actuarially equivalent to the coverage proposed under Medicare Part D. The Board is expected to investigate whether its coverage is actuarially equivalent. If it is deemed equivalent, the Teachers’ Retirement Board will also have the opportunity to apply for the 28% employer subsidy without changing its current prescription drug coverage.

Pharmacy Initiatives

With growth in prescription costs continuing to far exceed the rate of inflation, the Governor’s budget includes a number of initiatives designed to ratchet down the rate of growth in the Department of Social Services pharmacy programs:

- Reduce the reimbursement level to pharmacy providers from the average wholesale price (AWP) minus 12% to AWP minus 15%. Based on surveys in a number of states, the Office of Inspector General for the federal Department of Health and Human Services reported that pharmacies tend to purchase their brand name drugs for AWP minus 22%.

- Expand the number of generic drugs subject to the maximum allowable cost (MAC) reimbursement schedule by reducing the required number of suppliers from three to two and by adding non-oral dosage forms, such as eye drops, inhalers and topical lotions.

- Reduce reimbursement for over-the-counter drugs, diabetic supplies and certain nutritional supplements to equal the average wholesale price.

Estimated Pharmacy Costs
(in millions)

	Actual FY 04	Est. FY 05	Fcst. FY 06	Fcst. FY 07
Dept of Social Services *	$523.4	$562.0	$563.2	$551.7
Dept of Mental Retardation	0.5	0.5	0.5	0.5
Dept of Mental Health and Addiction Services	8.5	8.5	8.5	8.5
Dept of Correction	14.0	14.7	15.3	16.1
Dept of Children and Families	0.8	0.8	0.8	0.8
Workers' Compensation	1.9	2.1	2.3	2.6
State Employees	112.1	120.7	139.1	158.4
Teachers' Retirement	14.2	16.3	19.0	22.3
Grand Total	$675.3	$725.6	$748.7	$760.9

** Includes Medicare Part D clawback payments.*

- Reduce the dispensing fee paid to pharmacy providers for each prescription filled from $3.15 to

$3.00. Dispensing fees paid by commercial health insurers are often well below $3.00, with "highly competitive" fees ranging from $1.25 to $1.95, "competitive fees" in the $1.80 to $2.00 range, and fees from $2.20 to $2.75 considered "below competitive".

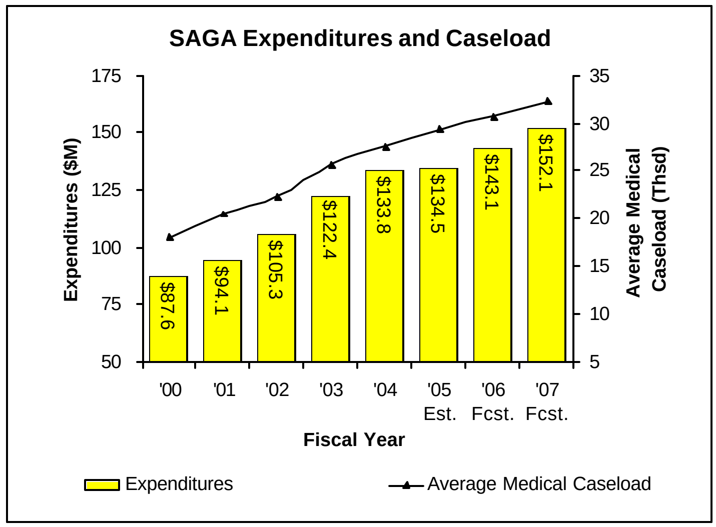
- Maximize pharmacy rebates by modifying certain billing requirements for injectable drugs administered in a physician's office.

In total, these initiatives will result in savings of $15.7 million in FY 2005-06 and $11.3 million in FY 2006-07. These savings are adjusted in FY 2006-07 due to the implementation of Medicare Part D, which will result in reduced volume. Ironically, Connecticut currently pays more for a prescription medication on behalf of its Medicaid clients than most for-profit commercial health insurance plans pay.

Other areas of growth in the Department of Social Services

A number of increases are built into current services, including items that might otherwise have been level funded or reduced:

- Providing additional funding for the Connecticut AIDS Drug Assistance Program (CADAP) to meet anticipated demand in FY 2005-06 and FY 2006-07
- Increasing funding for the two fixed grants under SAGA – Hospitals and Primary Care – by 5% to reflect caseload growth
- Increasing the base for the Security Deposit Program in FY 2004-05 and maintaining this higher level of expenditures in FY 2005-06 and FY 2006-07.



Increasing Child Care Assistance

"Care 4 Kids," the child care assistance program administered by the Department of Social Services, provides child care assistance payments to various categories of families. These families are categorized into priority groups. One of these priority groups, Priority Group 4, includes families who are employed and who do not receive cash assistance through Temporary Family Assistance (TFA). These non-TFA working families must, at the time of application for child care assistance, have incomes less than 50% of the state median income.

Though intake for Priority Group 4 (PG-4), formerly known as the Child Care Certificate program, had been closed for some time, DSS has maintained a waiting list of families who have sought assistance. If the program were to remain closed, current attrition rates would further decrease program participation. In FY 2002-03, the attrition rate for Priority Group 4 families averaged approximately 300 cases per month, and from June 2003 to December 2003, the attrition rate was approximately 250 cases per month.

