Fiscal Accountability Report
Fiscal Years 2014 – 2018

A Report to
The Appropriations Committee and
The Finance, Revenue and Bonding Committee
Pursuant to Section 2-36b of the Connecticut General Statutes

Office of Policy and Management
Benjamin Barnes, Secretary

November 15, 2013

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SUMMARY

INTRODUCTION

In accordance with CGS 2-36b, this report outlines significant factors affecting Connecticut's budgetary and economic outlook for fiscal years 2014 through 2018. This report describes our current fiscal situation based on the extension of current policies.

- Overall, minor surpluses are anticipated in the General Fund during the current biennium.
- The state faces significant fiscal challenges beginning in FY 2016, resulting from the continued slow economic recovery both nationally and regionally as well as efforts that address the historic deferral of long-term liabilities.
- Governor Malloy continues to be committed to ensuring the state lives within its means.

OVERVIEW

- Revenues in this document align with the consensus forecast issued jointly by the Office of Policy and Management and the legislature's Office of Fiscal Analysis on November 8, 2013.
- Expenditures for FY 2015 are based on the enacted budget for the current biennium, with outyear projections based on a "current practices" approach, which differs in some respects from "current services" estimates. Using the "current practices" approach, this report generally reflects the assumption that those budgetary actions that have routinely taken place will continue into the outyears, even if such actions require legislation – for example, continuing certain municipal grants at current levels.
- The following General Fund operating results are projected when comparing these expenditure estimates to the November consensus revenue forecast:
    - In the fiscal year ending June 30, 2014, the Office of Policy and Management is currently projecting a budget surplus of $134.7 million.
    - In the fiscal year ending June 30, 2015, the Office of Policy and Management is currently projecting a surplus of $35.1 million. Projected expenditures are $56.9 million under the level allowable by the state's expenditure cap.
    - For Fiscal Years 2016 through 2018, the Office of Policy and Management is projecting deficits of $612.4 million, $432.5 million, and $376.3 million. Projected expenditure levels exceed the level allowable by the state's expenditure cap by $95.8 million in FY 2016, and fall below the expenditure cap by $98.6 million in FY 2017 and $106.8 million in FY 2018.

MAJOR ISSUES AND TRENDS IMPACTING THE STATE'S FISCAL SITUATION

- Connecticut has made progress over the last several years by:
    - Addressing structural budget imbalance and producing balanced budgets;
    - Implementing Generally Accepted Accounting Principles;
    - Shoring up the state employee pension system;
    - Streamlining state government;
    - Undertaking a broad program of economic development; and
    - Reforming education.
- The performance of the economy as the state and nation recover from the "Great Recession" has significantly impacted revenues and expenditures.
    - Recovery has been and will continue to be slow.
    - Employment growth has been uneven.
- Connecticut's fiscal future will continue to be determined largely by forces outside of the control of state leaders.
    - Federal policy makers must resolve deep divisions over the budget and debt ceiling.
    - Global economic uncertainty reflects a lack of confidence in the ability of our national leaders to work together to solve economic and other issues.
    - Resolution of national issues will affect economic and budgetary performance in every state.
- State and national efforts to implement health care reform will have uncertain impacts on the economy and budget.

INTRODUCTION

This report has been prepared in accordance with Section 2-36b of the Connecticut General Statutes. It contains the estimated revenues for the three fiscal years next ensuing the 2013-15 biennium and projected expenditures for the same period.

FINANCIAL SUMMARY OF FUNDS
(in millions)

	Estimated	Enacted[4]	Projected		
General Fund	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenues[1]	$ 17,249.6	$ 17,532.7	$ 17,687.2	$ 18,406.6	$ 19,195.1
Expenditures	$ 17,114.9	17,497.6	18,299.6	18,839.1	19,571.4
Balance	$ 134.7	$ 35.1	$ (612.4)	$ (432.5)	$ (376.3)
Special Transportation Fund					
Revenues [1]	$ 1,244.5	$ 1,321.8	$ 1,486.1	$ 1,496.8	$ 1,497.5
Expenditures	1,243.2	1,322.3	1,389.4	1,448.8	1,509.4
Balance	$ 1.3	$ (0.5)	$ 96.7	$ 48.0	$ (11.9)
Other Funds [2]					
Revenues	$ 174.9	$ 175.7	$ 252.8	$ 256.7	$ 260.9
Expenditures	174.5	175.5	252.6	256.4	260.4
Balance	$ 0.4	$ 0.2	$ 0.2	$ 0.3	$ 0.5
Total All Appropriated Funds					
Revenues	$ 18,669.0	$ 19,030.2	$ 19,426.1	$ 20,160.1	$ 20,953.5
Expenditures	18,532.7	18,995.4	19,941.6	20,544.4	21,341.2
Balance	$ 136.3	$ 34.8	$ (515.5)	$ (384.3)	$ (387.7)

Expenditure Cap Results					
Total All Appropriated Funds		$ 18,995.4	$ 19,941.6	$ 20,544.4	$ 21,341.2
Allowed Appropriations per Cap		19,052.3	19,845.8	20,643.0	21,448.0
Over/(Under) the Cap		$ (56.9)	$ 95.8	$ (98.6)	$ (106.8)
Revenues and the Expenditure Cap[3]					
Revenues - All Funds			$ 19,426.1	$ 20,160.1	$ 20,953.5
Allowed Appropriations per Cap			19,845.8	20,643.0	21,448.0
Revenues Less Allowed Approps.			$ (419.7)	$ (482.9)	$ (494.5)

(1) Revenues reflect the November 8, 2013 consensus revenue forecast.

(2) Other funds include the: a) Mashantucket Pequot and Mohegan Fund, b) Soldiers, Sailors and Marines' Fund, c) Regional Market Operating Fund, d) Banking Fund, e) Insurance Fund, f) Consumer Counsel and Public Utility Control Fund, g) Workers' Compensation Fund, h) Criminal Injuries Compensation Fund.

(3) Article 3, section 18 of the State Constitution requires a balanced budget.

(4) FY 2015 reflects enacted budget.

SECTION 1

ESTIMATE OF STATE REVENUES, EXPENDITURES AND ENDING BALANCE

ASSUMPTIONS

ASSUMPTIONS USED TO DEVELOP EXPENDITURE ESTIMATES

The *Estimated FY 2014* column reflects current year appropriations adjusted to reflect deficiencies and lapses as noted in OPM's October 21, 2013 letter to the Comptroller. The *Enacted FY 2015* column represents the adopted budget for FY 2015 (Public Act 13-184 as amended by Public Act 13-247). The three out-year columns have been developed based on the *Enacted FY 2015* amounts as adjusted by the following assumptions.

GENERAL ASSUMPTIONS

Personal Services, Workers' Compensation and wage-related costs were inflated by 4.0% each year. Other Expenses and Equipment costs were not inflated. Equipment costs beyond minimal appropriations are assumed to be funded from the Capital Equipment Purchase Fund.

AGENCY SPECIFIC ASSUMPTIONS

STATE TREASURER - DEBT SERVICE

- *Debt Service* - Reflects actual and projected issuance schedules.

STATE COMPTROLLER- MISCELLANEOUS

- *Adjudicated Claims* - Reflects level funding.
- *Amortization of Cumulative GAAP Deficit* - Reflects the 13 year amortization of the estimated negative unassigned balance in the General Fund as of 6/30/2013 reduced by the proceeds of the October 2013 GAAP bond sale.

STATE COMPTROLLER - FRINGE BENEFITS

- *State Employee Retirement Contribution* - Reflects actuarial estimates.
- *Judges and Compensation Commissioners Retirement* - Reflects a 5.31% annual increase based on historical growth rate.
- *Employers Social Security Tax* - Reflects social security costs for additional positions related to UConn Next Generation and for anticipated salary increases.
- *State Employee Health Service Costs* - Reflects medical inflation and health costs for additional positions for UConn Next Generation.
- *Retiree Health Service Costs* - Reflects medical inflation.
- *Other Post-Employment Benefits* - Reflects the matching state contribution commencing FY 2018 per the 2011 SEBAC Agreement.

OFFICE OF POLICY AND MANAGEMENT

- *Municipal Aid Adjustment* - Per Public Act 13-247, this grant is funded through FY 2015.
- *Adjustment to Pequot Grant* - Fiscal years 2016, 2017 and 2018 assume funding at the statutory transfer level of $135 million.

OPM - RESERVE FOR SALARY ADJUSTMENTS

- *Reserve for Salary Adjustments* - Reflects annualized costs of the recently-settled State Police contract and anticipated costs of the Corrections Supervisors contract which is currently unsettled. Also reflects wage inflation.

DEPARTMENT OF ADMINISTRATIVE SERVICES

- *Rents and Moving* - The state data center is projected to move into state owned space at the end of FY 2016. An adjustment is made to reflect decreased lease costs resulting from this move.

DEPARTMENT OF HOUSING

- *Renters' Rebate Program* - Funding is level to reflect intake closure consistent with Public Act 13-234.

DEPARTMENT OF PUBLIC HEALTH

- *Breast and Cervical Cancer Detection and Treatment, Medicaid Administration, Children's Health Initiatives* - Reflects Personal Services inflation applied to salary components of accounts.
- *Local and District Departments of Health* - Per capita grant reflects 0.25% population growth

DEPARTMENT OF DEVELOPMENTAL SERVICES

- *Community Residential Services* - Reflects anticipated caseload growth and prior year annualization for *Messier* settlement-related placements.
- *Leap Year - Per Diem Based Payments* - Reflects FY 2016 leap year costs for per diem expenses in the Community Residential Services, Voluntary Services and Cooperative Placements Program accounts.

DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES

- *Personal Services* - Reflects adjustment for wage-related inflation on the Personal Services component of funds budgeted in the Department of Social Services - DMHAS/Disproportionate Share account.
- *Professional Services, General Assistance Managed Care, Behavioral Health Medications and Medicaid Adult Rehabilitation Option* - Reflects leap year payments in FY 2016.

DEPARTMENT OF SOCIAL SERVICES

- *State-Funded Supplemental Nutrition Assistance Program, HUSKY Program, Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled, Temporary Assistance to Families, Connecticut Home Care Program, and State Administered General Assistance* - Reflects anticipated cost and caseload changes based on current trends.
- *Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled* - Reflects leap year payments in FY 2016.
- *Nonfunctional – Change in Accruals* – FY 2016 reflects an $18.3 million reduction in anticipated General Fund accrued liability as a result of net budgeting for Medicaid beginning in FY 2014.

DEPARTMENT OF EDUCATION

- *Basic Skills Exam Teachers in Training, Development of Mastery Exams, School Accountability, Sheff Settlement and Regional Vocational-Technical School System* - Reflects wage inflation for the Personal Services components of these accounts.
- *Transportation of School Children, Adult Education, Health Services for Pupils Private Schools, Excess Cost - Student Based and Non-Public School Transportation* - Reflects funding grants at the FY 2015 capped level.

UNIVERSITY OF CONNECTICUT

- *Block Grant* - Reflects $33.7 million in FY 2016, $53.9 million in FY 2017 and $70.2 million in FY 2018 for the Next Generation Initiative.

UNIVERSITY OF CONNECTICUT HEALTH CENTER

- *Block Grant* - Reflects $15.6 million in FY 2016, $12.5 million in FY 2017 and $11.9 million in FY 2018 for the Bioscience Connecticut Initiative.

TEACHERS' RETIREMENT BOARD

- *Retirement Contributions* - Reflects an 8% annual increase based on historical growth rate.
- *Retiree Health and Municipal Retiree Health* - Reflects medical inflation and assumes the state share returns to one-third of costs in FY 2016.

DEPARTMENT OF CHILDREN AND FAMILIES

- *Board and Care for Children - Adoption, Foster Care, Residential* - Reflects the cost of an additional per diem payment in FY 2016 due to leap year.

- *Board and Care for Children - Adoption, Foster Care* - Reflects anticipated growth in the number of clients served in adoptive and guardianship homes and decrease in the number of foster children.

BOTTOM-LINE LAPSES

- *GAAP Lapse* – Because appropriations for changes in accruals cannot be allotted or withheld, a bottom-line lapse cannot be applied. Thus, the GAAP Lapse was eliminated beginning in FY 2016.

SUMMARY OF APPROPRIATED FUND PROJECTIONS

(in millions)

	Estimated	Enacted	Projected		
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GENERAL FUND					
DSS - Medicaid	2,476.6	2,289.6	2,378.6	2,485.0	2,597.0
STATEWIDE - Personal Services	2,212.5	2,315.7	2,411.3	2,510.7	2,614.1
SDE - Education Equalization Grants	2,066.6	2,122.9	2,122.9	2,122.9	2,122.9
OTT - Debt Service	1,434.0	1,554.9	1,913.4	1,999.0	2,089.2
TRB - Retirement Contributions	948.5	984.1	1,062.8	1,147.9	1,239.7
OSC - Employee Retirement Contribution	916.0	969.3	1,023.3	1,080.2	1,140.3
OSC - State Employees Health Serv Cost	615.9	651.0	677.9	707.6	739.4
OSC - Retired Employee Health Serv Cost	548.7	568.6	591.5	615.9	641.4
STATEWIDE - Other Expenses	484.4	483.8	483.8	483.8	483.8
DDS - Community Residential Services	435.2	453.6	456.6	458.4	460.2
SDE - Magnet Schools	274.4	281.3	281.3	281.3	281.3
OSC - Employers Social Security Tax	224.9	235.6	240.7	246.7	253.3
DDS - Employment Opportunities & Day Svcs	212.8	222.9	222.9	222.9	222.9
UOC - Operating Expenses	202.1	229.1	247.9	268.1	284.4
BOR - Regional Community - Technical Colleges	148.7	155.9	155.9	155.9	155.9
BOR - Connecticut State University	148.6	155.5	155.5	155.5	155.5
SDE - Regional Vocational-Technical School Sys	146.6	155.6	161.0	166.5	172.3
OTT - Pension Obligation Bonds - TRB	145.1	133.9	132.9	119.8	140.4
SDE - Excess Cost - Student Based	139.8	139.8	139.8	139.8	139.8
DCF - Board and Care - Residential	131.4	142.1	132.5	132.3	132.3
OTT - UConn 2000 - Debt Service	125.3	156.0	155.9	173.5	190.6
UHC - Operating Expenses	125.1	135.4	134.2	131.1	130.5
OPM - Loss Taxes Private Tax-Exempt Property	115.4	115.4	115.4	115.4	115.4
MHA - General Assistance Managed Care	115.4	40.8	40.9	40.9	40.9
DCF - Board and Care for Children - Foster	113.3	113.2	115.5	114.7	114.4
DSS - Temporary Assist to Families - TANF	112.1	112.1	108.1	108.1	108.1
DSS - DMHAS – Disproportionate Share	108.9	108.9	108.9	108.9	108.9
DSS - Child Care Services - TANF/CCDBG	99.0	0.0	0.0	0.0	0.0
DCF - Board and Care for Children - Adoption	91.1	92.8	96.0	97.9	100.1
DOC - Inmate Medical Services	89.7	93.9	93.9	93.9	93.9
OEC - School Readiness & Quality Enhancement	74.8	74.3	74.3	74.3	74.3
OPM - Loss of Taxes on State Property	73.6	73.6	73.6	73.6	73.6
MHA - Young Adult Services	69.9	75.9	76.9	78.0	79.2
MHA - Grants for Mental Health Services	66.1	58.9	58.9	58.9	58.9
DSS - Aid to the Disabled	63.3	68.0	69.5	70.7	72.1
DOH - Housing/Homeless Services	58.8	63.4	63.4	63.4	63.4
JUD - Alternative Incarceration Program	56.5	56.5	56.5	56.5	56.5
STATEWIDE - Non Funct - Chng to Accruals	53.7	72.1	53.8	53.8	53.8
MHA - Managed Service System	52.6	57.0	57.1	57.1	57.1
SDE - Priority School Districts	47.4	46.9	46.9	46.9	46.9
DSS - Connecticut Home Care Program	44.3	45.6	47.4	49.3	51.3
DHE - Governor's Scholarship	42.0	43.6	43.6	43.6	43.6
DOC - Community Support Services	41.3	41.3	41.3	41.3	41.3
DSS - Old Age Assistance	37.6	39.9	40.9	41.6	42.4
DDS - Early Intervention	37.3	37.3	37.3	37.3	37.3
SDE - OPEN Choice Program	37.0	42.6	42.6	42.6	42.6
DCF - Community KidCare	35.7	35.7	35.7	35.7	35.7
DDS - Voluntary Services	32.4	32.4	32.5	32.5	32.5
DSS - HUSKY B Program	30.5	30.5	29.0	30.1	31.3
OPM - Reserve for Salary Adjustments	30.4	36.3	37.7	39.2	40.8
DPH - Immunization Services	30.1	31.4	31.4	31.4	31.4

SUMMARY OF APPROPRIATED FUND PROJECTIONS

(in millions)

	Estimated	Enacted	Projected		
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
OSC - Higher Ed Alternative Retirement Sys	28.5	30.1	30.1	30.1	30.1
DOL - Workforce Investment Act	28.5	28.5	28.5	28.5	28.5
JUD - Juvenile Alternative Incarceration	28.4	28.4	28.4	28.4	28.4
DAS - Workers' Compensation Claims	27.2	27.2	28.3	29.4	30.6
DOC - Workers' Compensation Claims	26.9	26.9	28.0	29.1	30.2
SDE - Transportation of School Children	24.9	24.9	24.9	24.9	24.9
DOH - Tax Relief for Elderly Renters	24.9	24.9	24.9	24.9	24.9
DDS - Cooperative Placements Program	23.1	24.1	24.1	24.1	24.1
SDE - Adult Education	21.0	21.0	21.0	21.0	21.0
DAS - Insurance & Risk Operations	20.6	13.3	13.3	13.3	13.3
MHA - Grants for Substance Abuse Services	20.6	17.6	17.6	17.6	17.6
OPM - Prop Tax Relief Elder-Circuit Breaker	20.5	20.5	20.5	20.5	20.5
SDE - Develop of Mastery Exams Grades 4,6&8	20.1	19.0	19.0	19.1	19.2
DOL - Jobs First Employment Services	18.8	18.7	18.7	18.8	18.9
OEC - Child Care Services	18.4	18.4	18.4	18.4	18.4
JUD - Youthful Offender Services	18.2	18.2	18.2	18.2	18.2
MHA - Discharge and Diversion Services	17.4	20.1	20.1	20.1	20.1
DSS - State Administered General Assistance	17.3	17.9	18.3	18.8	19.2
OSC - Judges & Comp Commissioner Ret	16.3	17.7	18.7	19.7	20.7
MHA - Housing Supports and Services	15.8	16.3	16.3	16.3	16.3
DSS - Connecticut Children's Medical Center	15.6	15.6	15.6	15.6	15.6
DCF - Psychiatric Clinics for Children	15.5	15.5	15.5	15.5	15.5
DCF - Support for Recovering Families	15.3	15.3	15.3	15.3	15.3
MHA - TBI Community Services	15.3	17.1	17.1	17.1	17.2
DDS - Workers' Compensation Claims	15.2	15.2	15.9	16.5	17.1
TRB - Retirees Health Service Cost	14.9	21.2	29.1	30.3	31.6
DAS - IT Services	13.8	13.8	13.8	13.8	13.8
SDE - Sheff Settlement	13.3	9.4	9.4	9.5	9.5
MHA - Home and Community Based Services	12.9	17.4	17.4	17.4	17.5
DCF - Juvenile Justice Services	12.8	12.8	12.8	12.8	12.8
DPH - School Based Health Clinics	12.7	12.6	12.6	12.6	12.6
DAS - Rents and Moving	12.2	12.1	12.1	11.0	11.0
ECD - Statewide Marketing	12.0	12.0	12.0	12.0	12.0
MHA - Professional Services	11.8	11.8	11.8	11.8	11.8
OEC - Children's Trust Fund	11.7	11.7	11.7	11.7	11.7
DCF - Workers' Compensation Claims	10.7	11.2	11.7	12.2	12.7
SDE - American School for the Deaf	10.7	10.7	10.7	10.7	10.7
MHA - Workers' Compensation Claims	10.6	10.6	11.0	11.5	11.9
MHA - Employment Opportunities	10.5	10.5	10.5	10.5	10.5
DCF - Individualized Family Supports	10.4	11.9	11.9	11.9	11.9
SDE - Talent Development	10.0	10.0	10.0	10.0	10.0
DEP - Environmental Quality	10.0	10.3	10.7	11.0	11.3
SDE - Commissioner’s Network	10.0	17.5	17.5	17.5	17.5
OSC - Other Post Employment Benefits	0.0	0.0	0.0	0.0	129.5
OSC - Amortization of Cumulative GAAP Deficit	0.0	0.0	45.8	45.8	45.8
STATEWIDE - ALL OTHER	538.6	639.0	639.6	642.3	645.2
General Fund - Gross	17,287.6	17,656.1	18,450.7	18,990.2	19,722.4
Unallocated Lapse	(91.7)	(91.7)	(91.7)	(91.7)	(91.7)
Unallocated Lapse - Legislative	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Unallocated Lapse - Judicial	(7.4)	(7.4)	(7.4)	(7.4)	(7.4)
General Other Expenses Reduction - Legislative	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
General Other Expenses Reduction - Executive	(3.3)	(3.3)	(3.3)	(3.3)	(3.3)

SUMMARY OF APPROPRIATED FUND PROJECTIONS

(in millions)

	Estimated	Enacted	Projected		
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
General Other Expenses Reduction - Judicial	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
General Lapse - Legislative	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
General Lapse - Executive	(13.8)	(13.8)	(13.8)	(13.8)	(13.8)
General Lapse - Judicial	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Municipal Opportunities & Regional Efficiencies La	0.0	(10.0)	(10.0)	(10.0)	(10.0)
GAAP Lapse	(5.5)	(7.5)	0.0	0.0	0.0
Transfer GAAP Funding	(40.0)	0.0	0.0	0.0	0.0
Statewide Hiring Reduction - Executive	(5.5)	(16.7)	(16.7)	(16.7)	(16.7)
Statewide Hiring Reduction - Judicial	(1.1)	(3.4)	(3.4)	(3.4)	(3.4)
Statewide Hiring Reduction - Legislative	(0.2)	(0.6)	(0.6)	(0.6)	(0.6)
General Fund - Net	17,114.9	17,497.6	18,299.6	18,839.1	19,571.4
SPECIAL TRANSPORTATION FUND - Gross	1,254.2	1,333.3	1,400.4	1,459.8	1,520.4
Unallocated Lapse	(11.0)	(11.0)	(11.0)	(11.0)	(11.0)
Special Transportation Fund - Net	1,243.2	1,322.3	1,389.4	1,448.8	1,509.4
BANKING FUND	26.6	27.8	28.8	29.8	30.9
INSURANCE FUND	30.7	32.0	33.1	34.2	35.4
CONSUMER COUNSEL/PUBLIC UTILITY FUND	24.9	25.4	26.3	27.2	28.2
WORKERS' COMPENSATION FUND	23.2	24.8	25.6	26.4	27.1
MASHANTUCKET PEQUOT AND MOHEGAN FUND	61.8	61.8	135.0	135.0	135.0
SOLDIERS, SAILORS AND MARINES' FUND	3.1	0.0	0.0	0.0	0.0
REGIONAL MARKET OPERATION FUND	0.9	0.9	1.0	1.0	1.0
CRIMINAL INJURIES COMPENSATION FUND	3.4	2.8	2.8	2.8	2.8
TOTAL ALL FUNDS - NET	18,532.7	18,995.4	19,941.6	20,544.4	21,341.2

PROJECTED REVENUES

Consensus Revenue Forecast - November 8, 2013

(In Millions)

General Fund

Taxes	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Personal Income Tax	$ 8,808.8	$ 9,399.8	$ 9,959.5	$ 10,558.8	$ 11,171.4
Sales & Use Tax	4,074.0	4,197.9	4,236.1	4,408.7	4,581.4
Corporation Tax	753.5	763.4	686.1	734.0	716.5
Public Service Tax	279.6	284.7	288.3	296.0	303.9
Inheritance & Estate Tax	173.2	180.1	185.5	191.1	196.9
Insurance Companies Tax	271.2	278.0	238.7	242.2	246.5
Cigarettes Tax	390.4	378.8	368.1	357.8	347.8
Real Estate Conveyance Tax	159.4	167.5	174.5	179.8	185.3
Oil Companies Tax	36.8	36.6	37.6	37.6	37.6
Electric Generation Tax	15.5	-	-	-	-
Alcoholic Beverages Tax	59.8	60.2	60.7	61.1	61.4
Admissions & Dues Tax	37.0	37.3	37.8	38.2	38.6
Health Provider Tax	512.0	514.5	516.9	519.4	521.9
Miscellaneous Tax	19.9	20.2	20.6	21.1	21.6
Total Taxes	$ 15,591.1	$ 16,319.0	$ 16,810.4	$ 17,645.8	$ 18,430.8
Less Refunds of Tax	(1,073.5)	(1,115.6)	(1,163.8)	(1,212.0)	(1,262.4)
Less Earned Income Tax Credit	(104.5)	(120.7)	(138.4)	(144.9)	(151.7)
Less R&D Credit Exchange	(5.5)	(6.2)	(6.5)	(6.8)	(7.1)
Total - Taxes Less Refunds	$ 14,407.6	$ 15,076.5	$ 15,501.7	$ 16,282.1	$ 17,009.6
Other Revenue					
Transfers-Special Revenue	$ 313.9	$ 338.5	$ 344.1	$ 354.8	$ 365.7
Indian Gaming Payments	285.3	280.4	264.0	212.2	212.2
Licenses, Permits, Fees	302.7	274.4	311.9	283.4	320.4
Sales of Commodities	38.2	39.4	40.7	42.2	43.7
Rents, Fines, Escheats	114.6	116.6	118.4	121.0	123.7
Investment Income	0.8	1.1	1.4	1.7	2.4
Miscellaneous	158.1	159.8	161.5	163.6	165.8
Less Refunds of Payments	(74.8)	(76.4)	(77.7)	(78.6)	(79.4)
Total - Other Revenue	$ 1,138.8	$ 1,133.8	$ 1,164.3	$ 1,100.3	$ 1,154.5
Other Sources					
Federal Grants	$ 1,310.5	$ 1,211.5	$ 1,207.9	$ 1,224.4	$ 1,252.5
Transfer From Tobacco Settlement	107.0	106.0	95.7	92.2	70.9
Transfers From (To) Other Funds	285.7	4.9	(282.4)	(292.4)	(292.4)
Total - Other Sources	$ 1,703.2	$ 1,322.4	$ 1,021.2	$ 1,024.2	$ 1,031.0
Total - General Fund Revenues	$ 17,249.6	$ 17,532.7	$ 17,687.2	$ 18,406.6	$ 19,195.1

Special Transportation Fund

Taxes	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Motor Fuels Tax	$ 504.0	$ 499.1	$ 497.1	$ 495.1	$ 492.9
Oil Companies Tax	380.7	379.1	377.3	377.3	377.3
Sales Tax - DMV	78.9	79.9	81.1	82.1	83.1
Total Taxes	$ 963.6	$ 958.1	$ 955.5	$ 954.5	$ 953.3
Less Refunds of Taxes	(6.5)	(6.6)	(6.9)	(7.1)	(7.4)
Total - Taxes Less Refunds	$ 957.1	$ 951.5	$ 948.6	$ 947.4	$ 945.9
Other Sources					
Motor Vehicle Receipts	$ 234.0	$ 237.5	$ 238.1	$ 238.7	$ 239.3
Licenses, Permits, Fees	138.5	139.1	139.6	140.1	140.7
Interest Income	4.0	4.2	4.7	5.5	6.6
Federal Grants	12.1	12.1	12.1	12.1	12.1
Transfers From (To) Other Funds	(98.0)	(19.4)	146.3	156.3	156.3
Less Refunds of Payments	(3.2)	(3.2)	(3.3)	(3.3)	(3.4)
Total - Other Sources	$ 287.4	$ 370.3	$ 537.5	$ 549.4	$ 551.6
Total - STF Revenues	$ 1,244.5	$ 1,321.8	$ 1,486.1	$ 1,496.8	$ 1,497.5

NOTE: The above revenue scheudle reflects the November 8, 2013 consensus revenue estimates per C.G.S. 2-36c.

PROJECTED REVENUES

(In Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Mashantucket Pequot and Mohegan Fund Revenues	$ 61.8	$ 61.8	$ 135.0	$ 135.0	$ 135.0
Soldiers', Sailors', and Marines' Fund Revenues	$ 3.1	$ -	$ -	$ -	$ -
Regional Market Operating Fund Revenues	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.1
Banking Fund Revenues	$ 26.7	$ 27.9	$ 28.9	$ 29.9	$ 31.0
Insurance Fund Revenues	$ 30.8	$ 32.0	$ 33.1	$ 34.3	$ 35.5
Consumer Counsel & Public Utility Control Revenues	$ 24.9	$ 25.4	$ 26.3	$ 27.3	$ 28.3
Workers' Compensation Fund Revenues	$ 23.2	$ 24.8	$ 25.7	$ 26.4	$ 27.2
Criminal Injuries Fund Revenues	$ 3.4	$ 2.8	$ 2.8	$ 2.8	$ 2.8
All Appropriated Funds Revenues	$ 18,669.0	$ 19,030.2	$ 19,426.1	$ 20,160.1	$ 20,953.5

ASSUMPTIONS USED TO DEVELOP REVENUE ESTIMATES

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
UNITED STATES					
Gross Domestic Product	3.7%	6.1%	5.8%	4.8%	4.2%
Real Gross Domestic Product	2.1%	4.0%	3.5%	2.7%	2.1%
G.D.P. Deflator	1.6%	2.0%	2.2%	2.1%	2.1%
Unemployment Rate	7.2%	6.7%	6.1%	5.7%	5.6%
New Vehicle Sales (M)	16.04	16.90	16.05	15.48	15.56
Consumer Price Index	1.5%	2.0%	2.3%	2.5%	2.4%
CONNECTICUT					
Personal Income	3.4%	6.7%	6.5%	5.3%	4.3%
Nonagricultural Employment	1.2%	1.2%	1.4%	1.2%	1.0%
Housing Starts (T)	5.92	7.88	9.96	10.08	9.66
Unemployment Rate	7.7%	7.2%	6.5%	6.0%	5.5%

(M) denotes millions
(T) denotes thousands

ECONOMIC GROWTH RATES FOR PROJECTED TAX REVENUES
(PERCENT CHANGE)

General Fund

Taxes	2014	2015	2016	2017	2018
Personal Income Tax [1]	3.2, 5.0	5.2, 8.1	5.9, 6.0	5.7, 6.5	5.5, 6.5
Sales & Use Tax	2.5	3.7	3.9	4.0	3.8
Corporation Tax	2.2	0.9	4.3	3.8	4.3
Public Service Tax	4.4	1.8	1.3	2.7	2.7
Inheritance & Estate Tax	-1.5	4.0	3.0	3.0	3.0
Insurance Companies Tax	-1.3	2.1	1.4	1.5	1.8
Cigarettes Tax	-2.4	-3.0	-2.8	-2.8	-2.8
Real Estate Conveyance Tax	3.8	5.1	4.2	3.0	3.1
Oil Companies Tax	-3.1	-0.5	2.7	0.0	0.0
Alcoholic Beverages Tax	-1.0	0.7	0.7	0.7	0.5
Admissions & Dues Tax	1.4	0.8	1.0	1.0	1.0

Special Transportation Fund

Taxes	2014	2015	2016	2017	2018
Motor Fuels Tax	-1.9	-1.0	-0.4	-0.4	-0.4
Sales Tax - DMV	-0.1	1.3	1.5	1.2	1.2

NOTES:
1. Rates for withholding and "estimates and final filings".

SECTION 2

PROJECTED TAX CREDITS

PROJECTED TAX CREDITS

It should be noted that the basis for projections of tax credits claimed relies upon data from several years ago. This is due to the fact that information regarding tax credits is typically delayed as firms often request an extension to file their final returns. This delays the receipt of such data by the tax department which then must still have the return information data captured.

In calculating the expected amount of credits to be claimed, OPM examined the most recent relevant years available (income years ranging from 2005 to 2010 for business credits and income year 2011 for the personal income tax credit). An average value was derived over that time period which then became the base for fiscal year 2013. From fiscal year 2014 and forward, the dollar value of credits claimed was grown by appropriate growth rates.

Projected Total Amounts of Tax Credits Claimed

(In Thousands)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Personal Income Tax Credits					
Property Tax	$ 218,000	$ 222,000	$ 226,000	$ 231,000	$ 236,000
Job Tax Credits	5,000	5,000	5,000	-	-
Earned Income Tax Credit	104,500	120,700	138,400	144,900	151,700
Connecticut Higher Education Trust (CHET)	7,500	7,500	7,500	7,500	7,500
Angel Investor	3,000	-	-	-	-
Total Personal Income Tax	$ 338,000	$ 355,200	$ 376,900	$ 383,400	$ 395,200
Business Tax Credits					
Fixed Capital	$ 75,000	$ 75,000	$ 75,000	$ 75,000	$ 75,000
Film Industry Production(1)	30,000	30,000	60,000	60,000	60,000
Film Industry Digital Animation(1)	15,000	15,000	15,000	15,000	15,000
Film Industry Infrastructure(1)	3,000	3,000	4,000	4,500	5,000
Electronic Data Processing(1)	26,600	27,400	28,200	29,000	29,900
Research and Experimental Expenditures	16,000	16,500	17,000	17,500	18,000
Research and Development Expenditures	5,200	5,400	5,600	5,800	6,000
Urban and Industrial Reinvestment	35,000	40,000	45,000	45,000	45,000
Housing Program Contribution(1)	10,000	10,000	10,000	10,000	10,000
Job Tax Credits	7,500	7,500	7,500	-	-
Historic Rehabilitation(1)	1,500	1,500	1,500	1,500	1,500
Human Capital	1,500	1,500	1,500	1,500	1,500
Machinery and Equipment	1,000	1,000	1,000	1,000	1,000
All Other Credits(1)	10,000	10,000	10,000	10,000	10,000
Total Business Tax Credits	$ 237,300	$ 243,800	$ 281,300	$ 275,800	$ 277,900
Total Projected Amount Claimed	$ 575,300	$ 599,000	$ 658,200	$ 659,200	$ 673,100

(1) Includes credits claimed under the Corporation Tax, Insurance Premiums Tax, and the Public Service Companies Tax

SECTION 3

SUMMARY OF ESTIMATED DEFICIENCIES

SUMMARY OF ESTIMATED DEFICIENCIES

(REASONS FOR DEFICIENCIES AND BASIS OF ASSUMPTIONS)

The following deficiencies are anticipated in the General Fund:

DEPARTMENT OF ADMINISTRATIVE SERVICES

The Department of Administrative Services is projecting a shortfall of $8.0 million in its State Insurance and Risk Operations account as a result of the settlement of two large claims against the state this fiscal year. On November 7th, the Finance Advisory Committee approved a transfer of funds from Personal Services to enable the agency to make timely settlement payments, and as a result a deficiency appropriation or transfer is needed to restore funds to Personal Services in order to support payroll costs in the last quarter of the fiscal year.

DEPARTMENT OF EMERGENCY SERVICES AND PUBLIC PROTECTION

The Department of Emergency Services and Public Protection is expected to experience a shortfall of $3.0 million in its Personal Services account as a result of a reduction in casino reimbursements negotiated with the Pequot and Mohegan tribal governments.

DEPARTMENT OF EDUCATION

The Department of Education is anticipated to experience a shortfall of $9.0 million in its Magnet Schools account as a result of unbudgeted legislation requiring the state to pick up preschool tuition costs, and also due to supplemental transportation costs for the *Sheff* settlement.

WATCH AREAS

- The October agreement to finance federal government operations through January 15th and to raise the government's statutory borrowing authority through mid-February forestalled any immediate effect on the state’s economy and budget. However, any impact from the October federal shutdown on state revenue collections will likely become evident over the next few months. In addition, the political brinksmanship that characterized the past month could play out again in January and February, when the federal budget and debt ceiling issues must be revisited. The uncertainty created in the national and state economies by the lack of a long-term federal fiscal plan could affect Connecticut’s recovery from the recession and have a material effect on state revenues.
- Adjudicated Claims costs in the Office of the State Comptroller could be as much as $6.0 million over budget due to a pending large settlement as well as several smaller award amounts.
- Assigned counsel costs in the Public Defender Services Commission appear to be on pace to exceed budgeted levels, with a projected shortfall of $3.5 million due to capital case costs, efforts to retire the *habeas corpus* case backlog, and one-time costs to catch up on bills from the prior year.
- In the Special Transportation Fund, the September power failure on the New Haven line as well as the May 17, 2013 derailment have the potential to impact funding requirements for the Department of Transportation this fiscal year, although the exact timing and amounts of any state exposure are not currently known.

SECTION 4

PROJECTED BALANCE OF THE BUDGET RESERVE FUND

BUDGET RESERVE FUND

PROJECTED FUND BALANCE
(in millions)

GENERAL FUND SURPLUS DISPOSITION WITH ADHERENCE TO THE EXPENDITURE CAP AND BALANCED BUDGET

1. Operating Results	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	
General Fund Surplus/(Deficit)	$ 398.8	$ 134.7	$ 35.1	$ -	$ -	$ -	
Use of FY 2013 Surplus	(220.8)	-	-	-	-	-	
General Fund Surplus/(Deficit)	$ 178.0	$ 134.7	$ 35.1	$ -	$ -	$ -	
2. Budget Reserve Fund (BRF)							
Beginning Balance	$ 93.5	$ 271.5	$ 406.2	$ 441.3	$ 441.3	$ 441.3	
Deposits/(Withdrawals)	178.0	134.7	35.1	-	-	-	
Ending Balance	$ 271.5	$ 406.2	$ 441.3	$ 441.3	$ 441.3	$ 441.3	
Balance as Percent of Budget	1.6%	2.3%	2.4%	2.3%	2.3%	2.2%	
Budget Reserve Fund Target(1)	$ 1,718.9	$ 1,749.8	$ 1,821.2	$ 1,883.9	$ 1,957.1	$ 2,035.4	(3)
Balance Over/(Under) Target	$ (1,447.4)	$ (1,343.6)	$ (1,379.9)	$ (1,442.6)	$ (1,515.8)	$ (1,594.1)	
Available Over BRF Target (2)	$ -	$ -	$ -	$ -	$ -	$ -	

STATUTORY DISPOSITION OF FUTURE SURPLUSES

Note: C.G.S. 4-30a directs any unappropriated surplus to the Budget Reserve Fund, except as provided below:

FY 2013		Reference
1.	Up to $220.8 million for use in FY 2014 and FY 2015	PA 13-184, sec. 58
2.	Budget Reserve Fund	C.G.S. 4-30a
FY 2014 and Beyond		
1.	Budget Reserve Fund	C.G.S. 4-30a

(1) Target Balance is equal to ten percent of the next fiscal year's adjusted General Fund appropriations.

(2) Available for debt service and/or unfunded liabilities when BRF target of 10% has been reached.

(3) FY 2018 Target Balance assumes expenditure growth rate of four percent.

HISTORY OF BUDGET RESERVE FUND

(In Millions)

Fiscal Year	Deposits / (Withdrawals)		Balance	Following Year G. F. Net Appropriation		% of Net General Fund Appropriation
1983-84	$165.2		$165.2	$3,624.6		4.6
1984-85	33.4		198.6	3,709.2		5.4
1985-86	16.2		214.8	3,972.3		5.4
1986-87	104.8		319.6	4,339.4		7.4
1987-88	(115.6)		204.0	4,966.6		4.1
1988-89	(101.7)		102.3	5,594.4		1.8
1989-90	(102.3)		0.0	6,372.6		0.0
1990-91	0.0		0.0	6,981.8		0.0
1991-92	0.0		0.0	7,317.7		0.0
1992-93	0.0		0.0	8,589.6		0.0
1993-94	0.0		0.0	8,571.2		0.0
1994-95	80.5		80.5	8,836.8		0.9
1995-96	160.5		241.0	9,049.4		2.7
1996-97	95.9		336.9	9,342.2		3.6
1997-98	161.7		498.6	9,972.0		5.0
1998-99	30.5		529.1	10,581.6		5.0
1999-2000	34.9		564.0	11,280.8		5.0
2000-01	30.7		594.7	11,894.0		5.0
2001-02	(594.7)		0.0	12,387.8		0.0
2002-03	0.0		0.0	12,452.0		0.0
2003-04	302.2		302.2	13,336.2		2.3
2004-05	363.9		666.0	14,131.7		4.7
2005-06	446.5		1,112.5	14,837.2		7.5
2006-07	269.2		1,381.7	16,314.9		8.5
2007-08	0.0		1,381.7	17,101.8		8.1
2008-09	0.0	(a)	1,381.7	17,370.3		8.0
2009-10	(1,278.5)	(b)	103.2	17,667.2		0.6
2010-11	(103.2)	(b)	0.0	18,707.7		0.0
2011-12	93.5	(c)	93.5	19,140.1		0.5
2012-13	178.0		271.5	17,188.7	(d)	1.6
2013-14 (proj.)	134.7	(e)	406.2	17,497.6	(d)	2.3

Note:

(a) Per PA 09-2 of the June Special Session, a deficit of $947.6 million was funded by issuing Economic Recovery Notes.

(b) Per Section 17 of PA 10-3 of the September Special Session, transfer $1,278.5 million in FY 2010 and $103.2 million in FY 2011 to the resources of the General Fund.

(c) Per section 28 of PA 12-104 and Comptroller reclassification, deposit of $236.9 million was made, of which $143.6 million was withdrawn to mitigate the FY 2012 deficit.

(d) Per PA 13-184, net fund Medicaid.

(e) Per November 8, 2013 consensus revenue forecast.