In FY 2004-05, pursuant to Public Act 04-258, intake to the PG-4 portion of the child care subsidy program was re-opened due to the additional funds that were provided in FY 2004-05, including $4 million in TANF High Performance Bonus funds. It is currently anticipated that the additional TANF High Performance Bonus funds will not be needed in FY 2004-05 because General Fund budgeted resources are anticipated to be more than sufficient to meet program needs. As a result, the Governor is proposing that the $4 million in TANF High Performance Bonus funds be carried forward for use in the biennium so that intake to the PG-4 portion of the child care subsidy program can remain open. Approximately $1.3

million of the TANF High Performance Bonus funds in FY 2005-06 and $2.7 million in FY 2006-07 will be used to maintain intake to the PG-4 portion of the program.

Meeting the Needs of DMR Clients

Despite the difficult financial situation facing the state in the upcoming biennium, the Governor's budget recommends substantial funding for continuing the multi-year commitment to meet the needs of hundreds of families and clients waiting for services from the Department of Mental Retardation.

Continuation of the Wait List Initiative

In FY 2004-05, $4.6 million was appropriated to DMR to begin the multi-year commitment of addressing the needs of those individuals who are on the wait list. These funds allowed 150 people on the wait list to be served. The Governor's budget annualizes the funding to serve these clients and adds new funds each year to serve new families.

	FY '06	FY '07
Additional cost of annualizing '05 wait list initiatives for 150 people	$3.7 million	$3.9 million
Funding for another 150 new cases to be served in '06	$4.4 million	$8.3 million
Cost of service for new 150 persons in '07		$4.4 million
Total	$8.1 million	$16.6 million

The result is that 450 people will be taken off of the wait list in FY 2004-05 through FY 2006-07. If the legislature continues this level of commitment, it is estimated that the waiting list could be eliminated by 2010.

Providing Resources for High School Graduates and Ageouts

Persons with mental retardation living at home are eligible to participate in their local public school program until they graduate or turn age 21. Their participation in these day activities not only contributes to their educational experience but also allows their parent or caregiver to maintain employment to support the family. Funding for children with mental retardation who require special day and/or residential programs is provided by the local education agency (LEA) and the Department of Children and Families (DCF).

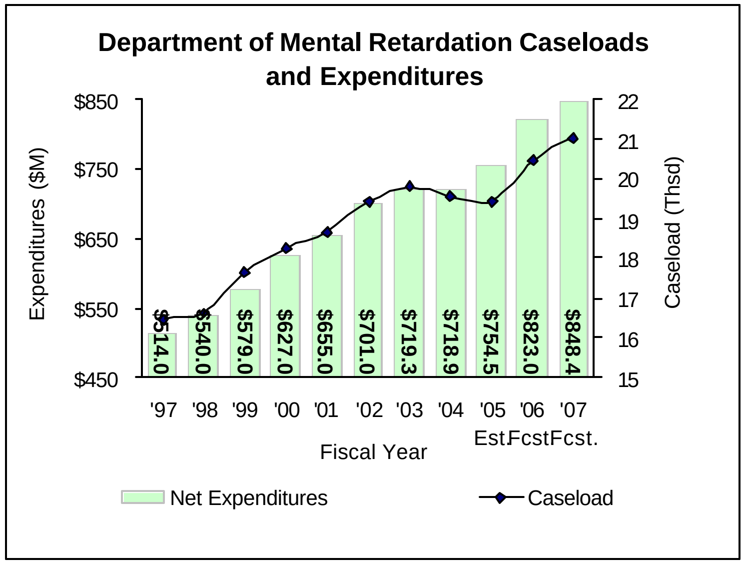
When these clients reach a certain age, usually 21, and "age out" of those particular systems, appropriate funding must be provided to DMR to continue day and/or residential programming. In the past, the Department of Mental Retardation received an adjustment to its appropriations for these important services to high school graduates and those aging out of the care of LEAs and DCF. The Governor proposes adding $4.2 million in FY 2005-06 and $4.8 million in FY 2006-07 so that services can be delivered to up to 244 individuals in FY 2005-06 and an additional 229 in FY 2006-07 who are graduating from high school programs. In addition, the Governor proposes adding $1.6 million for services to up to 68 individuals in FY 2005-06 and an additional $1.9 million to serve 52 more individuals in FY 2006-07 who are mentally retarded and "aging-out" of the Department of Children and Families' service system.

Providing More Appropriate Services

The Department of Children and Families administers a voluntary services program for children at risk of formal commitment to DCF. Because many of the children served by DCF in this program are mentally retarded, DMR and DCF agree that approximately 125 of those children may be served more appropriately by DMR's provider network. The Governor therefore proposes that funds currently budgeted under DCF be reallocated to reflect the transfer of responsibility to DMR for direct service to this population. In FY 2005-06, $11.8 million will be transferred from DCF to DMR, and $13.1 million will be transferred in FY 2006-07. In addition to the reallocation, DMR has identified a funding requirement for additional services for these 125 children as they may be currently un-served or under-served. As a result, the Governor proposes $1.6 million in FY 2005-06 and $2.2 million in FY 2006-07 to ensure that identified service needs are met.

Addressing Case Management Caseloads

In an effort to address case management caseloads, the Governor provides funding for the Department to hire an additional 20 staff. Through the addition of these case managers, the Department will be able to reduce staff to client ratios, as well as generate additional revenue through the Medicaid Targeted Case Management initiative. While salaries and fringe benefits for the staff will cost approximately $1.5 million, it is anticipated that approximately $2.7 million in additional revenue will be generated in FY 2005-06 through this effort.



Capital Investments

The Governor is also recommending funding of $2 million in each year of the biennium for grants to non-residential providers for alterations and improvements to facilities. This is the first recognition by the state of the important role that the private sector plays in providing services to our most needy citizens.

Investing in Behavioral Health

For the past several years, the administration and legislature have opened up an important dialogue to address the continuing behavioral health crisis. For too long, Connecticut has focused its resources on high-end acute care behavioral health services instead of more cost-effective, community-based prevention approaches that can stop individuals from lapsing into multiple acute episodes, services that can get them on the road to a productive life. By reforming the way we approach behavioral health services, the state can address a myriad of problems facing us today, including an over-reliance on prison cells and high recidivism rates, high child abuse and neglect rates, chronic homelessness, and spiraling health costs for many residents.

Governor Rell shows her strong support by addressing these issues in her biennial budget proposal. While reforming the system will take time, resources dedicated to these areas are an important step toward reform. Among the most important is building upon the State of Connecticut's innovative approaches to supportive housing.

Supportive Housing "Next Steps" Initiative

Over the past ten years, Connecticut has been a leader in pioneering the use of supportive housing as a cost-effective solution to chronic homelessness. Supportive housing combines affordable rental housing with individualized health, support and employment services. In total, the state has established over 1,000 units as a result of these initiatives.

The supportive housing model has been successful in creating stability for vulnerable populations, decreasing their use of acute and expensive health and mental health services, and setting them on the road to a productive life. Formerly homeless tenants of supportive housing in Connecticut reduced their use of Medicaid-reimbursed inpatient medical care by 71% after moving into supportive housing units.

The Interagency Council on Supportive Housing and Homelessness has recommended the creation of an additional 1,000 units over the next several years. For the FY 2005-07 biennium, Governor Rell's proposal would fund 500 of these units, with the remaining 500 units anticipated to be available in the following three years. Over the biennium, 350 of the 500 units will be created through property development and the remaining 150 units will use existing, privately owned apartments. The state will provide funding for nonprofit providers to provide tenant support services to residents of these units.

Of the 500 new units over the biennium, 175 are targeted for families with multiple barriers to housing and employment stability, 300 for single adults in recovery from serious mental illness and/or substance abuse who are repeatedly or persistently homeless, and 25 for young adults age 18-23 who are homeless or transitioning from child welfare and are at risk of homelessness.

Governor Rell's plan proposes an innovative approach to financing the development costs of the housing. Under the plan, CHFA would issue tax-exempt, 501(c)(3) bonds to finance the projects and the debt service on these bonds would be covered by the state. Using 20-year bonds, with payments of debt service with level principal, the annualized cost to the state will be $12.4 million for the 1,000 units.

This initiative:

- Builds on Connecticut's successful track record in supportive housing production.
- Extends the best practices of supportive housing to families and young adults.
- Targets people who frequently use crisis and emergency services with a more stable, cost-effective option.
- Utilizes an established, effective process of state interagency collaboration.
- Partners with seasoned, community-based nonprofits to create and operate the housing.
- Maximizes the use of federal mainstream resources for support services funding, and uses these resources and state funds to leverage federal, private, and corporate investment for rent subsidies,

predevelopment financing, and capital.

This initiative is budgeted at $1.6 million in FY 2005-06 and $6 million in FY 2006-07. The annualized cost of the initiative once the 1,000 new units are fully implemented by FY 2009-10 will be $24 million per year.

Implementing KidCare

Continuing efforts initiated several years ago, the Department of Children and Families and the Department of Social Services are moving forward with the KidCare initiative. This program is designed to coordinate the clinical management and administration of behavioral health services for adults and children covered under the HUSKY A and HUSKY B programs and the DCF Voluntary Services Program.

Governor Rell's biennial budget for the Department of Social Services reflects the impact of carving behavioral health services out from the HUSKY managed care organizations into a fee-for-service arrangement managed by an administrative services organization (ASO). KidCare's promise is to provide more community-based mental health services to children with behavioral issues. This carve-out is expected to be fully operational by July 2005. In addition to resources for behavioral health services that are expected to be removed from the HUSKY managed care capitation rates and made available to pay for services under the new fee-for-service arrangement, the budget includes $9.8 million in new resources for FY 2005-06. These new funds will provide for an expected increase in service utilization resulting from the shift from a managed care to a fee-for-service environment, as well as to ensure that the full range of services anticipated under the ASO contract can be delivered. It is important to note that the ASO will be under a flat-fee management contract to provide clinical management reviews—using state-approved criteria—and to provide certain administrative functions, while the state will set provider rates, enter into contracts with the provider network, and pay providers for services rendered.

Other adult mental health initiatives

Governor Rell's biennial budget proposal provides funding to continue many important behavioral health services. This initiative adds General Fund dollars for many new programs that aid in the discharge of individuals from inpatient care, where appropriate, by providing intensive supports for those at risk of admission/re-admission. These initiatives are consistent with the philosophies and recommendations of the Governor's Blue Ribbon Commission on Mental Health, the Mental Health Policy Council, the Community Mental Health Strategy Board and the Mental Health Cabinet.