Disposition of Future Surpluses

C.G.S. 4-30a directs any unappropriated surplus to the Budget Reserve Fund, except as provided below:

	Legislative Reference
FY 2013	
Any Surplus shall be used to:	
1. Up to $220.8 million for use in FY 2014 and FY 2015	PA 13-184, sec. 58
2. Budget Reserve Fund	C.G.S. 4-30a
FY 2014 and Beyond	
Any Surplus shall be used to:	
1. Budget Reserve Fund	C.G.S. 4-30a

Note: Section 135 of PA 13-239 repealed the diversion of surplus for ERN retirement and GAAP amortization and instead directed any future surplus to the Budget Reserve Fund.

SECTION 5

PROJECTED BOND AUTHORIZATIONS, ALLOCATIONS AND ISSUANCES

FIVE YEAR BOND PROJECTIONS

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Bond Authorizations					
General Obligation Bonds	$ 1,612,478,833	$ 1,580,968,712	$ 1,500,000,000	$ 1,500,000,000	$ 1,500,000,000
GAAP Conversion General Obligation Bonds	750,000,000	-	-	-	-
Special Tax Obligation Bonds	706,719,100	588,830,000	500,000,000	500,000,000	500,000,000
Clean Water Fund Revenue Bonds	380,430,000	331,970,000	300,000,000	300,000,000	300,000,000
Bioscience Collaboration Program	59,728,000	19,669,000	21,425,000	21,108,000	15,820,000
Bioscience Innovation Fund	10,000,000	15,000,000	15,000,000	25,000,000	25,000,000
UCONN 21st Century	204,400,000	315,500,000	312,100,000	266,400,000	269,500,000
CSUS 2020	95,000,000	95,000,000	95,000,000	95,000,000	95,000,000
Total Bond Authorizations	**$ 3,818,755,933**	**$ 2,946,937,712**	**$ 2,743,525,000**	**$ 2,707,508,000**	**$ 2,705,320,000**
Bond Allocations					
General Obligation Bonds					
School Construction Program	$ 600,000,000	$ 600,000,000	$ 600,000,000	$ 600,000,000	$ 600,000,000
Urban Action Grants	75,000,000	75,000,000	75,000,000	75,000,000	75,000,000
Small Town Economic Assistance Program	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Housing Trust Fund & Housing Programs	125,000,000	100,000,000	80,000,000	80,000,000	80,000,000
Clean Water Grants	161,000,000	218,000,000	100,000,000	100,000,000	100,000,000
Manufacturing Assistance Act	125,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Small Business Express Program	50,000,000	50,000,000	-	-	-
Local Capital Improvement Program	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Grants to Municipalities using TAR Purposes	56,429,907	56,429,907	-	-	-
Board of Regents - Community College System	55,000,000	92,000,000	105,000,000	50,000,000	60,000,000
Connecticut State University System - CSUS2020	95,000,000	95,000,000	95,000,000	95,000,000	95,000,000
UConn Technology Park Development	-	134,500,000	-	-	-
Bioscience Collaboration Program	59,728,000	19,669,000	21,425,000	21,108,000	15,820,000
Bioscience Innovation Fund	20,000,000	15,000,000	15,000,000	25,000,000	25,000,000
Connecticut Innovations Recapitalization	25,000,000	25,000,000	25,000,000	-	-
All other GO projects/programs	250,000,000	150,000,000	250,000,000	250,000,000	250,000,000
UCONN 21st Century	204,400,000	315,500,000	312,100,000	266,400,000	269,500,000
Total General Obligation Bonds	$ 1,951,557,907	$ 2,096,098,907	$ 1,828,525,000	$ 1,712,508,000	$ 1,720,320,000
Special Tax Obligation Bonds	725,000,000	650,000,000	500,000,000	500,000,000	500,000,000
Clean Water Fund Revenue Bonds	400,000,000	400,000,000	400,000,000	300,000,000	300,000,000
Total Bond Allocations	**$ 3,076,557,907**	**$ 3,146,098,907**	**$ 2,728,525,000**	**$ 2,512,508,000**	**$ 2,520,320,000**

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Bond Issuance					
General Obligation Bonds	$ 1,500,000,000	$ 1,500,000,000	$ 1,500,000,000	$ 1,500,000,000	$ 1,500,000,000
GAAP Conversion General Obligation Bonds	560,430,000	-	-	-	-
Special Tax Obligation Bonds	600,000,000	600,000,000	600,000,000	600,000,000	600,000,000
Clean Water Revenue Bonds	-	150,000,000	150,000,000	200,000,000	200,000,000
UCONN 21st Century	272,660,000	250,000,000	228,900,000	235,000,000	250,000,000
Total Bond Issuance	**$ 2,933,090,000**	**$ 2,500,000,000**	**$ 2,478,900,000**	**$ 2,535,000,000**	**$ 2,550,000,000**
Debt Service					
General Fund	$ 1,709,828,838	$ 1,850,352,336	$ 2,207,820,924	$ 2,297,826,692	$ 2,425,701,506
Transportation Fund	463,814,137	483,218,293	502,453,712	543,024,729	583,970,744
Total Debt Service	**$ 2,173,642,975**	**$ 2,333,570,629**	**$ 2,710,274,636**	**$ 2,840,851,421**	**$ 3,009,672,250**
Debt Service as a Percentage of Budget					
GO Debt Service as Percentage of General Fund	10.0%	10.6%	12.1%	12.2%	12.4%
Total Debt Service as a Perecentage of Budget	11.8%	12.4%	13.8%	14.0%	14.3%

Assumptions

Bond Authorizations

Projected General Obligation Bond authorizations assume that authorizations continue at historical average levels.
Clean Water Program Revenue Bond authorizations based on projected allocations.
UCONN 21st. Century authorizations in accordance with C.G.S. Section 10a-109g as amended.
CSUS2020 authorizations in accordance with C.G.S. Section 10a-91e as amended.
Bioscience Collaboration Program authorizations in accordance with C.G.S. Section 32-41z.
Bioscience Innovation Fund authorizations in accordance with P.A. 13-239.

Bond Allocations

The projected bond allocations in no way represent a commitment to fund any of these programs or projects.

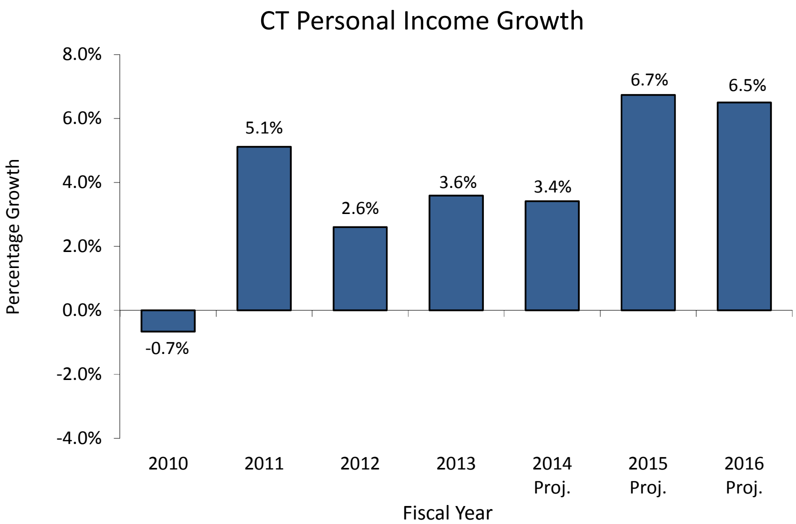
Debt Service as a Percentage of the Budget

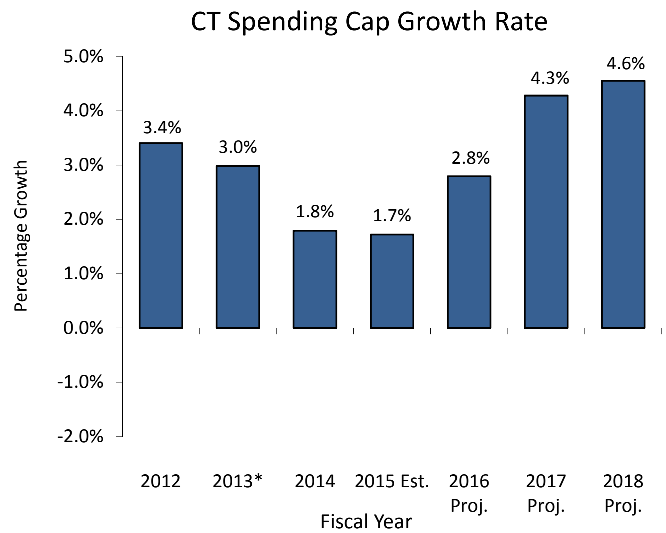
Reflects the net budgeting approach to Medicaid expenditures.

SECTION 6

REVENUE AND EXPENDITURE TRENDS, MAJOR COST DRIVERS

EXPENDITURE CAP

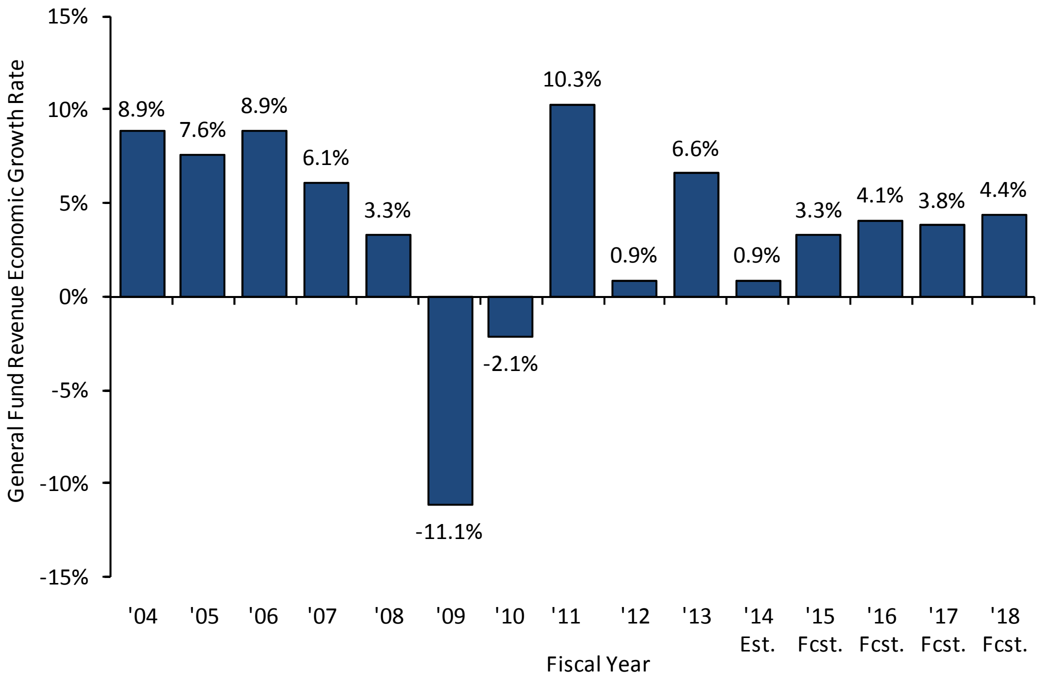




* Inflation was the limiting factor

- The adopted FY 2014 budget is $9.4 million below the cap.
- At adoption, the FY 2015 budget was $166.3 million below the cap.
- Recent revisions to personal income growth has reduced the available room under the cap in FY 2015 to $56.9 million.
- Personal income growth serves as the cap's proxy for the economy's ability to pay for government services.
- The most recent recession has resulted in the lowest allowable expenditure cap growth rates since its inception.

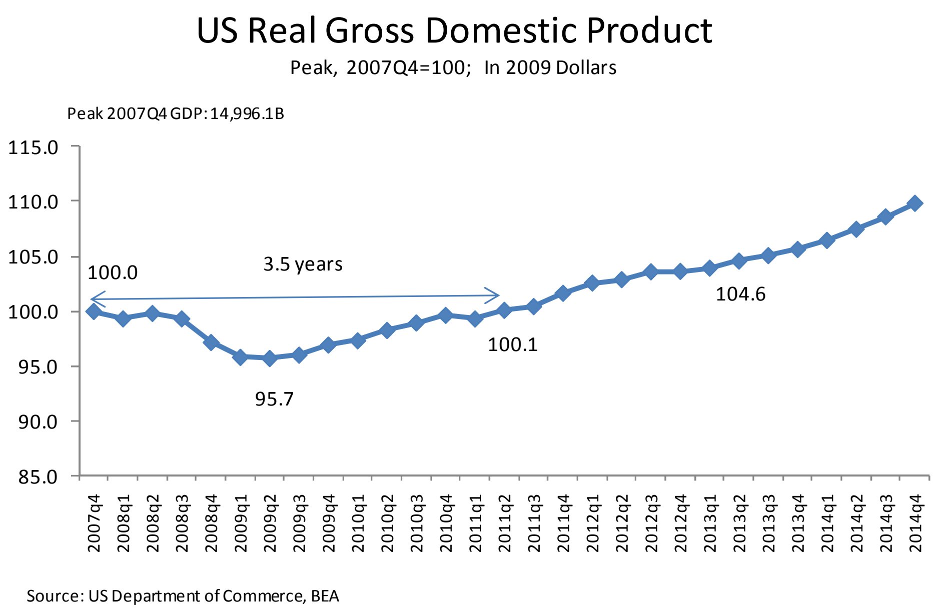
GENERAL FUND ECONOMIC GROWTH RATES



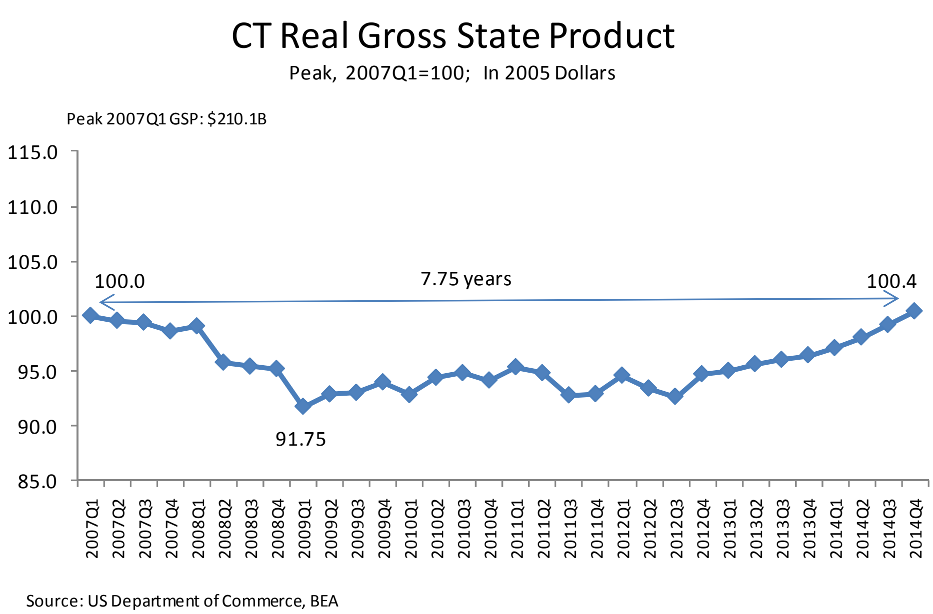
- The onset of the recession led to two years of decline in FY 2009 and FY 2010.
- Federal stimulus, rebounding equity markets, and the expectation that the Bush tax cuts were going to expire at the end of 2010 led to a 10.3% jump in FY 2011 followed by an anemic 0.9% increase in FY 2012.
- The partial expiration of the Bush tax cuts at the end of 2012 led to a 6.6% increase in FY 2013.
- In the out-years, the latest consensus revenue forecast anticipates a weaker recovery than was exhibited after the 2002 recession.

SLOWER ECONOMIC RECOVERY

Tepid Economic Rebound and Lower Economic Projections



- From peak to trough, U.S. economic output fell by 4.3%.
- It took 3.5 years for the U.S. economy to regain its pre-recession level of output.
- The average post-WWII recovery period is 1.2 years.
- As of June 2013, U.S. GDP was 4.6% above its 2007 peak.

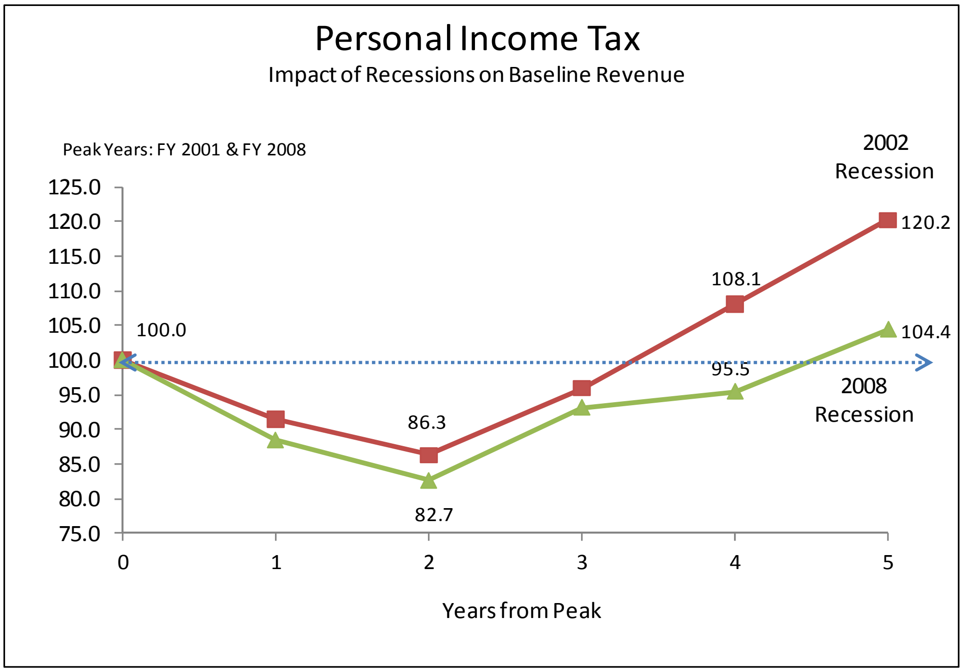


- From peak to trough, Connecticut economic output fell by 8.25%
- It will take an estimated 7.75 years for the Connecticut economy to regain its pre-recession level of output.

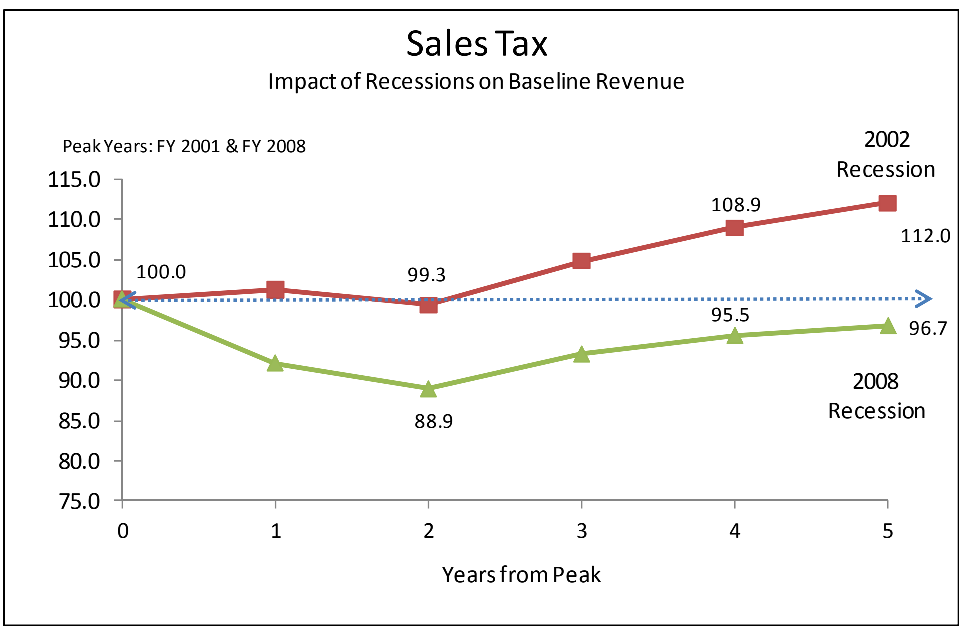
SLOWER ECONOMIC RECOVERY

Sub-Par State Revenue Growth

By setting peak years to an index value of 100 and removing the impact of tax changes, ready comparisons can be made about subsequent performance. For the two most recent recessions, revenue peaked in FY 2001 and FY 2008, respectively.