The Governor's recommended budget annualizes $6.7 million in recognized FY 2004-05 deficiencies by providing, among other things, an additional $1.6 million for behavioral health medications and $2.3 million to allow the Department of Mental Health and Addiction Services to maintain adequate nursing coverage while it recruits for permanent full-time employees.

About $1.9 million in FY 2005-06 and $4.1 million in FY 2006-07 is included to support anticipated caseload growth of 5% each year of the biennium in the General Assistance Behavioral Health Managed Care program. The budget also increases the authorized position count by 120 positions to provide relief for chronic staffing shortages. This will allow the agency to reduce over-reliance on part-time, overtime and durational staffing by filling more permanent full-time positions.

The Governor's recommended budget also includes an additional $3.1 million (added to the $2.5 million already in the DMHAS budget in the current fiscal year) to continue ongoing "Second Initiatives" programs begun at the recommendation of the Community Mental Health Strategy Board. These programs include funding for Assertive Community Treatment (ACT) teams, which provide intensive case management services to clients at risk of inpatient admission; mobile crisis and respite programs, which evaluate individuals who require some level of intervention and avert inpatient stays; programs that provide step down from inpatient stays; and programs that provide intensive community services tied to housing for high risk discharges.

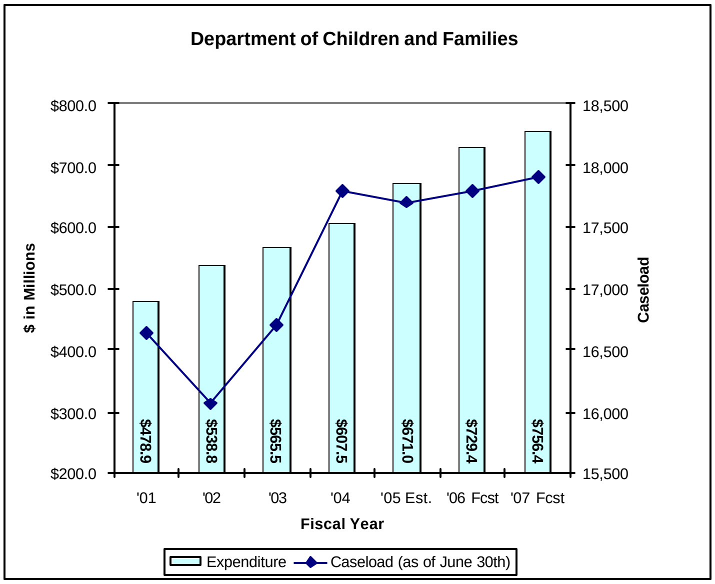
The Governor also provides $1.2 million in FY 2005-06 and $1.3 million in FY 2006-07 to create a discharge fund. These dollars will follow about 25 difficult-to-discharge acute clients to fund community support services upon discharge. About $500,000 is being recommended to support contracting with two additional general hospitals for acute care services bringing the total number of contracting hospitals to nine. About $217,500 is being recommended to develop an interactive, comprehensive web based inventory of services that will assist individuals with locating services.

About $6.4 million is being recommended in each year to support a private provider cost of living adjustment of 4% in FY 2005-06. This increase will result from the proposed nursing home provider tax.

Department of Children and Families

Since 1991, the state Department of Children and Families (DCF) has been operating under the provisions of a federal court-ordered consent decree in the *Juan F.* case. During that time, the department has made significant improvements in its child protection services. To achieve these improvements, the state has committed significant resources. The department's budget has grown over two and one half times in the past ten years from $256 million in FY 1994-95 to an estimated $671 million in FY 2004-05, and has more than quadrupled since the consent decree was signed in 1991.

Despite the vastly increased funding and considerable improvements in service delivery, the department has not been able to meet the demands of the court order. In October 2003, the State entered into an agreement with the federal court and lawyers representing abused and neglected children to further improve services for children and their families and end the judicial oversight of the agency by November 2006. The agreement included the establishment of a Transition Task Force (TTF) consisting of the DCF Commissioner, the Secretary of the Office of Policy and Management, and the federal court monitor, who would jointly assume all decision-making authority related to the *Juan F.* case and oversee the implementation of a three-year plan to end federal court oversight of the agency. Under the agreement, the federal court monitor was given authority to develop the Exit Plan.



The TTF began meeting in October 2003 and immediately initiated changes designed to further improve child protective services. New caseworkers were hired to lower caseloads and provide more individualized attention to each case. The TTF established a $1 million pool of flexible funding to enable the Department to meet individualized and emergency needs of children and their families in a timely manner. A new organizational structure that eliminates a layer of administration and places more personnel and resources in fourteen Area Offices was developed to decentralize decision-making and allow the agency to become a more responsive, neighborhood-based service provider.

The Exit Plan

The Exit Plan developed by the federal court monitor and adopted by the court in December 2003 delineates 22 performance measures. Court oversight will be ended if the state meets and sustains these measures by November 2006. The timetables and requirements of the court-ordered Exit Plan are admittedly challenging, and substantial action and significant resources are required. The administration showed its strong commitment in the FY 2004-05 adjusted budget by proposing tens of millions of dollars toward meeting the outcome goals. In a continuing attempt to succeed in meeting these performance measures, the budget dedicates significant new resources to DCF.

Current services changes

Costs of new programs started by the department during the current fiscal year have an annualized cost of $20.9 million in FY 2005-06 and $33.4 million in FY 2006-07. Governor Rell has included those dollars in her biennial budget submission, including:

1. Twenty-five durational social work positions are being funded as permanent full-time positions to meet caseload standards for social workers
2. Seven new group homes for children with complex needs are being funded as well as enhancements in clinics to expand the number of multi-dimensional evaluations to meet the time frames of the Exit Plan
3. Fully annualized family support teams to reduce residential placements by almost 200 by the end of FY 2005-06
4. An oversight monitor at the Connecticut Juvenile Training School (CJTS), who will report to the Child Advocate
5. Current service adjustments to the Board and Care accounts for adoption and foster care services to adjust for estimated caseload growth for the biennium.

New Initiatives

New initiatives planned for the biennium by Governor Rell and the TTF result in an additional $23.5 million in FY 2005-06 and an annualized cost of $30.1 million for FY 2006-07 and beyond.

Governor Rell is extremely dedicated to reducing the disincentives to adoption so as to aid children in reaching their full potential through a permanent, stable and loving family environment. The Exit Plan requires the department to make herculean improvements in both the timeliness and number of adoptions. Several initiatives are being funded to increase the number of adoptions finalized.

Enhancements include:

1. Additional support for a contractor to develop a central intake for all inquiries statewide from prospective families for foster care and adoption
2. Increased funds to initiate case management and services for families who are experiencing difficulties with an adoption
3. Development of a policy allowing the state to pay for postsecondary education for children or youth adopted after January 1, 2005
4. Increase the subsidy for new adoptions finalized after January 1, 2005 to be comparable to the foster care rate.

The Exit Plan also requires an increase in foster and adoptive services. To bolster efforts to recruit and retain foster and adoptive families, $500,000 is added to DCF's budget of which $300,000 replaces expired federal funds.

An extensive training program for all social workers will be developed to ensure policy and practice standards are incorporated into daily work practices.

Funds are recommended to expand various intensive in-home service modalities both years of the biennium, including multi-systemic therapy and multi-dimensional family therapy.

It is estimated that just over 50% (roughly 4,000) of DCF's children in custody take at least one psychotropic drug, with over 16% taking three or more. The department will develop a program for the review and approval of changes in prescriptions of psychotropic drugs for its clients.

To improve services for children preparing for adult living settings, DCF is initiating several projects. Six group homes will be developed, which will be earmarked for 30 to 36 youth with severe behavioral problems and/or mental illness. Three new Transitional Living Apartment Programs (TLAP) to serve a total of 30 youth are being funded. Clinical services at Community Housing Assistance Programs (CHAP) will be enhanced. This program is the final stage of the independent living program that provides oversight to youth in separate apartments. Also in FY 2006-07, additional funds will allow the enhancement of clinical services at 18 current group homes.

Additional funds for sexual abuse evaluation and treatment will solidify and expand current programs to conduct critical clinical evaluations and forensic interviews to evaluate the presence and effects of sexual abuse and/or severe physical abuse.

Enhancements to services for clients involved in the juvenile justice system are funded. Increased community programs are funded as well as additional psychological services at the Connecticut Juvenile Training School (CJTS). By reallocating resources at CJTS to develop a program on campus to serve high risk youth, the agency will be able to bring boys with severe service needs back to Connecticut from out-of-state placements. Savings will occur by not refilling these out-of-state placements. Savings are also anticipated by reducing staff at CJTS due to the reduced census at that facility.

Funds are recommended for the development of an automated eligibility determination capability in DCF's computerized data system (LINK) that would be compliant with federal requirements.

Capital investments

Additional capital funds are also being recommended for the Department of Children and Families. In each year of the biennium, $500,000 is being recommended for capital renovations and improvements to mental health clinics, and $2.5 million is being recommended for improvements to private non-profit residential facilities and group homes. Additionally, $5.2 million in FY 2005-06 and $2.2 million in FY 2006-07 are being recommended for additional improvements and renovations to DCF's state-run facilities.

Summary

The investments being made in the Department of Children and Families' budget are significant and demonstrate Governor Rell's commitment to improve the lives of abused and neglected children. In total, the DCF budget will increase from estimated expenditures this fiscal year of $671 million to a proposed budget of $729.4 million in FY 2005-06, an increase of almost 9% even after transfers of funding to other agencies. Governor Rell has demonstrated her commitment to deliver on the promise of exiting the consent decree by building an accountable and first-rate child welfare agency.

Public Safety

Department of Emergency Management and Homeland Security

In accordance with Public Act 04-219, the Governor's budget fully funds the Department of Emergency Management and Homeland Security (DEMHS). The establishment of this new agency creates an important opportunity to:

- Strengthen planning and coordination between emergency management and homeland security
- Improve communication and collaboration with other state, federal and local entities
- Establish a clear chain of command when responding to all disasters
- Streamline organizational structure.

Staffing for this new agency will include existing personnel from the current Office of Emergency Management and the Division of Homeland Security. It is estimated that DEMHS will be composed of approximately 80 employees funded by both state and federal dollars. In addition, PA 04-219 establishes DEMHS within OPM for administrative purposes only. Due to the need for an improved ability to manage and distribute federal grant funds, the extensive federal grant procurement responsibilities on behalf of the municipalities and the goal of improving working relationships with regional and local entities, the Governor's budget establishes an administrative division within DEMHS.