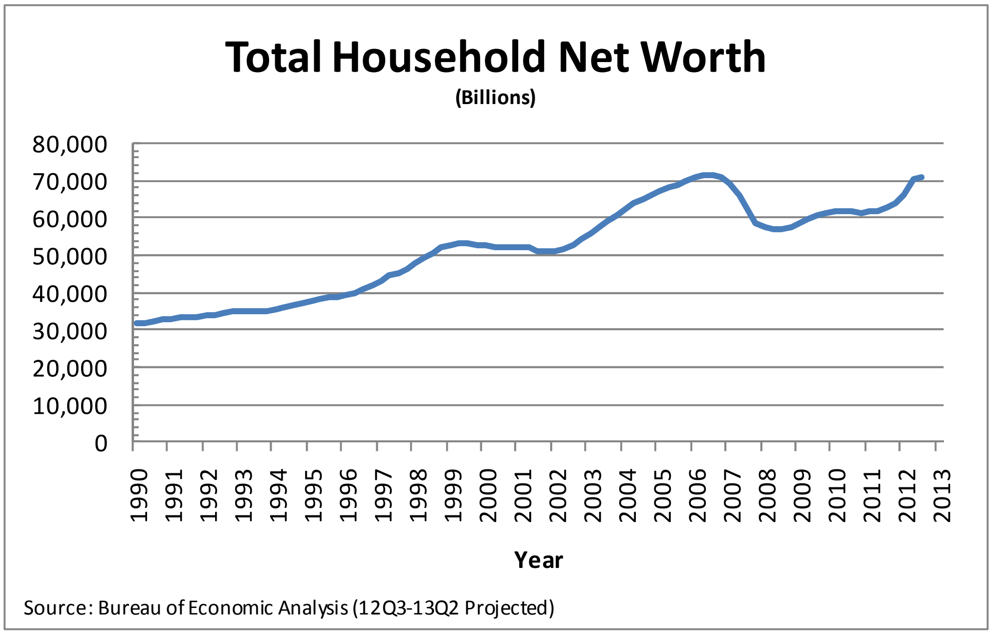
- Income tax revenues have now exceeded their pre-recession peak.
- Removing the impact of tax changes, revenue is 4.4% above pre-recession levels.
- If this recovery had been similar to the 2003 recovery, income tax revenue would have been $1.3 billion higher in FY 2013.



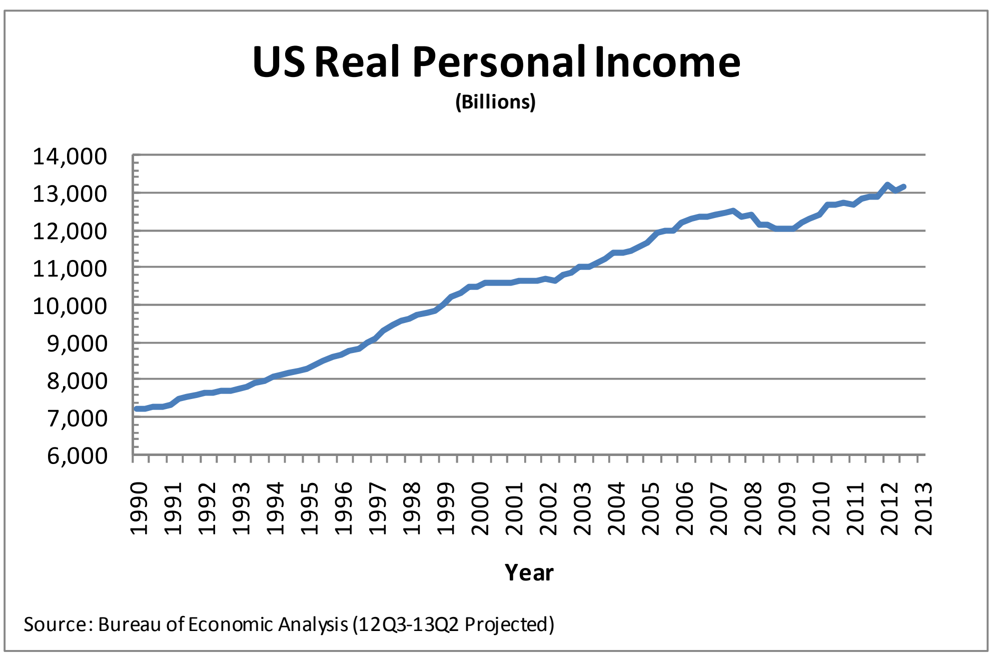
- Unlike the income tax, the state's sales tax is down 3.3% from FY 2008 levels.
- Had the sales tax recovered at the same pace as in 2003, revenues would have been $600 million higher in FY 2013.

SLOWER ECONOMIC RECOVERY

Lower Household Net Worth and Stagnant Incomes



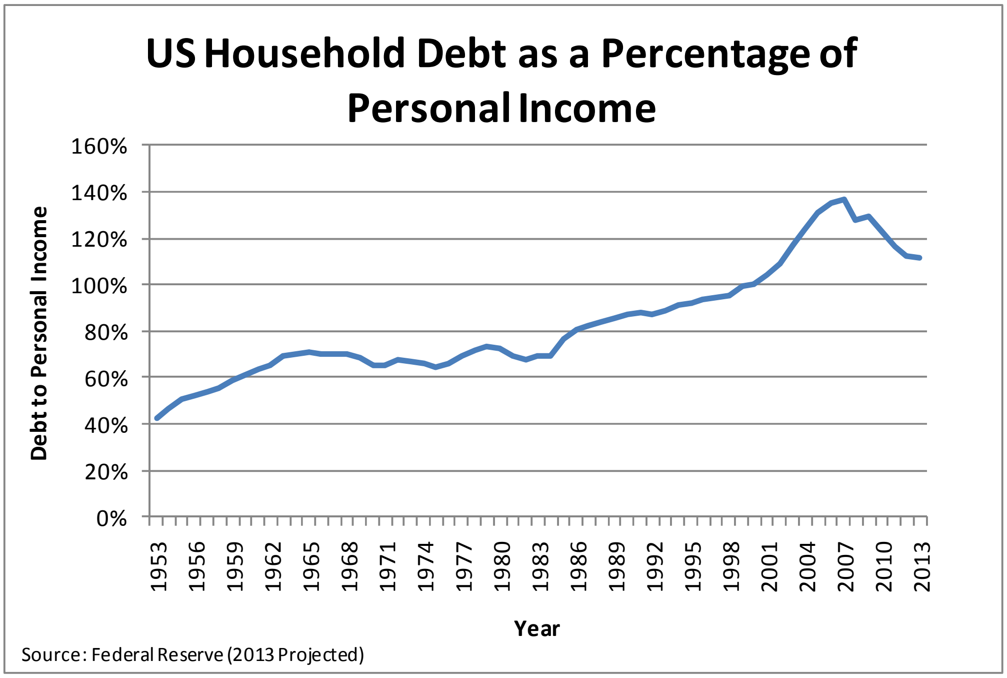
- Household net worth for all Americans peaked at $71,372 billion in 2007 Q2.
- The financial crisis wiped–out 20% of households' total net worth, from peak to trough.
- Even today, U.S. household net worth remains 1% below the 2007 peak. This has had a negative impact on consumers' ability to borrow against their assets and consumer confidence via the "wealth effect" during the recovery.



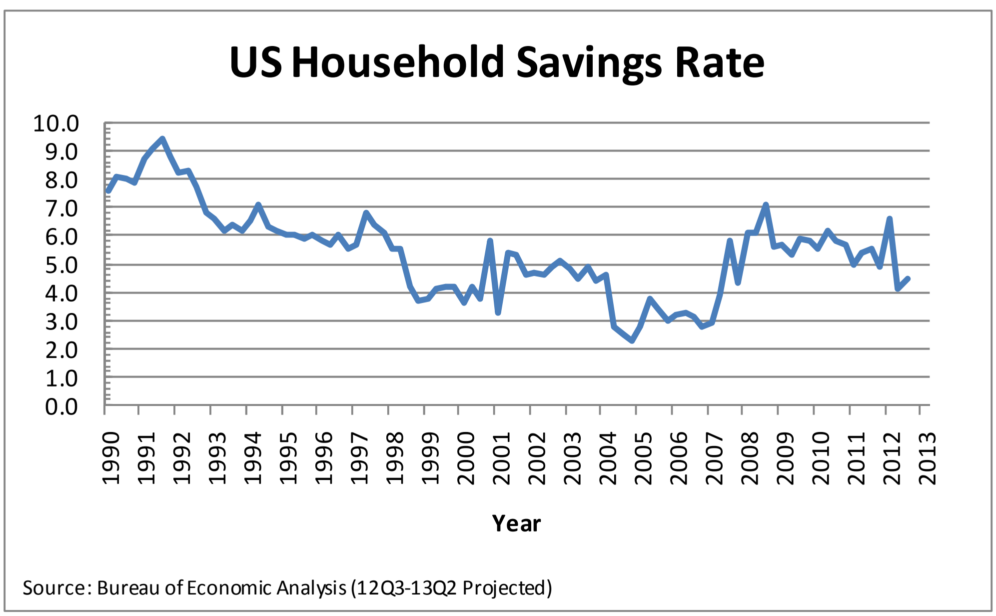
- From its peak in 2008 Q2, U.S. real personal income declined $469 billion, or 3.8% by 2009 Q4.
- From its peak in 2008 Q2 to 2013 Q2, there has been a 5.4% growth in U.S. real personal income, or 1% annually.

SLOWER ECONOMIC RECOVERY

Paying for Past Consumption and Saving for the Future



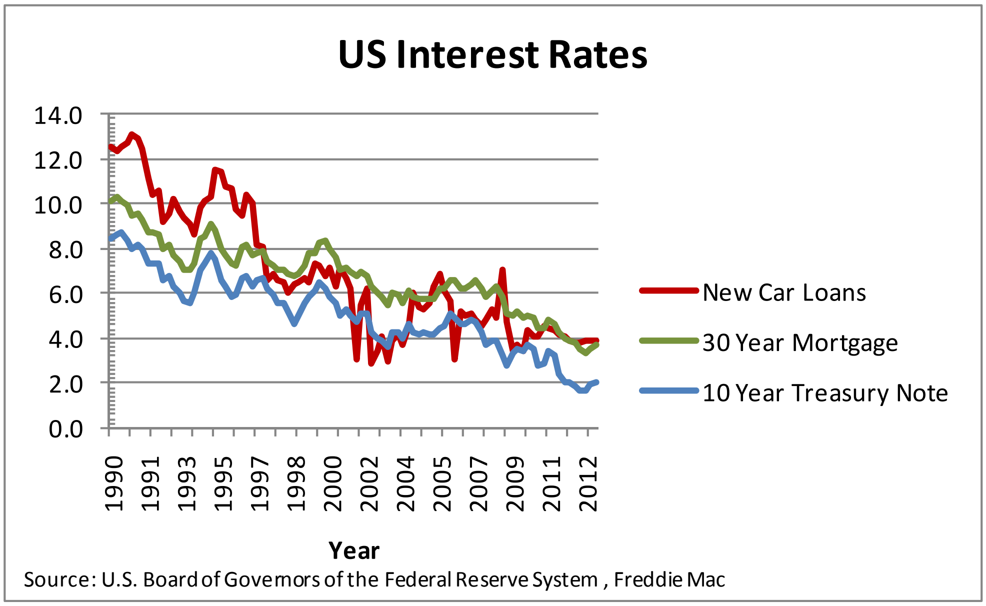
- In 2007, U.S. household debt peaked at 137% of personal income.
- U.S. households have been slowly paying off this debt, decreasing to 112% in 2012 Q2.
- Debt remains at an elevated level compared to the 1960s & 1970s.
- Repayment for past consumption is acting as a drag on current consumption.
- At the current pace it will take approximately 10 years to reach the 1952–1990 average of 65%.



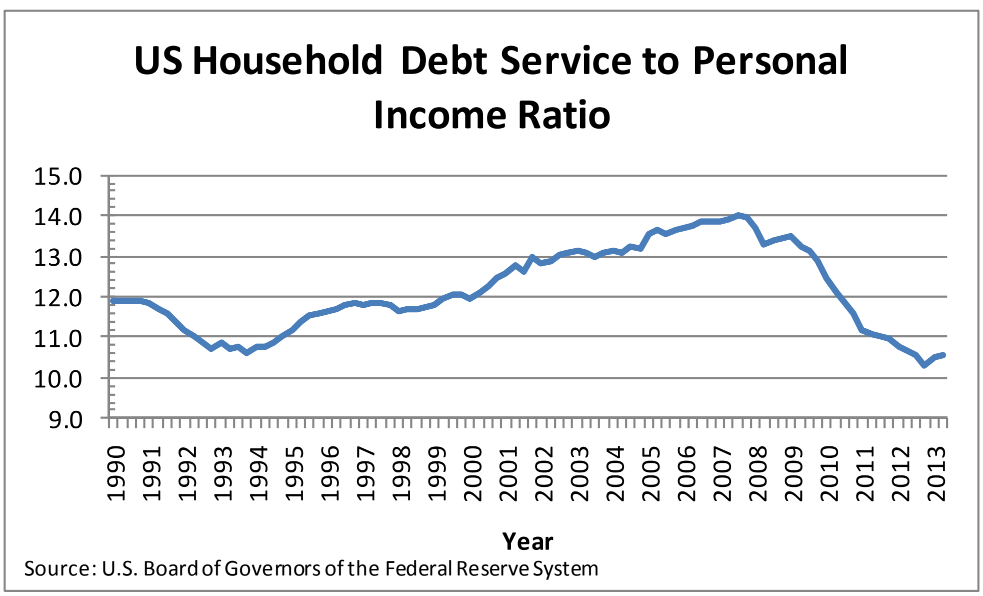
- The average U.S. household savings rate was 3.52% between 2004–2006.
- From 2007 on, it has averaged 5.1%.
- Although necessary, this diverts resources from current consumption.
- The increase in household savings, which includes debt repayment, is equivalent to 1.8% annually of U.S. GDP since CY 2007.

SLOWER ECONOMIC RECOVERY

Interest rates are at historic lows.



- Interest rates have fallen dramatically over the past two decades.
- In a normal economic environment, this would increase consumption.
- The financial crisis damaged the asset side of consumers' balance sheets resulting in consumers favoring debt reduction to increased consumption, despite a favorable interest rate.
- This inhibits the effectiveness of monetary policy to stimulate the economy.

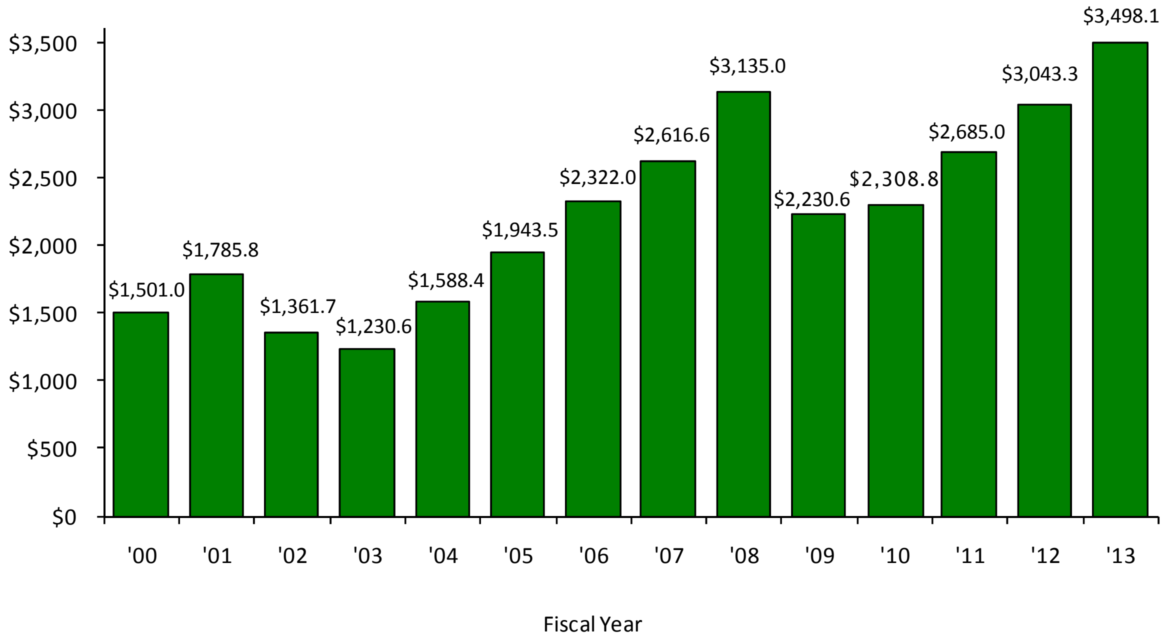


- The ratio of debt service paid by households relative to their personal income has fallen dramatically since the financial crisis.
- While this is good for consumers, it is primarily caused by historically low interest rates.
- The low interest rate environment is allowing consumers to address their debt levels.

PERSONAL INCOME TAX

ESTIMATES AND FINALS PERSONAL INCOME TAX COLLECTIONS

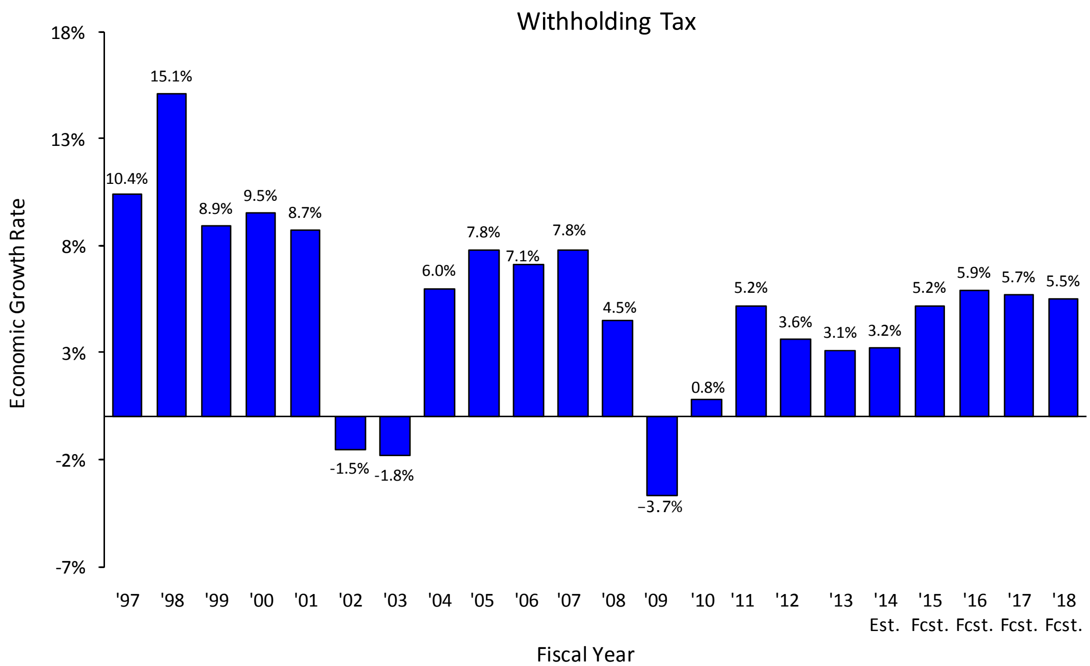
(In Millions)



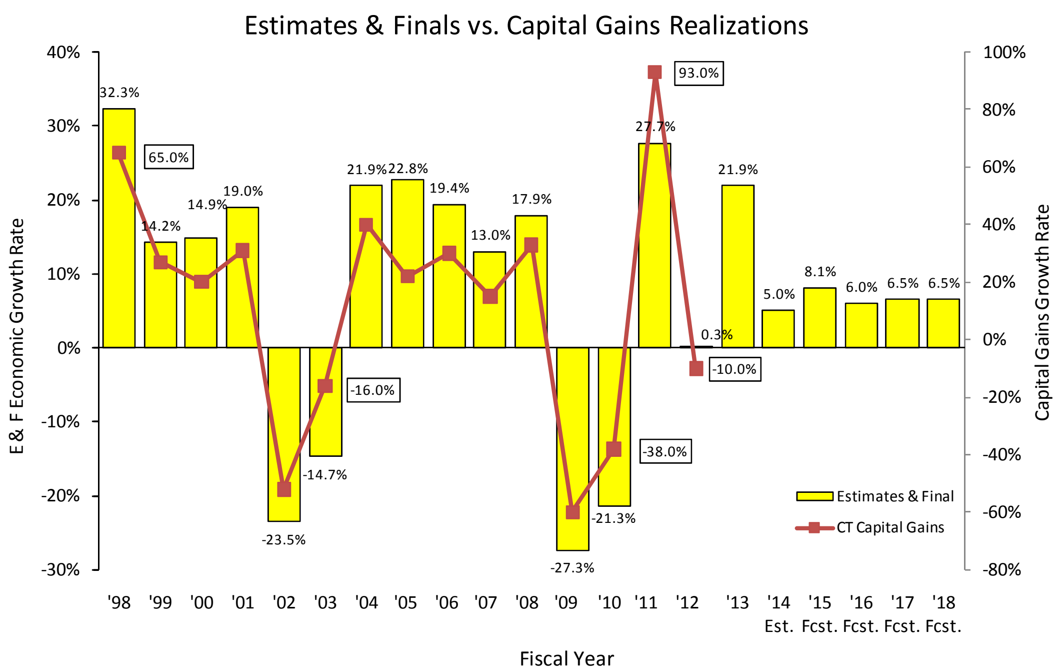
- The estimates and finals component of the income tax typically represents one-third of total income tax collections.
- It has been extremely volatile over the years.
- In FY 2002, estimates and finals fell by $424.1 million.
- In FY 2003, estimates and finals fell by an additional $131.1 million for a total of $555.2 million or 31% from the 2001 peak.
- In FY 2009 alone, estimates and finals fell by $904.4 million and fell an additional $475.4 million (excluding the impact of the tax increase on millionaires) in FY 2010 for a total decline over two years of approximately $1.4 billion or 44.5% from the 2008 peak.
- The increase in actual collections in FY 2010 was a result of increasing the top tax rate from 5% to 6.5%, the underlying economic growth rate was -21.3%.
- Although FY 2012 increased by 13.3%, almost all of that growth was due to the tax increase enacted during the 2011 legislative session.