The Commissioner will serve as the chief administrative officer for the new department and will have the responsibility of providing a coordinated, integrated program for statewide emergency management and homeland security. PA 04-219, Sec 13 (c) outlines the responsibilities as follows:

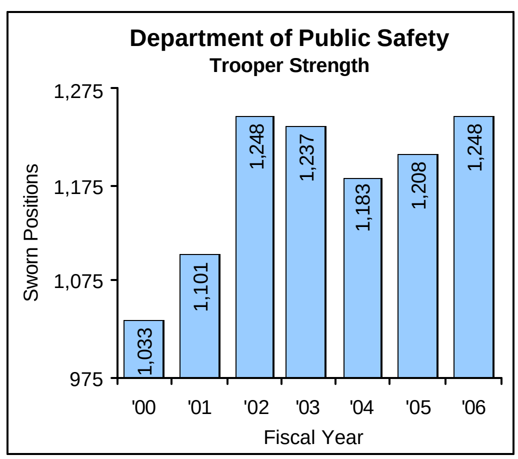
- Coordinate with state and local government personnel, agencies, authorities and the private sector to ensure adequate planning, equipment, training and exercise activities by such personnel, agencies, authorities and the private sector with regard to homeland security
- Coordinate, and as may be necessary, consolidate homeland security communications and communication systems of the state government with state and local government personnel, agencies, authorities, the general public and the private sector
- Distribute and, as may be appropriate, coordinate the distribution of information and security warnings to state and local government personnel, agencies, authorities and the general public
- Establish standards and security protocols for the use of any intelligence information.

The Governor's Biennial Budget reallocates existing operating budget resources from the respective parent agencies, Department of Public Safety and Military Department, to the new Department of Emergency Management and Homeland Security. The following should be noted:

- Position count and funding will be reallocated for all civilian positions
- Funding only will be reallocated for all sworn trooper NP-1 positions. Position count will remain within the Department of Public Safety.

State Police

Connecticut General Statues Sec. 29-4 mandated that by July 2001 the Department of Public Safety maintain a sworn trooper count of not less than 1,248 troopers, which was achieved in FY 2002. Unfortunately, due to the fiscal constraints, PA 03-6 suspended the 1,248 staffing level until January 1, 2006. The Governor's budget fully funds a new state trooper class in order



to meet that 1,248 trooper mark in 2006 for the first time in four years. These additional troopers are an essential ingredient in maintaining public safety. Additionally, given the increased pressure on our state and interstate highways the return to the 1,248 staffing level is a welcome effort in the Governor's multi-prong approach to fight traffic congestion.

Motor Vehicle Licensing Reform

Preventing the issuance of fraudulent motor vehicle licenses or state identification cards is an important component of homeland security as well as an important component in the prevention of other types of criminal behavior. Unfortunately, it has also become apparent in recent months that our present system has significant flaws that need to be corrected.

In the recommended capital budget, Governor Rell has proposed that funding of $10 million be included to upgrade the Department of Motor Vehicle's information technology systems to allow registration data to be entered as it is processed in a DMV branch office. Currently, it takes 60 or more days for a registration to be recorded in the registration system. This on-line processing will improve the accuracy of the registration data because customers will have a computer-generated document at the time of the transaction, not two years later when they must renew.

More importantly, through these upgrades, registration data will be immediately available to law enforcement agencies, DMV branches and state agencies allowing them to run image checks and searches of photo document images for security purposes.

Governor Rell has also proposed a comprehensive license-fraud prevention plan that includes the issuance of temporary licenses and identification cards while detailed background checks are completed. Under the plan, anyone seeking a driver's license or identity card for the first time will receive a temporary license or card. It will be valid for 60 days while the DMV completes a check on the applicant, including verifying the documents submitted to prove his or her identity and residence.

In addition, the plan calls for tightening the way the DMV issues permanent documents. These changes will put Connecticut at the forefront with other states in enacting tougher standards for checking and verifying an applicant's identity, a central part of obtaining a state driver's license and photo identification card.

Governor Rell supports criminal penalties (including classifying such crimes as Class D felonies) for those convicted of:

- Attempting to obtain a drivers license, state identity card, or vehicle registration through fraudulent or unlawful means
- Soliciting a DMV employee to obtain false documents
- Presenting of false documents in an attempt to obtain state issued credentials.

These are challenging times and Governor Rell has submitted serious proposals for combating these dangers.

Valuing our Environment

Governor Rell believes that the state has an obligation to preserve and enhance our environment, and that the state also has the obligation to maintain our precious state parks. In recent years, many of the state parks which are and should be enjoyed by Connecticut families have been allowed to fall into disrepair. To end this situation Governor Rell proposes:

- $25 million in bond funds over the biennium to enhance and repair facilities and grounds at our state parks
- $20 million in bond funds over the biennium to continue our commitment to preserve open space.

To further enhance our continuing efforts to maintain Long Island Sound and our lakes and rivers as clean and viable systems for animal habitats and recreational purposes, Governor Rell has included in this biennium $100 million in revenue bonds and $40 million in general obligation bonds through the Clean Water Program.

Veterans' Benefits

Though we are currently facing difficult financial times, we must stop and take the time to recognize and express our appreciation for those who have sacrificed so much to protect our country and our way of life. Governor Rell is proposing a three-part plan that will address the three groups who have acted in this capacity: those who are serving, those who made the ultimate sacrifice, and those who have served in the past.

Our country has called upon the citizens of our state to participate in the ongoing war against terrorism. Many of our citizens have been deployed far from home in the continuing effort to protect our way of life. Traditionally, in major wars in the past, the state has recognized this service through bonuses for our soldiers overseas. Continuing this tradition, and expressing appreciation for their service, Governor Rell is proposing to provide bonuses for our men and women in uniform who are serving in Southwest Asia. The state will provide, in addition to what they receive now, a fifty dollar per month bonus while they serve. This is but a small token of our appreciation for these individuals who have put their lives on hold, and at risk, for our country.

The federal government is recognizing that we must aid the families whose fathers and mothers, sons and daughters, husbands and wives or brothers and sisters have made the ultimate sacrifice in protecting our country. For too long, their sacrifices have left these families in a difficult financial position. Connecticut has always recognized the need to assist these families, but we can do more. Governor Rell is proposing a new death benefit for our state residents who are killed while defending our country in Southwest Asia. Under the Governor's proposal, families with young children will receive $100,000, and an additional fifty dollars per month per child until the children reaches age 18. This benefit will go a long way in helping young mothers and fathers who have suffered the loss of their spouse. Spouses without children and dependent parents of those lost will receive $50,000. In the extreme situation where a parent is killed leaving dependent children with no parent, the children's guardian will receive $100,000 and an additional fifty dollars per month per child until the age of 18 on behalf of and for the care of the children.

While no amount of money can replace the loss of a loved one, at least we can honor the sacrifice of our veterans.

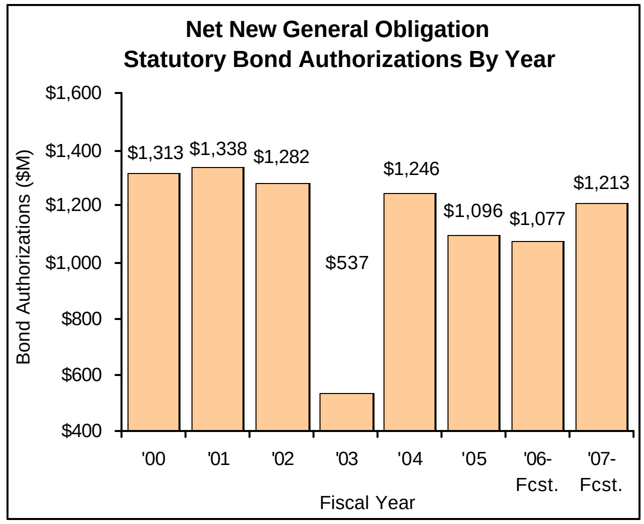
We often fail to adequately recognize those who have served our country in the past. Governor Rell is proposing to extend a measure of appreciation to these veterans by exempting half of their military pensions from the state income tax. This will allow them to keep more of their pensions and contribute to their quality of life. Again, it is another way to say "thank you" to those who have put their lives on the line protecting our freedom.

Capital Investments

Section 3-21 of the Connecticut General Statutes provides that before the General Assembly passes any bonding bill, and before the State Bond Commission can authorize issuing new bonds, the State Treasurer must certify that these actions will not cause the State to exceed the debt limit. The debt limit is 1.6 times General Fund tax receipts.

The Governor's recommended budget will keep the state well below the 90% statutory bond limit. Including this capital budget submission, the state's debt incurring margin is estimated to be more than $3 billion as of July 1, 2005 or about 80% of the overall cap.

Governor Rell is recommending net general obligation (GO) bond authorizations of approximately $997.6 million for FY 2005-06 and approximately $1.124 billion for FY 2006-07. Including UCONN, total GO authorizations will be a net $1.08 billion for FY 2005-06, and $1.213 billion for FY 2006-07.



The $997.6 million in GO authorizations for FY 2005-06 is net of approximately $16 million in cancellations of prior GO bond authorizations.

Also included is $100 million in Revenue Bond authorizations for the Clean Water Fund in FY 2006-07.

The Governor is also recommending Special Tax Obligation Bond (STO) authorizations of $238.9 million for FY 2005-6 and $274.4 million for FY 2006-07 for the state's transportation program. This includes $53.0 million in FY 2005-06 and $80.8 million in FY 2006-07 for the Governor's multi-year $830 million in bonding for the Transportation Improvement Program for revitalizing rail cars and facilities on the New Haven Line, purchasing additional buses, making operational improvements to I-95 and other improvements to the state's highway system to relieve traffic congestion.

School construction authorizations will be $605 million for FY 2005-06 and $675 million for FY 2006-07. This is the result of the continued demand at the local level, especially in large urban centers, the magnet school program and inclusion of the Connecticut Vocational Technical High School System in the program as well as the continued impact from the school construction financing conversion. The school construction authorizations amount to 56% of the total net requested GO authorizations for the biennium.