PERSONAL INCOME TAX TRENDS

ECONOMIC GROWTH RATES OF THE PERSONAL INCOME TAX



- Over the past decade Connecticut's income tax revenue has fluctuated dramatically.
- This was due to the performance of the stock market and two recessions.
- Performance in the financial markets significantly influences the growth in this revenue source.



Note: Capital Gains are for the immediately preceding calendar year.

CAPITAL GAINS ARE A VOLATILE REVENUE SOURCE

(In Millions)

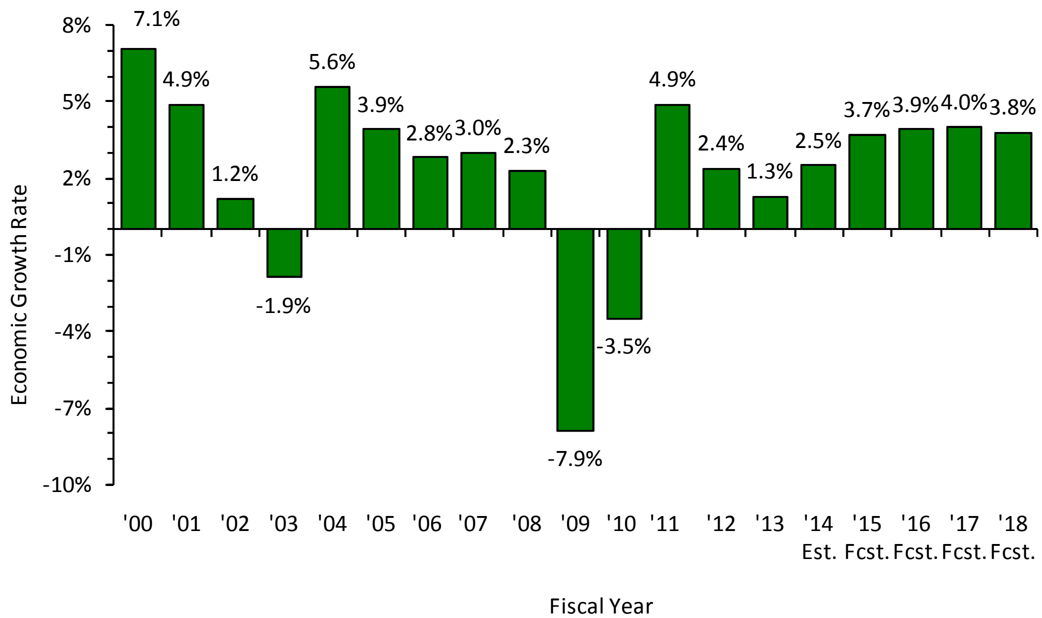
Income Year	Conn. Capital Gains	Percent Change	S&P 500 Percent Change	
1994	$2,547	-16%	-2%	
1995	$3,832	50%	34%	
1996	$4,732	23%	20%	
1997	$7,787	65%	31%	
1998	$9,867	27%	27%	
1999	$11,800	20%	20%	
2000	$15,435	31%	-10%	
2001	$7,391	-52%	-13%	
2002	$6,231	-16%	-23%	
2003	$8,723	40%	26%	
2004	$10,626	22%	9%	
2005	$13,765	30%	3%	
2006	$15,784	15%	12%	
2007	$21,006	33%	4%	
2008	$8,377	-60%	-38%	
2009	$5,172	-38%	23%	
2010	$9,962	93%	13%	
2011	$8,977	-10%	0%	
2012	Data not yet available		14%	
2013	Data not yet available		22%	YTD

- Capital gains income is strongly influenced by the performance of the stock market.
- In high years capital gains can represent almost 15% of total adjusted gross income.
- In low years, capital gains can represent just 4% of total adjusted gross income.
- Unfortunately, a record high year can be immediately followed by a record low year, creating extreme volatility in state finances.
- In 2009, during the “Great Recession,” capital gains revenues were less than 25% of the 2007 record high.

Sources: Department of Revenue Services and Internal Revenue Service various years
YTD through 10/23/2013

SALES TAX TRENDS

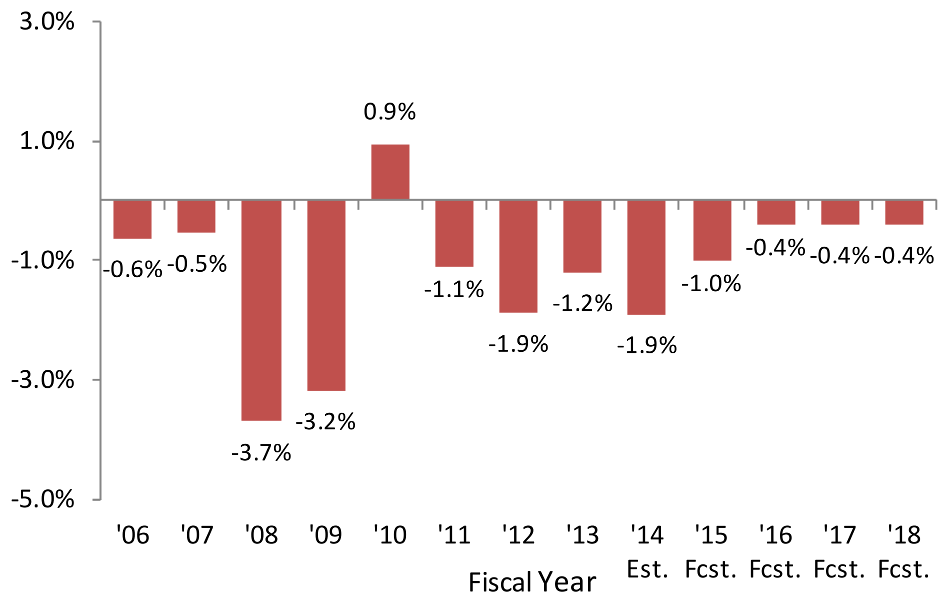
ECONOMIC GROWTH RATES OF THE SALES AND USE TAX



- The sales tax dropped in two consecutive years, fiscal 2009 and 2010, due to chaos in the financial market and the worst economic downturn since WWII.
- Beginning in late fiscal 2008, collections started to weaken as the housing market deteriorated with prices declining and foreclosure rates increasing.
- Without the federal stimulus packages, FY 2009 and FY 2010 would have been worse.
- Collections in late fiscal 2011 improved markedly as employment and personal income increased.
- A 1.0% increase in the sales and use tax growth rate results in a revenue gain of more than $40 million.
- Weak economic growth and the expiration of the social security payroll tax cut, effective January 2013, led to only 1.3% growth in FY 2013.

MOTOR FUELS TAX TRENDS
AND THE SPECIAL TRANSPORTATION FUND

ECONOMIC GROWTH RATES OF THE MOTOR FUELS TAX



- By the summer of 2008, record high gasoline prices and the onset of a severe national recession forced consumers to significantly alter their driving habits and/or mode of transportation in an effort to reduce their gasoline bill in the short term.

- Gasoline consumption rose in FY 2010 but the decline in FY 2011 consumption more than offset the one year of positive growth.

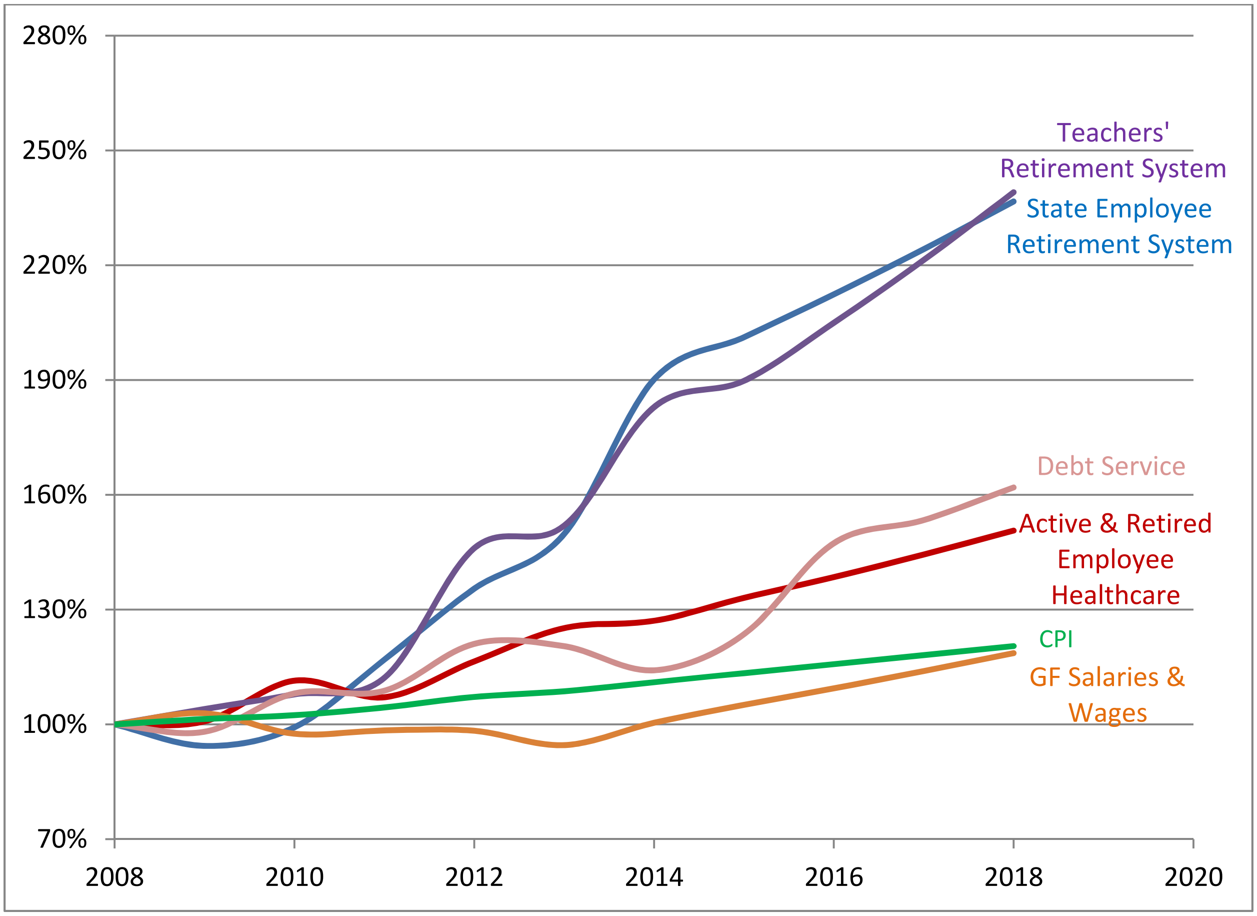
- From FY 2006 through FY 2013, the cumulative decline in Motor Fuels tax revenue is 10.3%.

- For this revenue source this is not just a cyclical change, but a major structural change on the part of consumers.

- In FY 2013, Motor Fuels tax revenue equaled 40.7% of the total revenue of the Special Transportation Fund which is down from 55.4% in FY 2003. Declining growth in motor fuels revenue has led to an increasing reliance on other revenue sources to support the fund, including transfers from the General Fund.

GROWTH IN SIGNIFICANT GENERAL FUND EXPENDITURES

Fiscal Year 2009 through Estimated FY 2018



- Chart represents growth in various budget factors relative to FY 2008 level.

- Significant cost drivers include pension contributions for teachers and state employees, healthcare costs for active and retired state employees, and debt service costs. All of these have grown at annual rates that are significantly higher than the consumer price index and are anticipated to continue to be significant cost drivers for the foreseeable future.

- Due to a change in how Medicaid expenses are budgeted, the Medicaid program is not displayed on this chart. However, as a result of enhanced federal funding under the Affordable Care Act, a significant reduction in the State share of expenses for Medicaid will be achieved beginning in January 1, 2014. Thereafter, Medicaid expenditures are likely to begin to grow at rates that are higher than the rate of general inflation. See Medicaid graph elsewhere in this report.

- The above figures reflect actual General Fund expenditures through FY 2013 and estimated expenditures for FY 2014 through FY 2018.

LONG-TERM OBLIGATIONS

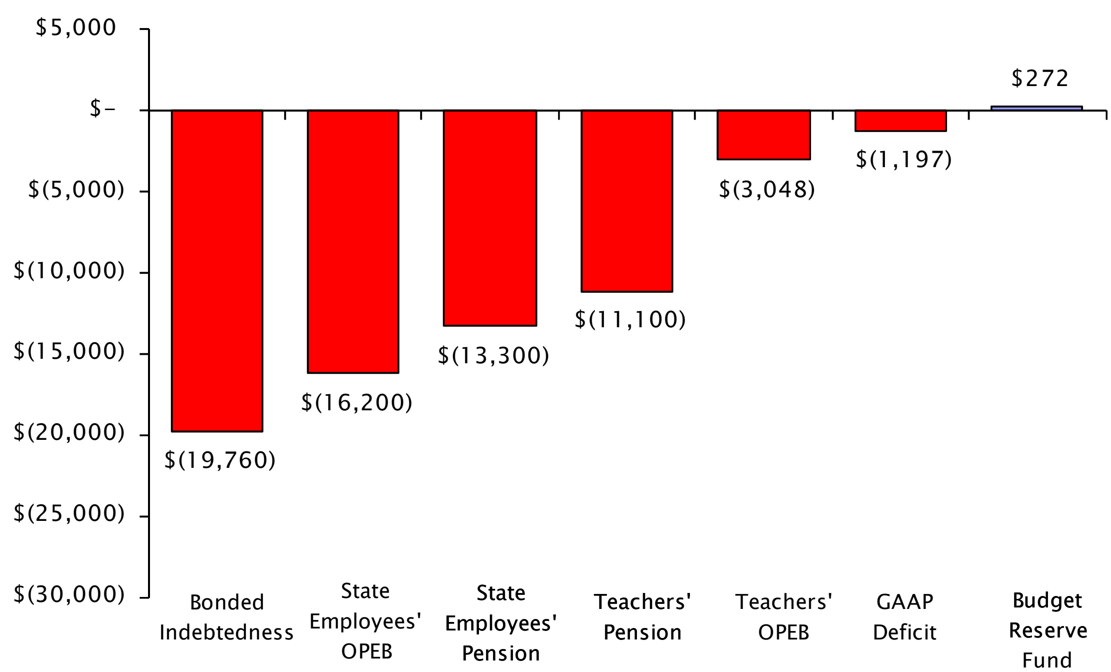
- The state's long-term obligations total $64.6 billion, down 2.3% from last year's reported amount of $66.1 billion.

- This equates to approximately $18,000 per capita, down $500 from last year's reported amount of $18,500.

LONG-TERM OBLIGATIONS
(In Billions)

Bonded Indebtedness - As of 7/31/13	$ 19.8
State Employee Pensions - Unfunded as of 6/30/12	13.3
Teachers' Pension - Unfunded as of 6/30/12	11.1
State Employee Post Retirement Health and Life - Unfunded as of 6/30/2012	16.2
Teachers' Post Retirement Health and Life - Unfunded as of 6/30/2012	3.0
Cumulative GAAP Deficit (General Fund Unassigned) est. as of Oct. 2013	1.2
Total	$ 64.6

LONG-TERM OBLIGATIONS ARE SIGNIFICANT
(In Millions)



LONG-TERM OBLIGATIONS
PROGRESS HAS BEEN MADE

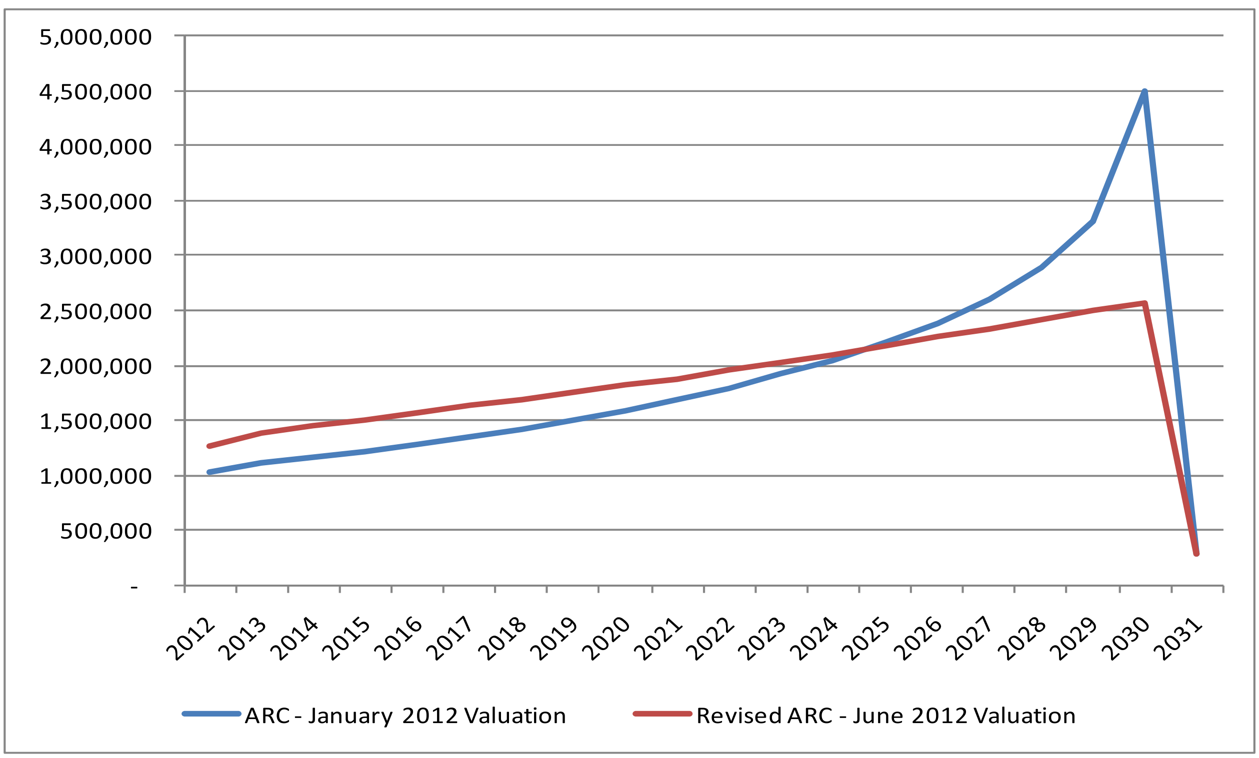
- While the state's long term liabilities are significant, progress has been made in addressing them.
  - SERS:
    - Various changes to benefits (SEBAC 2009, SEBAC 2011).
    - More conservative actuarial assumptions.
    - Increased ARC payments.
  - TRS: Pension Obligation Bonds and disciplined approach to ARC payments.
  - OPEB: Beginning stages of trust fund vs. pay-as-you-go; contributions by employees and employer.
  - Debt Service: Continued commitment to reasonable debt service expenditures as proportion of budget.
  - GAAP:
    - Cumulative shortfall: Bonds and appropriations
    - Going forward: Appropriations and budgeting approach to addressing any future GAAP shortfalls.
- The results of these changes will begin to show up in future valuations of pension, OPEB and GAAP liabilities.
- A disciplined and sustained approach is required to ensure that this positive progress is maintained.

STATE EMPLOYEES RETIREMENT SYSTEM

STEPS TOWARD ADDRESSING LIABILITY

- SEBAC 2011 agreement added new retirement tier, changed retirement age, reduced minimum COLA, and made early retirement less generous
- Eliminated SEBAC IV & V adjustments to pension ARC, helping to address back-loaded amortization schedule
- Revised actuarial assumptions
    - Economic Assumption Changes
        - Decreased assumed investment return from 8.25% to 8.00%
        - Decreased assumed price and wage inflation from 3.0% and 4.0% to 2.75% and 3.75 respectively.
    - Demographic Assumption Changes
        - Adopted more conservative estimates for withdrawal from active service rates, disability retirement rates, and mortality rates.
    - These changes had the impact of reducing the calculated funding ratio from 47.9% to 45.3% and increasing our ARC for FY 2014 by about 10.6%.

Flatter, more sustainable pension ARC ($000)



Revised ARC reflects elimination of SEBAC IV & V adjustments and changes in actuarial assumptions. Year reflects valuation year; valuation year 2012 figures correspond to Fiscal Year 2014 budget impact.