Authorizations for the Community-Technical College System will be $64.7 million for FY 2005-06 and $97.9 million for FY 2006-07. The Connecticut State University System authorizations will be $42.3 million for FY 2005-06 and $123 million for FY 2006-07. Over the biennium significant higher education projects in the bond package include:

- $45.4 million for expansion of Housatonic Community-Technical College in Bridgeport
- $77.9 million to complete funding for the consolidation of Gateway Community Technical College in New Haven
- $3.25 million for ongoing development of Norwalk Community-Technical College
- $2.7 million for improvements to Asnuntuck Community-Technical College in Enfield
- $69.4 million for a new fine arts center at Western Connecticut State University in Danbury
- $18.3 million for a new parking garage at Eastern Connecticut State University in Willimantic
- $21.4 million for various improvements at Southern Connecticut State University in New Haven

- $12.8 million for various improvements at Central Connecticut State University in New Britain

Education-related authorizations over the biennium total $1.82 billion, or 80% of total net GO authorizations being recommended by the Governor.

Capital Initiatives

As noted above, the vast majority of capital bonding over the biennium will be education-related. Other projects included in the bond package are:

- $15 million in FY2005-06 and $10 million in FY 2006-07 for affordable housing programs
- $10 million to upgrade information systems for the Motor Vehicle Department
- $40 million each year for the Urban Act
- $10 million each year for the Small Town Economic Assistance Program
- $30 million each year for the Local Capital Improvement Program
- $5 million each year for Farmland Preservation
- $20 million each year in GO authorizations for the Clean Water Fund in addition to the $100 million in Revenue Bond authorizations noted above
- $10 million each year for open space acquisition
- $25 million over the biennium for improvements to state parks
- $9.8 million over the biennium for the Connecticut Education Network
- $5 million each year for technology wiring in local schools

It should also be noted that for this biennium a total of $168 million has previously been authorized as part of 21st Century UCONN for the University of Connecticut.

Municipal Aid

Governor Rell's budget is recommending significant increases of about $86 million in education related grants in FY 2005-06. For communities grappling with rising costs, the budget makes solid progress toward addressing some of the financial difficulties municipalities suffered when the growth of most municipal grants was frozen.

Regarding education grants, the overall increase is approximately 5% from FY05 to FY06. The Education Cost Sharing Grant, is the largest education grant and has the most significant increase-$31.5 million. The Excess Costs-Student Based grant for the reimbursement of Special Education costs also has a large increase-almost $25.5 million, a 38% increase. Additionally, grants to magnet school will increase by $15 million, an increase of 22%. Most grants will be level funded in FY 2006-07, but there is still an almost $105 million increase in funding over FY 2004-05.

Summary - Estimated Formula Grants to Municipalities (In Millions)

Grant	Estimated Fiscal 2005	Recommended Fiscal 2006	Fiscal 2007
State-Owned PILOT	$72.5	$72.6	$72.6
College & Hospital PILOT	105.9	105.9	105.9
Pequot Grant	85.0	86.3	86.3
Town Aid Road Grant	20.0	20.0	20.0
LoCIP	30.0	30.0	30.0
Miscellaneous General	19.1	19.2	19.4
Machinery & Equipment	50.7	50.7	50.7
Sub-total - General Government	$383.2	$384.7	$384.9
Public School Transportation	$43.1	$48.0	$48.0
Non-Public School Transportation	3.3	4.0	4.0
Adult Education	16.9	19.6	19.6
Education Cost Sharing	1,562.9	1,594.4	1,594.4
Magnet Schools	69.5	84.5	99.0
Special Education	67.1	92.6	92.6
Miscellaneous Education Grants	122.7	128.1	132.7
Sub-total - Education	$1,885.5	$1,971.2	$1,990.3
Total - Formula Grants	$2,268.7	$2,355.9	$2,375.2

Governor Rell is proposing to add $250,000 for each of the five communities most affected by the casinos to the Mashantucket Pequot and Mohegan Fund Grant. These additional funds are in recognition of the increased costs that the communities proximate to the casinos bear.

Although the Governor's budget continues level funding for most non-educational municipal grants, some receive further adjustments. The budget recommends the elimination of the Payments-In-Lieu of Taxes and the Tax Abatements for housing authorities for a savings of $4.8 million. These grants, funded in the Department of Economic and Community Development, help compensate some towns for the loss of taxes on non-profit developments and housing authorities. These programs are proposed for elimination mostly because of inequitable distribution of benefits among towns, since not all of them benefit from the grants.

A more detailed outline of municipal grants is available in the "Estimates of State Formula Aid to Municipalities."

Conclusion

Since 2002, it has become apparent that the current growth of Connecticut's spending rises faster than the typical growth of its revenues. Like a responsible family, Connecticut needs to adjust so that spending does not exceed its income.

When responsible families are faced with such situations they make difficult choices. The Governor's budget makes difficult choices.

It breaks new ground on policy decisions to obtain an unprecedented amount of federal revenue and, yes, this budget makes difficult decisions to increase some taxes and to defer anticipated tax cuts. Finally, the budget makes difficult decisions necessary to controlling the growth of spending. It makes changes, difficult changes, to curb the growth of spending in our rapidly rising health care expenses. It asks that we review, within a year, our educational funding formulas for consistency and accountability.

At the same time, it funds bold new initiatives essential to the long-term benefit of Connecticut. It invests in transportation, early childhood education, the environment and it provides significant resources for the protection of the most in need and their caregivers. Where tax increases are proposed, they focus on areas that do not do fundamental damage to the state's economy.

Governor Rell proposes this budget the consideration by the legislature and the good citizens of this state. No one person nor one branch of government has all the answers. Governor Rell looks forward to a cooperative and productive relationship with the legislature as we endeavor together to adopt the best budget possible for the citizens of the state.

We owe them nothing less.