OTHER POST EMPLOYMENT BENEFITS (OPEB)

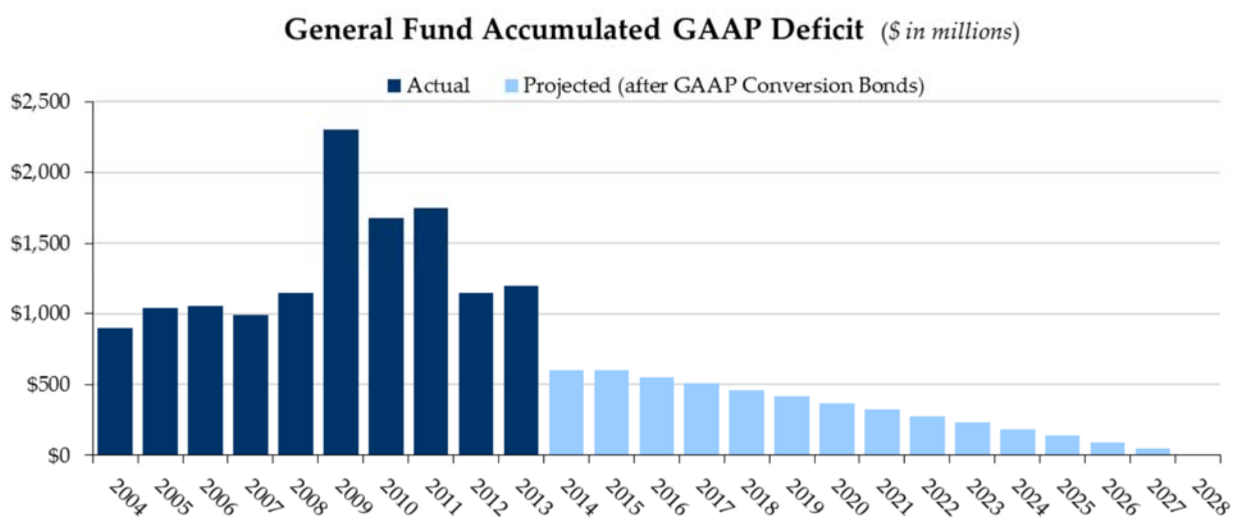
STEPS TOWARD ADDRESSING LIABILITY

- SEBAC 2009
  - Effective 7/1/2009, all new health care eligible employees contribute 3% of their salary to fund retiree health for the first 10 years of employment.
  - Effective 7/1/2010, any health care eligible employees with fewer than 5 years of service contribute 3% of their salary until they reach 10 years of employment
- SEBAC 2011
  - All employees, not just new employees, contribute a percent of their salary for ten years or until retirement, whichever is sooner. The contribution percentages will be phased in over three years as follows:
    - 0.5% effective the first day of the pay period after July 1, 2013;
    - 2.0% effective the first day of the pay period after July 1, 2014;
    - 3.0% effective the first day of the pay period after July 1, 2015.
  - Increased health premium share for early retirees.
  - Before agreement, premium shares ranged from 0-3%.
  - Now, for individuals who elect early retirement, premiums range from 2-40%, depending upon years of service and the number of years retiring early. The premium for any given employee is capped at 25% of the person's actual pension benefit.
- The OPEB trust fund contained $59.7 million in net assets as of June 30, 2012.
- Deposits to the OPEB Trust Fund:
  - State Contributions
    - $10 million – FY 2008. A state appropriation represented the state's first deposit into the fund.
    - $14.5 million – FY 2011. This sum was deposited at the end of FY 2011 from the year end fund balance per the 2009 SEBAC agreement.
  - Employee Contributions
    - $1.4 million – FY 2010. Started collections from new employees only per the 2009 SEBAC agreement.
    - $21.6 million – FY 2011. Started collections from new employees and employees with less than 5 years of service per the 2009 SEBAC agreement.
    - $25.0 million – FY 2012.
    - $27.5 million – FY 2013.
  - Effective July 1, 2017, the state will contribute an amount equal to the amount contributed by employees in each year.

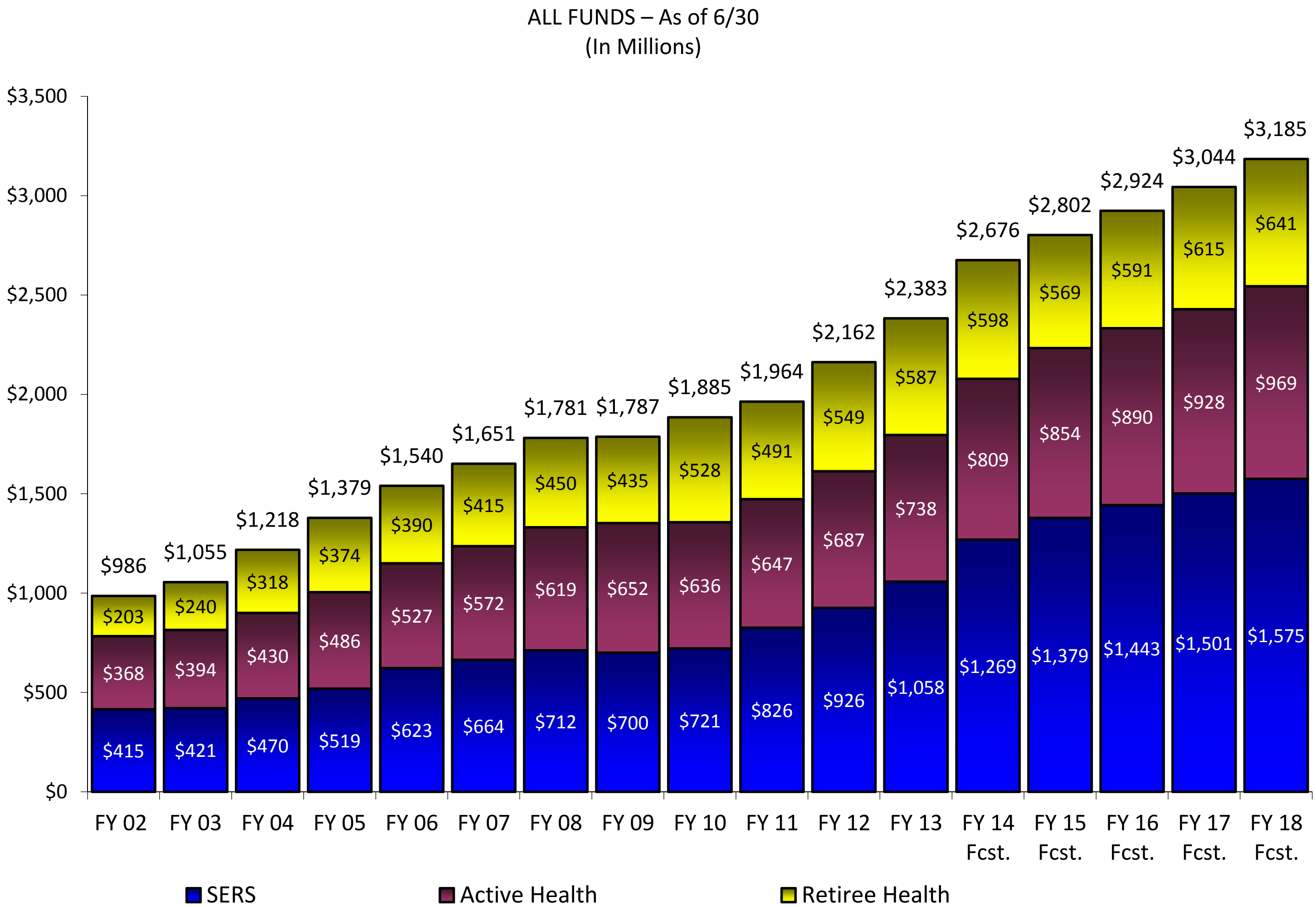
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

STEPS TOWARD ADDRESSING LIABILITY

- The state's plan to address the cumulative GAAP deficit:
    - Issuance of approximately $575 million of General Obligation, GAAP Conversion Bonds to be amortized through 2028
    - Fund the remaining accumulated GAAP deficit over time through amounts deemed appropriated (approximately $46 million annually from 2016 to 2028)
- Appropriations to cover accruals starting in FY 2014 (to cover difference between cash basis budgeting and modified accrual basis)
- Requirement to address any future GAAP shortfall from operations in succeeding year's budget



STATE EMPLOYEES PENSION & HEALTH



Note: Retiree Health includes offsets for the Medicare Part D Employer Subsidy in FYs 2007 through 2012. SERS includes payment deferrals in FYs 2009 through 2011.

Total pension and health costs more than doubled in the eight years from fiscal 2002 to 2010. While these expenditures are anticipated to continue to grow, the rate of increase is projected to slow as a result of changes resulting from the 2009 and 2011 SEBAC agreements.

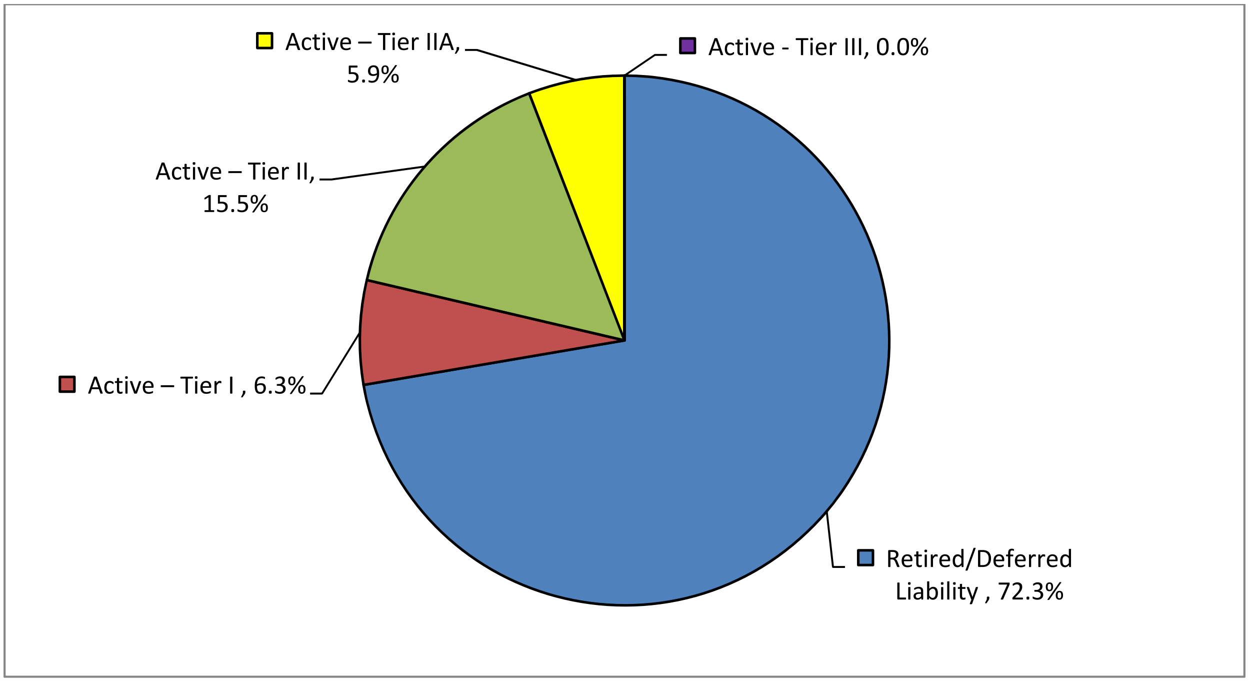
- Pension increases beginning in FY 2013 are due to several factors, including the elimination of the SEBAC IV & V adjustments, the decrease in the expected rate of return on investments and the recognition of investment losses from 2008 and 2009.

- Health insurance costs for active employees during the current biennium (FYs 2014 and 2015) are estimated to be 16.7% higher than in the prior biennium (FYs 2012 and 2013).

- Health insurance costs for retirees during the current biennium (FYs 2014 and 2015) are estimated to be only 2.7% higher than in the prior biennium (FYs 2012 and 2013). This is mainly due to the decrease in retiree premium equivalent rates in FY 2014.

STATE EMPLOYEES RETIREMENT SYSTEM

Components of Pension Liability

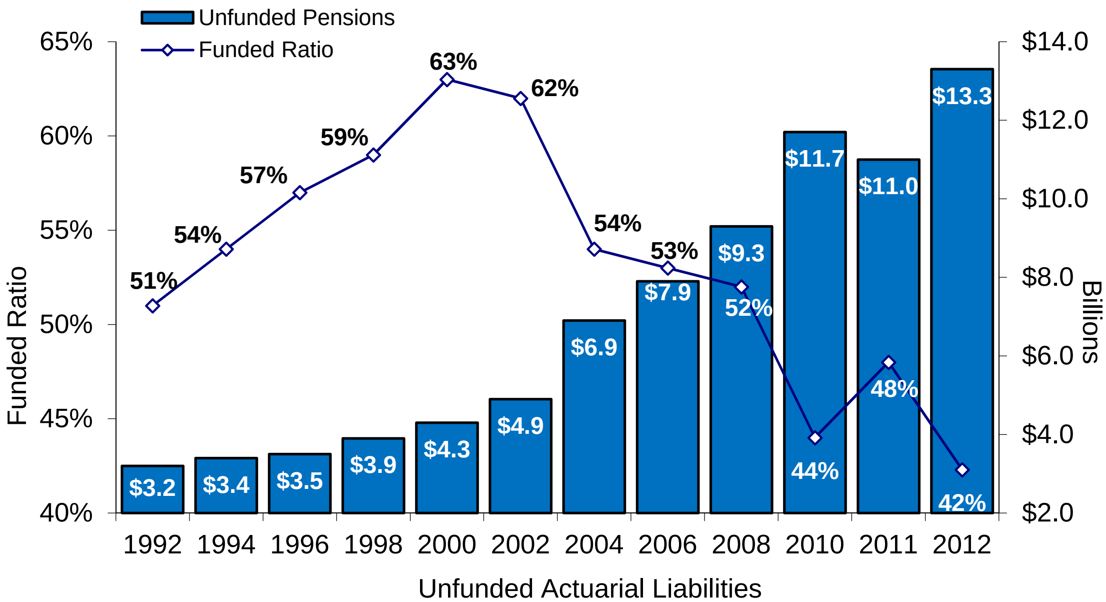


Based on 6/30/12 Valuation ($ in Thousands)		% of Total
Retired/Deferred Liability	$16,646,788	72.3%
Active – Tier I Hazardous	66,445	0.3%
Active – Tier IB	1,343,050	5.8%
Active – Tier IC	50,903	0.2%
Active – Tier II Hazardous	1,246,123	5.4%
Active – Tier II Others	2,316,785	10.1%
Active – Tier IIA Hazardous	590,337	2.6%
Active – Tier IIA Others	756,291	3.3%
Active - Tier III Hazardous	431	0.0%
Active - Tier III Others	1,599	0.0%
Total Accrued Liability	$23,018,752	
Actuarial Value of Assets	9,744,986	
Unfunded Accrued Liability	$13,273,766	
Normal cost	$249,996	
Amortization of UAL	$1,018,938	
Annual Required Contribution	$1,268,934	

- $23.0 billion total liability.
- Most (72.3%) of that liability is related to already-retired employees.
- $13.3 billion unfunded liability.
- 80% of the actuarially required contribution is for the unfunded accrued liability.

PENSION OBLIGATIONS - SERS

STATE EMPLOYEES RETIREMENT SYSTEM AS OF 6/30



- State Employees unfunded pension liabilities have grown since the 6/30/11 valuation due to changes in the economic and demographic assumptions.
- The state's obligations at the end of FY 2012 total $13.3 billion.
- This obligation represents roughly $3,707 per capita.

State Employee Retirement System Pension Contributions

Fiscal Year	Actuarial Required Contribution	State Contribution	Percent
2001-02	$415	$415	100%
2002-03	$426	$421	99%
2003-04	$474	$470	99%
2004-05	$516	$516	100%
2005-06	$623	$623	100%
2006-07	$664	$664	100%
2007-08	$717	$712	99%
2008-09	$754	$700	93%
2009-10	$897	$721	80%
2010-11	$944	$826	88%
2011-12	$926	$926	100%
2012-13	$1,060	$1,060	100%
2013-14 est.	$1,269	$1,269	100%
2014-15 est.	$1,379	$1,379	100%
2015-16 est.	$1,443	$1,443	100%
2016-17 est.	$1,501	$1,501	100%
2017-18 est.	$1,575	$1,575	100%

* In millions

State Employee Retirement Fund Rate of Return = 8.0%

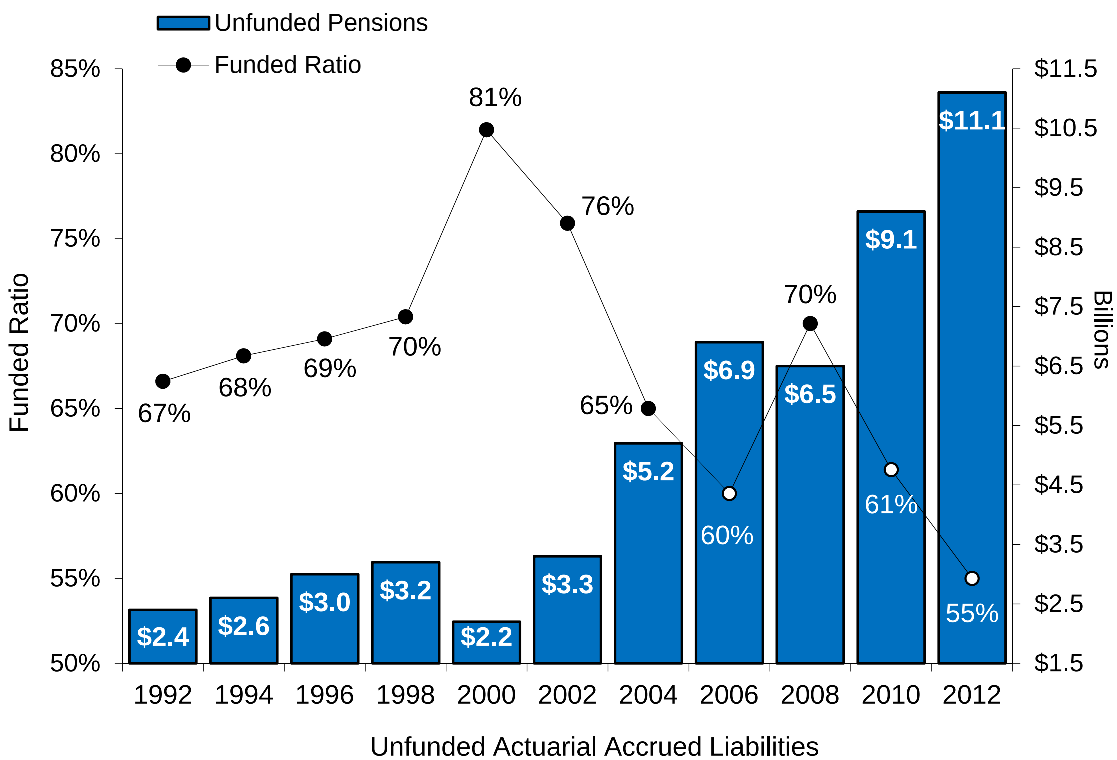
Fiscal Year	Rate of Return Market Value Basis
2001-02	-6.6%
2002-03	1.9%
2003-04	15.2%
2004-05	10.5%
2005-06	11.0%
2006-07	17.1%
2007-08	-4.8%
2008-09	-18.3%
2009-10	12.9%
2010-11	21.2%
2011-12	-0.9%
2012-13	11.9%

SERS utilizes 5 year smoothing.

- The deferral of the SERS contribution was $50 million in FY 2009, $164.5 million in FY 2010 and $100 million in FY 2011.
- Starting in FY 2013, the SEBAC IV & V adjustments are eliminated.
- Starting in FY 2014, the assumed rate of return is lowered from 8.25% to 8%.

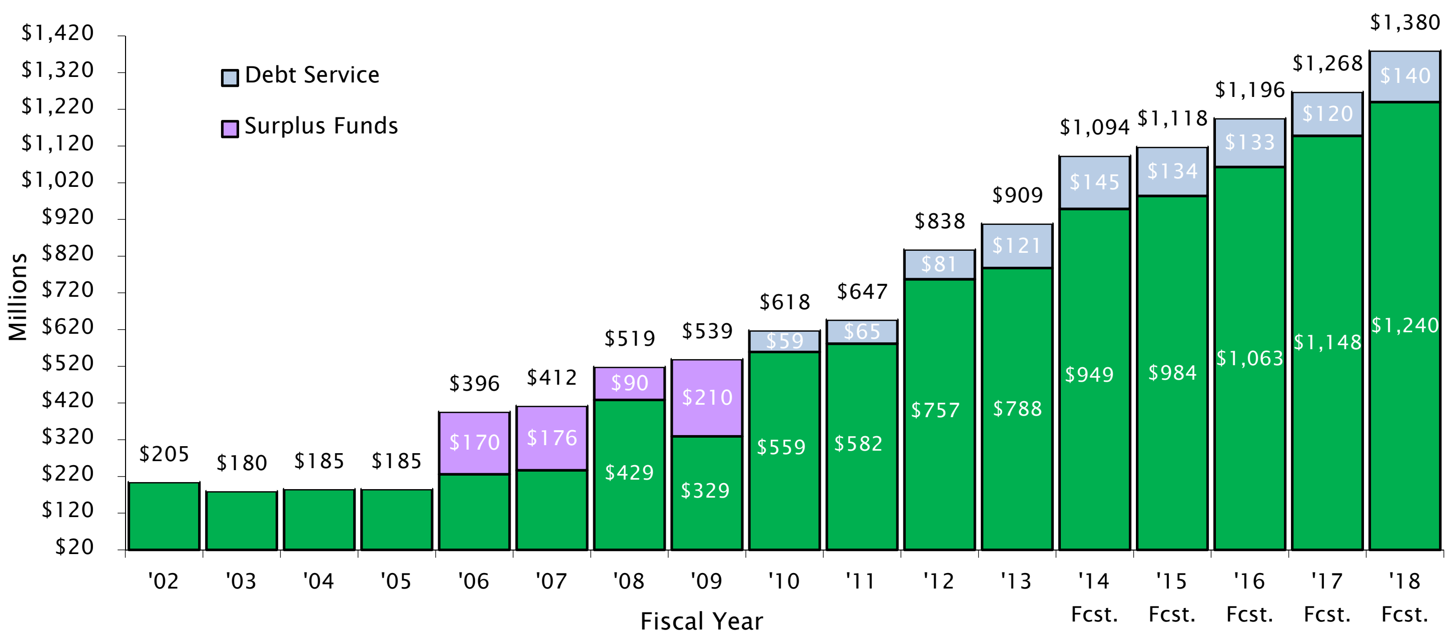
PENSION OBLIGATIONS - TRS

CONNECTICUT TEACHERS' RETIREMENT SYSTEM AS OF 6/30



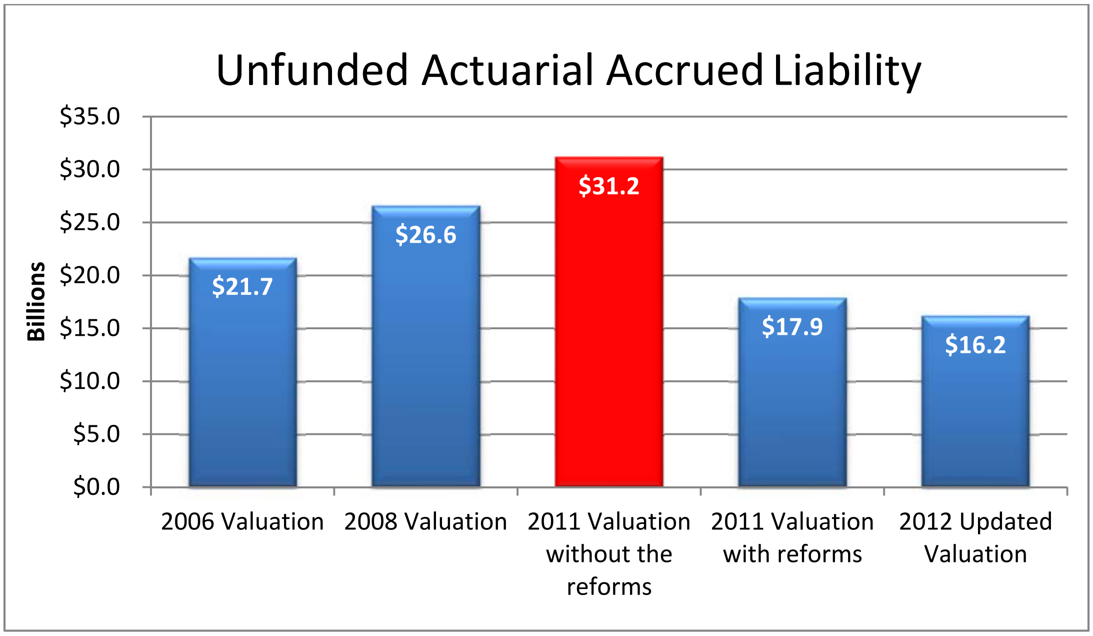
- The state's obligations at the end of FY 2012 total $11.1 billion.
- Appropriations in FY 2006, FY 2007, FY 2008 and FY 2009 were supplemented by the use of surplus funds.
- The decline in the funded ratio is primarily attributable to the recognition of the net investment experience over the past four years.

TEACHERS' RETIREMENT SYSTEM CONTRIBUTIONS *



* FY 2010 and beyond include debt service on the $2.3 billion pension obligation bonds issued on April 30, 2008 on behalf of the Teachers' Retirement System.

OTHER POST EMPLOYMENT BENEFITS



The 2012 updated OPEB valuation, received in April of 2013, showed another significant reduction in the state's unfunded liability of $1.68 billion from $17.9 billion to $16.2 billion. This builds upon the prior reduction of $13.3 billion due to the OPEB reforms negotiated in the SEBAC agreements of 2009 and 2011 (discussed below). The updated actuarial report reflects those reforms plus the following:

- a reduction in health care cost trends,
- a new prescription drug contract expected to reduce drug costs by 11%, and
- a conversion of the Medicare-age prescription drug program to an Employer Group Waiver Program.

There were two major OPEB reforms in the 2009 SEBAC Agreement. Effective 7/1/2009, all new health care eligible employees contribute 3% of their salary to fund retiree health for the first 10 years of employment. Effective 7/1/2010, any health care eligible employees with fewer than 5 years of service contribute 3% of their salary until they reach 10 years of employment.

The 2011 SEBAC Agreement incorporated a number of additional reforms. All employees, not just new employees, have started to contribute a percent of their salary to fund retiree health and will continue to contribute for ten years or until retirement, whichever is sooner. The contribution percentages will be phased in over three years as follows:

- 0.5% effective the first day of the pay period after July 1, 2013;
- 2.0% effective the first day of the pay period after July 1, 2014;
- 3.0% effective the first day of the pay period after July 1, 2015.

The 2011 agreement also stipulated a greater health premium share for early retirees. Before this agreement, the premium shares for retiree health care coverage were minimal, ranging from zero to a maximum of three percent. The agreement imposes premium sharing on individuals who elect early retirement, ranging from two percent to forty percent, based on the number of years of service and the number of years retiring early. The premium for any given employee is capped at 25% of the person's actual pension benefit.

If the state had not implemented any of the reforms negotiated with SEBAC, the UAAL would have increased to $31.2 billion in 2011. The SEBAC reforms combined with the changes in the updated valuation have therefore reduced the OPEB liability by $15.0 billion.

The OPEB trust fund contained $59.7 million in net assets as of June 30, 2012.

Deposits to the OPEB Trust Fund:

- State Contributions:
  - $10 million – FY 2008. A state appropriation represented the state's first deposit into the fund.
  - $14.5 million – FY 2011. This sum was deposited at the end of FY 2011 from the year end fund balance per the 2009 SEBAC agreement.
- Employee Contributions:
  - $1.4 million – FY 2010. Started collections from new employees only per the 2009 SEBAC agreement.
  - $21.6 million – FY 2011. Started collections from new employees and employees with less than 5 years of service per the 2009 SEBAC agreement.
  - $25.0 million – FY 2012.
  - $27.5 million – FY 2013.

Effective July 1, 2017, the state will contribute to the OPEB/Retiree Health Care Trust Fund an amount equal to the amount contributed by employees in each year.

DEBT BURDEN

State and Local Debt Comparison Among the 50 States in 2011

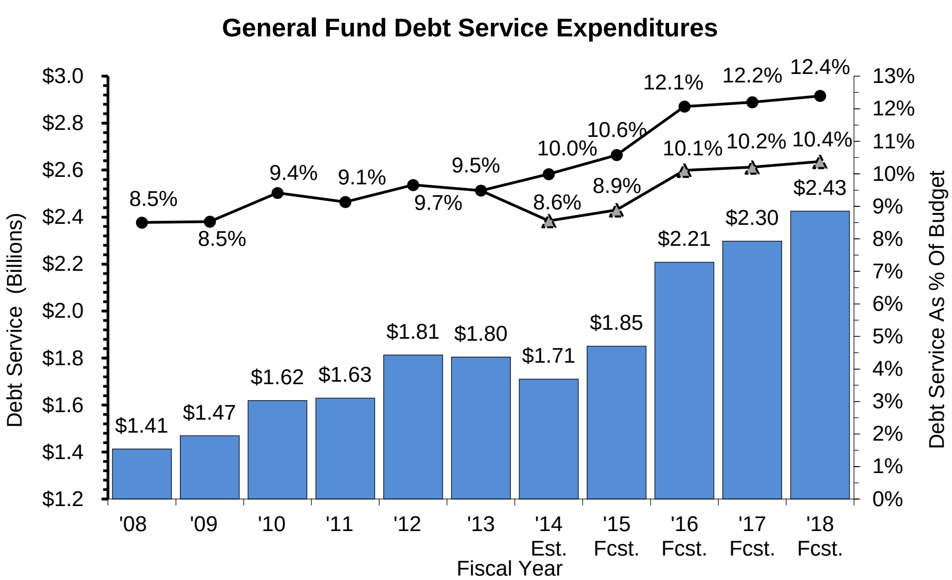
Ranked by State and Local Debt As a % of Personal Income (PI)- 2011			Ranked by Per Capita State and Local Debt-2011		
Rank	State	Debt/PI	Rank	State	Amount ($)
1	New York	34.4%	1	New York	17,849
2	Alaska	29.5%	2	Alaska	14,194
3	Kentucky	28.9%	3	Massachusetts	14,162
4	Illinois	27.4%	4	Illinois	12,073
5	Nevada	26.4%	5	New Jersey	12,067
6	Massachusetts	26.1%	6	**Connecticut**	**11,879**
7	Texas	25.7%	7	California	11,459
8	South Carolina	25.7%	8	Washington	11,245
9	California	25.7%	9	Rhode Island	11,122
10	Washington	25.3%	10	Texas	10,553
11	Rhode Island	24.9%	11	Colorado	10,510
24	**Connecticut**	**20.6%**	12	Hawaii	10,213
	UNITED STATES	20.3%		UNITED STATES	$ 8,496

Source: U.S. Department of Commerce, Census & BEA

- Connecticut ranks 24th in the nation in 2011 for debt outstanding as a percentage of personal income.
- Connecticut's state and local debt burden in 2011 equals $11,879 per person.
- Based on 2011 data, Connecticut would rank 3rd per capita in the nation and 5th on a personal income basis based on state debt alone.

IMPACT OF DEBT EXPENSES

GENERAL FUND DEBT SERVICE EXPENDITURES



- Debt Service expenditures as a percentage of the General Fund budget have remained fairly steady.
- The secondary debt service percentage line (FY 2014-18) adjusts for the net budgeting approach to Medicaid expenditures; debt service would continue at about 10% of the General Fund budget.
- The 2013 refinancing of Economic Recovery Notes is reflected in the debt service requirements for FY 2014 through FY 2018.

CONNECTICUT'S BOND RATING

CURRENT GENERAL OBLIGATION BOND RATING

	Moody's	S&P	Fitch	Kroll
Rating	Aa3	AA	AA	AA
Outlook	Stable	Stable	Negative	Stable

- Prior to 1975, Connecticut's General Obligation (GO) bonds had the highest rating possible: Aaa by Moody's and AAA by Standard & Poor's (S&P).
- The most recent revision in Connecticut's bond rating was a change to in outlook from stable to negative by Fitch in July 2013.

NUMBER OF STATES RATED

Rating	Moody's	S&P	Fitch	Kroll
Better than CT	35	20	25	0
Equal to CT	1	14	8	1
Lower than CT	2	4	3	0
Total*	38	38	36	1

* 39 states issue GO bonds. All 39 states are rated by Standard and Poor's and Moody's, Fitch has no ratings for Arkansas and New Mexico, and Kroll's only state-level ratings are for Connecticut and Wisconsin.

NEIGHBORING STATES' RATINGS

State	Moody's	S&P	Fitch
Vermont	Aaa	AA+	AAA
Massachusetts	Aa1	AA+	AA+
New Hampshire	Aa1	AA	AA+
Maine	Aa2	AA	AA
New York	Aa2	AA	AA
Rhode Island	Aa2	AA	AA
Connecticut	**Aa3**	**AA**	**AA**
New Jersey	Aa3	AA-	AA-

IMPORTANCE OF BOND RATINGS

- The rating process informs investors about risk
- The rating process shows how we compare relative to other investments
- Connecticut relies on capital markets to finance capital improvements
- Low ratings will result in higher borrowing costs

CONNECTICUT'S CREDIT RATING

State Credit Strengths

- Historical application of operating surpluses to the Budget Reserve Fund
- Historical early repayment of the Economic Recovery Notes issued to cover operating deficits
- Wealthiest state in the nation with per capita income well above national levels

State Credit Challenges

- Vulnerability to financial market fluctuations due to effect on capital gains for high wealth residents and employment in the financial services sector
- Deterioration of already weak GAAP-basis balance sheet due to negative unreserved/under-designated General Fund balance and depletion of Budget Reserve Fund
- Debt ratios are among the highest in the nation
- Pension systems have low funding ratios

What could make the state rating improve

- Achievement and maintenance of high GAAP-basis combined available reserve levels
- Established trend of structural budget balance
- Evidence of a stronger economic performance
- Reduced debt ratios
- Significantly improving the funding of pension and post-retirement liabilities

What could make the state rating deteriorate

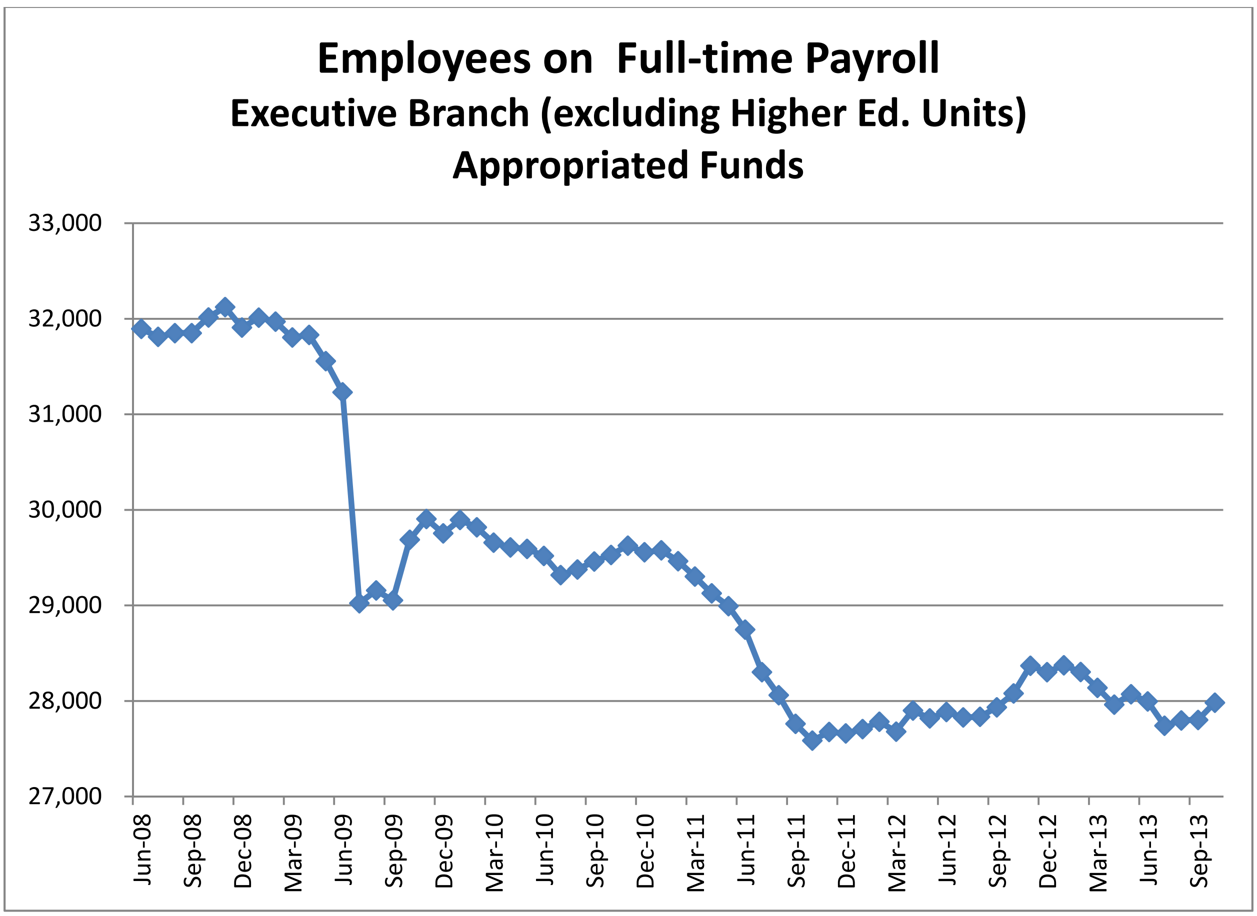
- Lack of improvement in available reserve levels
- Failure to improve the state pension funded ratios and lower its overall fixed costs
- Reversion to significant one-time budget solutions including the use of deficit financings to resolve budget gaps
- Reduction in cash flow-reduced liquidity
- Substantial revenue weakness driven by delayed economic recovery

REDUCING THE SIZE OF STATE GOVERNMENT

The size of state government has been significantly reduced through the efforts of Governor Malloy's administration. This reduction applies to the number of state agencies, which experienced a number of significant consolidations and mergers, as well as to the size of the state workforce, which has undergone substantial attrition without resorting to any costly retirement incentive plans.

Between FY 2011 and FY 2015, the number of budgeted State agencies has been reduced by 27%, from 81 to 59.

Based on payroll data, full-time Executive Branch employment has fallen since December 2010 from approximately 29,600 employees to approximately 28,000: a reduction of 5.4%. Full-time Executive Branch employment now stands more than 12% below the level during calendar year 2008.



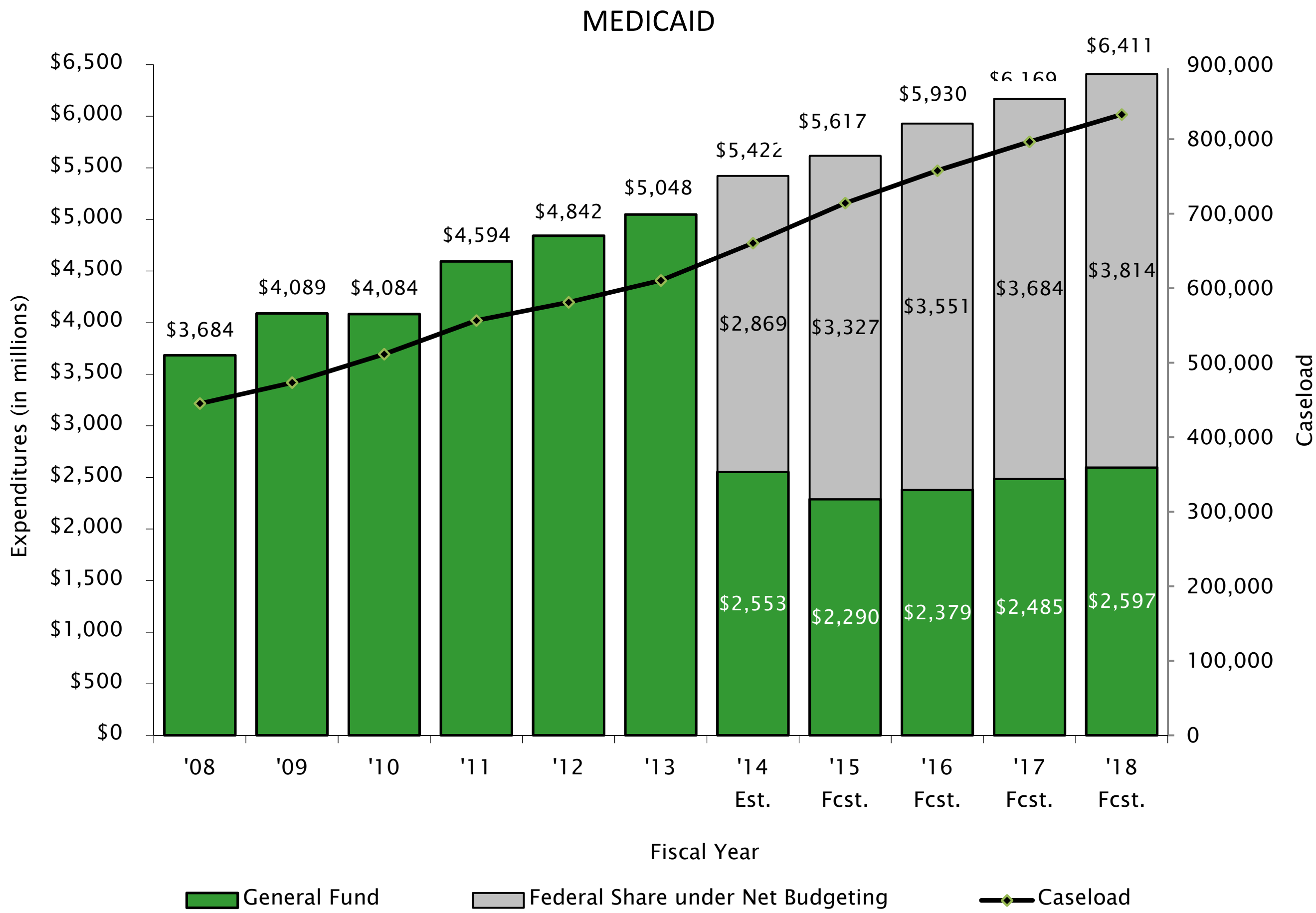
FULL-TIME WORKFORCE

As of October 31, 2013

	Bargaining Unit	Full Time Employees		Full Time Payroll (All Funds)
	Contract Expires End of FY 2012			
1.	Correctional Supervisors (NP-8)	450	$	36,144,807
2.	State Police (NP-1)	1,061	$	78,913,285
	Contract Expires End of FY 2013			
3.	Supervising Judicial Marshals	60	$	3,819,826
	Contract Expires End of FY 2016			
4.	Service/Maintenance (NP-2)	3,703	$	178,702,492
5.	Administrative Clerical (NP-3)	3,523		180,550,910
6.	Correctional Officers (NP-4)	4,378		247,985,357
7.	Protective Services (NP-5)	782		48,640,877
8.	Health Care Paraprofessional (NP-6)	2,940		159,767,024
9.	Health Care Professional (P-1)	2,917		247,189,941
10.	Social and Human Services (P-2)	3,725		252,077,413
11.	Education - Administrators (P-3A)	240		23,418,959
12.	Education - Educators (P-3B)	623		45,329,222
13.	Engineering, Scientific, and Technical (P-4)	2,387		200,093,495
14.	Administrative and Residual (P-5)	2,867		224,186,797
15.	Vocational Technical Faculty	1,121		85,699,298
16.	Vocational Technical Administration	49		5,848,811
17.	Technical College Faculty	190		14,775,253
18.	Connecticut State University Faculty (AAUP)	1,443		119,777,387
19.	Connecticut State University Administrative Faculty	735		57,219,937
20.	Community College Faculty	646		49,376,948
21.	University of Connecticut Faculty (AAUP)	1,718		170,505,378
22.	University of Connecticut Professionals (UCPEA)	1,789		118,058,185
23.	UConn Law School - Faculty	53		8,358,571
24.	Judicial Professional Employees	1,265		105,110,603
25.	Judicial Non-Professional Employees	1,314		75,454,764
26.	Uconn Health Center Faculty	543		110,705,369
27.	Uconn Health Center Non-Faculty Professionals	2,218		142,462,551
28.	Criminal Justice Prosecutors	238		25,925,987
29.	Regional Comm Tech College Admin	504		38,644,243
30.	Technical College Administrators	64		4,986,164
31.	Comm-Tech Colleges - Counselors/Librarians	9		837,548
32.	Criminal Justice Employees	119		6,277,121
33.	Department of Higher Education Professionals	27		2,043,791
34.	Charter Oak State College Professionals	60		4,100,938
35.	Judicial Marshals	649		30,454,298
36.	Criminal Justice Inspectors	73		6,212,804
37.	State Police Lieutenants & Captains (NP-9)	40		4,823,926
38	Public Defender Employees	212		22,683,482
	Total	43,165	$	3,018,285,843
	Total - All Contracts	44,736	$	3,137,163,760
	Not Covered by Collective Bargaining			
1.	Auditors of Public Accounts	108	$	9,943,531
2.	Other Employees	4,976		515,767,144
	Total Not Covered by Collective Bargaining	5,084	$	525,710,674

Note: Payroll numbers include all wages for full time employees excluding overtime.

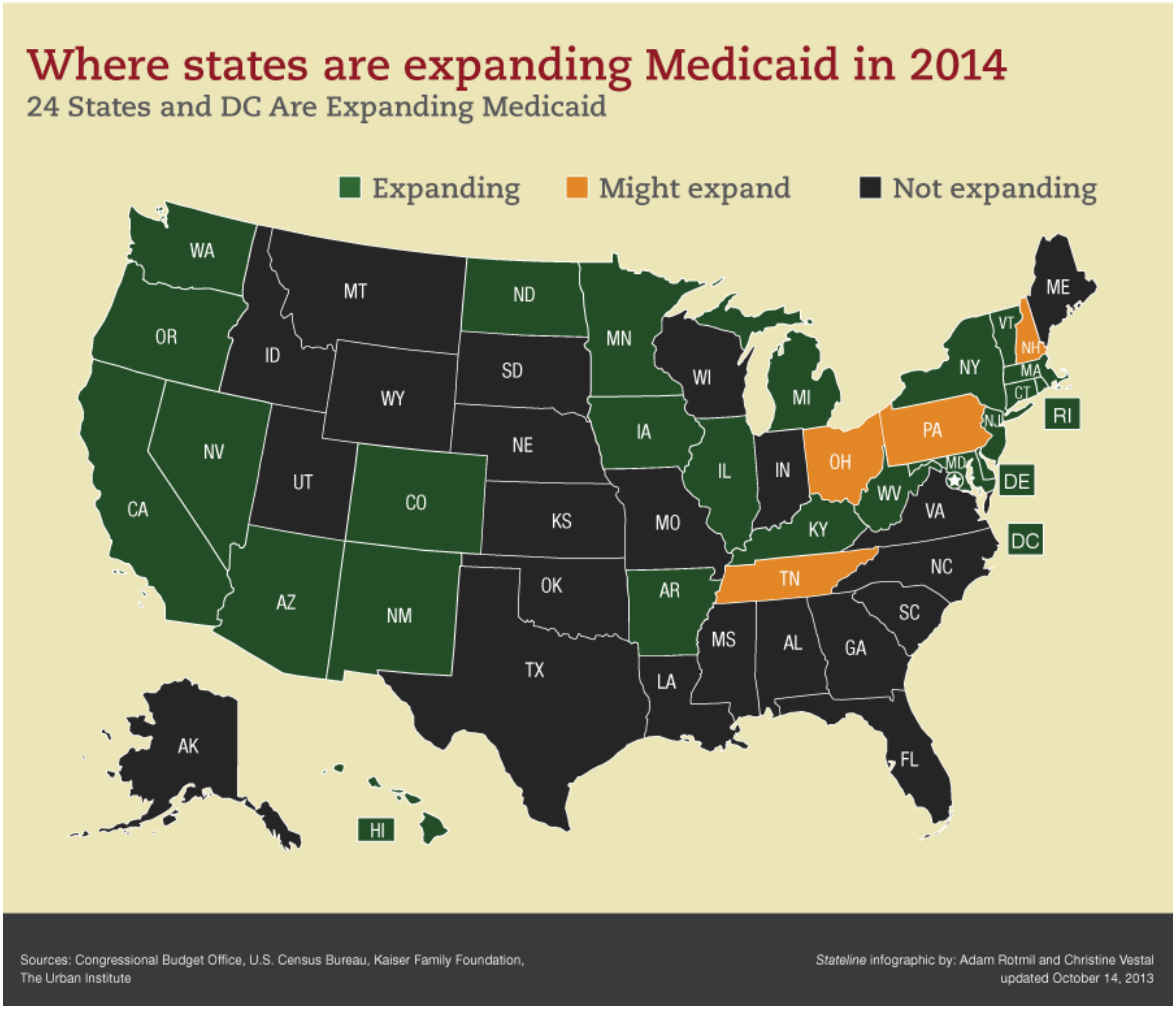
DEPARTMENT OF SOCIAL SERVICES



- In a departure from the budgets enacted in previous years, the adopted budget "net appropriates" the Medicaid account in the Department of Social Services. A total of $2,768.7 million was removed from both budgeted revenues and appropriations to accomplish this transition in FY 2014.
- Medicaid growth since FY 2008 has been affected by utilization and rate increases for hospitals, nursing homes, physicians and other providers. (The growth in Medicaid expenditures from FY 2009 to FY 2010 was flat largely as a result of increased pharmacy rebates and lower Medicare Part D clawback payments (due to enhanced reimbursement available under ARRA) and reduced nursing home expenditures.)
- The Medicaid expansion for low-income adults (LIA), which was approved by the federal government in June 2010, has resulted in significant increases in caseload and program costs. Expenditures for LIA, also known as HUSKY D, increased from $622.3 million in FY 2012 to $769.0 million in FY 2013, an increase of 24%. Projected expenditures reflect the impact of federal health care reform, which expands Medicaid coverage for low-income adults by increasing income eligibility to 133% of the federal poverty level beginning January 1, 2014. These costs will be 100% reimbursed by the federal government through 2016, after which the federal reimbursement will be phased down to 90% in 2020.
- Future growth will also be impacted by increased alternatives to nursing home care under the Money Follows the Person demonstration as the state invests in the rebalancing of long-term services and supports.

Note: Medicaid expenditures have been adjusted to include expenditures under the former State Administered General Assistance (SAGA) medical assistance program, as well as behavioral health services under the General Assistance Managed Care account in DMHAS which now qualify for Medicaid reimbursement.

MEDICAID EXPANSION ACROSS THE NATION



Source: http://www.pewstates.org/projects/stateline/headlines/ohio-governor-to-bypass-legislature-on-medicaid-expansion-85899512169

HEALTH CARE REFORM

The Patient Protection and Affordable Care Act, P.L. 111-148, and the Health Care and Education Reconciliation Act of 2010, P.L. 111-152, were both signed into law in March of 2010 and together they are referred to as the Affordable Care Act (ACA). This act includes a wide variety of health care provisions and requirements. Key points of the health care reform law:

- Requires most U.S. citizens and legal residents to obtain health coverage.
- Encourages employers to offer health care coverage to their employees by providing tax credits to small businesses who purchase health insurance for their employees, and taxing employers who do not provide health care coverage.
- Creates a state-based Health Insurance Exchange which allows individuals and small businesses to purchase health insurance coverage. These exchanges include premium and cost-sharing credits to individuals and families within specific income brackets.
- Establishes an office of health insurance consumer assistance or an ombudsman program to serve as an advocate for people with private coverage in the individual and small group markets.
- Prohibits lifetime limits on coverage, and prohibits pre-existing condition exclusions for children. Insurance rating rules allow variation based solely on age, area, family composition, and tobacco usage.
- Establishes a temporary high-risk pool to provide health coverage to individuals with pre-existing medical conditions. This pool has limited federal funding for qualified states.
- Establishes reporting requirements regarding medical loss ratios and premium rate increases.
- Creates a website to assist consumers in finding and understanding health care coverage options.
- Makes many Medicare and Medicaid enhancements and changes.

The law provides significant opportunities and related costs to the state. It supports expanded coverage to thousands of uninsured and underinsured residents and provides opportunities to reduce payments made by several state agencies to subsidize uncompensated care on behalf of their clients to the providers that care for them. Many demonstration projects are being offered by the federal Center for Medicare and Medicaid and Innovation (CMMI), providing opportunities to the state to pilot payment and service delivery reform initiatives involving different Medicaid and dual-eligible (i.e., eligible for both Medicare and Medicaid) populations.

DEPARTMENT OF SOCIAL SERVICES

Medicaid Eligibility

Allows states the option of covering childless adults up to 133% of the federal poverty level (FPL) under a Medicaid state plan amendment beginning April 1, 2010. Effective January 1, 2014, states can opt to provide Medicaid coverage to parents, children age 6 and older, and all childless adults up to 133% FPL.

<u>Impact</u>: *In June 2010, Connecticut gained approval from the federal government to expand Medicaid coverage to an estimated 45,000 low-income adults who had been enrolled in a more limited benefit package under the State Administered General Assistance program. As of October 2013, there were 95,031 individuals enrolled in the Medicaid for Low-Income Adults program (HUSKY D). The extension of Medicaid benefits to individuals with income between 54% FPL and 133% FPL is currently projected to result in increased costs of $52 million in FY 14, $301 million in FY 15 and $398 million in FY 16. These costs will be 100% reimbursed by the federal government through 2016, after which the federal reimbursement will be phased down to 90% in 2020. (Note: The ACA provisions regarding parents and children age 6 and older do not impact Connecticut as the state already covers these individuals under HUSKY A.)*

Maintenance of Effort (MOE)

Prohibits states from reducing eligibility standards, methodologies, or procedures for (1) adults on Medicaid until December 31, 2013, or (2) children until September 30, 2019 (both Medicaid and the Children's Health Insurance Program (CHIP)). Between January 1, 2011, and December 31, 2013, a state can be exempt from MOE for optional non-pregnant non-disabled adult populations above 133% FPL if the state certifies that it is currently experiencing a budget deficit or projects a budget deficit in the following fiscal year.

<u>Impact</u>: Reduces state's flexibility to make certain reductions.

Definition of Medical Assistance

Redefines medical assistance to include not only payment for medical care and services, but also the care and services themselves.

<u>Impact</u>: Could increase litigation against states, particularly lawsuits claiming delays in the delivery of services due to access issues.

Primary Care Provider Reimbursement

Requires states to increase Medicaid reimbursement for primary care services provided by certain primary care physicians to Medicare levels for calendar years 2013 and 2014.

<u>Impact</u>: Costs are currently projected to be approximately $56 million per year. The cost of the increase to the Medicaid program will be fully reimbursed by the federal government.

Incentives for States to Provide Home and Community-Based Services (HCBS)

Creates financial incentives for states to move more Medicaid beneficiaries out of nursing homes and into the community by extending the Money Follows the Person (MFP) Rebalancing Demonstration through FFY 2016 and reducing the six month requirement for institutionalization to three months, as well as increasing the federal match under the Balancing Incentive Program for states that increase the proportion of Medicaid spending on home and community-based services.

<u>Impact</u>: Will result in enhanced federal reimbursement with more individuals leaving institutional long-term care settings through the MFP program. Supports the state's shift to a system that better supports consumers' informed choice with greater access to long-term services and supports in the community.

Medicaid Disproportionate Share Hospital (DSH) Payments

Reduces federal DSH payments by $500 million in FFY 2014, increasing to $5.6 billion by FFY 2019, with some easing in FFY 2020 when federal payments are reduced by $4 billion (the majority of the reductions occur in FFY 2018, FFY 2019 and FFY 2020). Directs HHS to develop a methodology for reducing federal DSH allotments to states in order to achieve the mandated reductions, imposing larger reductions to states with lower percentages of uninsured.

<u>Impact</u>: The adopted budget for FY 2014 and FY 2015 reduced the funding under the Department of Social Services' DSH account by 50% in FY 2014 and eliminated the funding in FY 2015. As a result, the impact of the federal reduction is significantly diminished. The state's DSH allotment is expected to be reduced by approximately $330,000 in FY 2014, increasing to $5 million in FY 2019, with a FY 2020 reduction of $4 million.

Tobacco Cessation

Requires states to provide coverage under Medicaid for tobacco cessation services for pregnant women.

<u>Impact</u>: Potential short-term costs and long-term savings. Connecticut implemented this provision in October 2010.

Legal Immigrants

Allows legal immigrants with income under 133% FPL, who are not eligible for Medicaid by virtue of the five-year waiting period, access to coverage if the state implements a basic health program. (Legal immigrants who are barred from enrolling in Medicaid during their first five years in the U.S. will be eligible for premium credits through the Exchange.)

Impact: Expands federal reimbursement for non-citizens beyond the Children's Health Insurance Program Reauthorization Act (CHIPRA), which extended federal reimbursement to children and pregnant women.

State Health Insurance Exchange (Access Health CT)

Serves as Connecticut's health insurance marketplace in compliance with the federal Affordable Care Act. Established as a quasi-public agency in 2011, its mission is to increase the number of Connecticut residents who are insured, lower their costs, promote health, and eliminate obstacles to getting health care. As of January 1, 2014, Access Health CT will begin to offer Connecticut residents and small employers a range of qualified health care coverage options from health insurance carriers and state medical assistance programs.

Impact: Operates at no cost to the state and has also developed a one stop on-line eligibility system for state medical assistance and qualified health plans.

State Innovation Models (SIM)

Provides opportunities to states through a competitive funding opportunity to design and test multi-payer and delivery models that deliver high quality health care in the context of a comprehensive State Health Care Innovation Plan. Connecticut was awarded $2.9 million in Model Design funding to develop a State Health Care Innovation Plan. This plan will be used to apply for a second round of Model Testing awards. Under Connecticut's plan, the state will collaborate with public and private stakeholders to design a health care delivery system that promotes integrated care models, uses the Health Insurance Exchange to inform and connect consumers to coverage, expands the supply of primary care physicians and other professionals, and increases engagement among regulators, providers and consumers. The resulting payment and delivery system model will advance greater alignment across multiple payers on contracting and payment strategies that promote value over volume, greater consistency in quality and other performance metrics, and expanded primary care.

Impact: Could result in additional state investments if the expected federal grant of $45 million is not awarded and the state proceeds with system transformation using state investment. Over the long term, the initiative could result in a 1-2% reduction in the rate of growth of healthcare spending.

Fraud, Waste and Abuse

Broadens states' authority and requires them to suspend payments to providers suspected of engaging in fraudulent activities.

Impact: Improves on the former method of "pay and chase" by preventing potentially fraudulent payments from being made.

INSURANCE DEPARTMENT

Regulation Enhancements

Insurance policy forms and rates will need to conform to the requirements of the federal law and be filed for approval. Claims payment policies, enrollment and disenrollment data, financial disclosures, claims denials, rating practices, out-of-network payments and other information must be filed with DOI and available for public inspection. DOI must annually review the reasonableness of rates for group and individual plans, to include policies being offered through Access Health CT, Connecticut's Health Insurance Exchange.

EFFORTS TO PRESERVE AND MAXIMIZE FEDERAL FUNDING

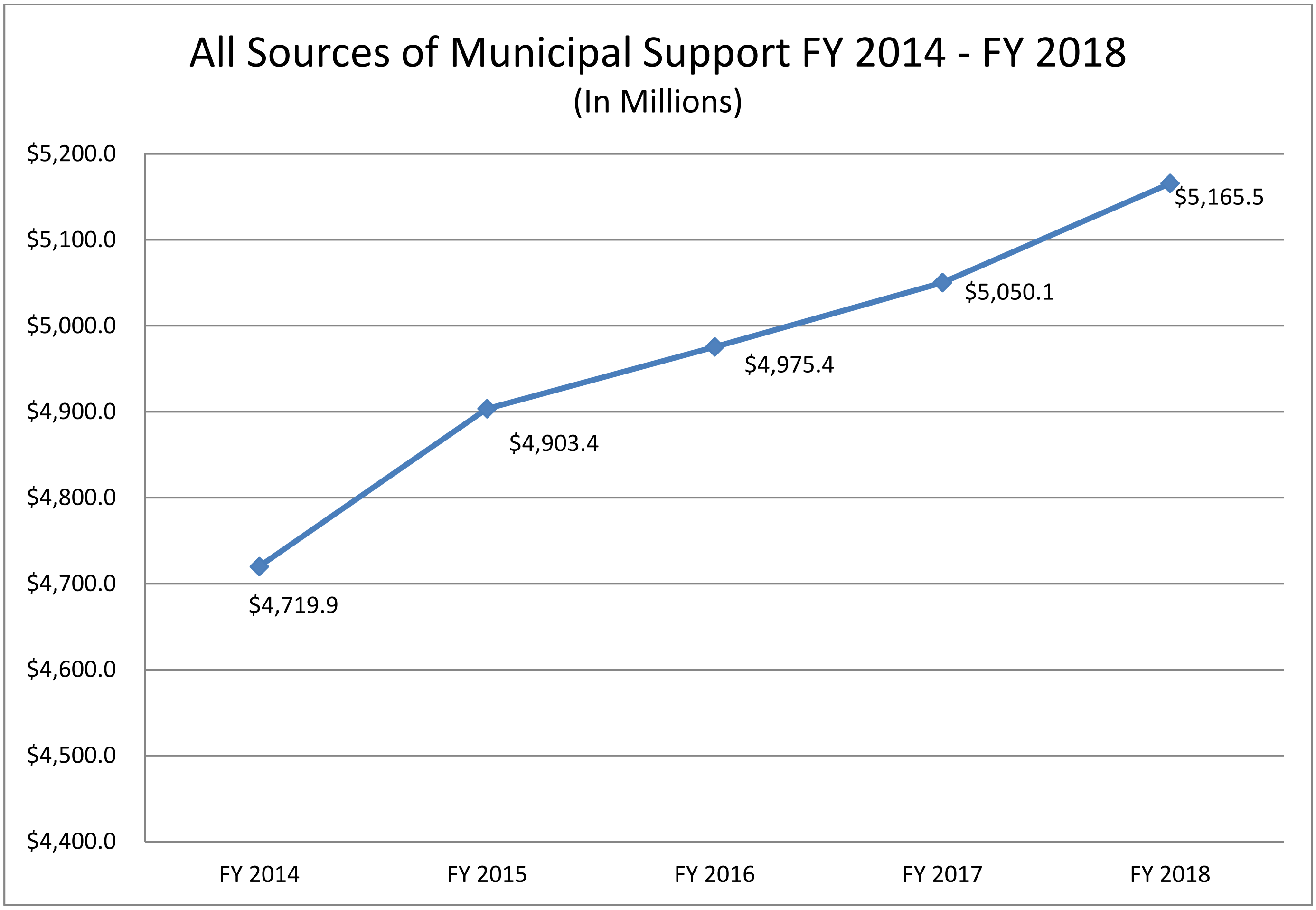
The administration continues to make federal revenue maximization efforts a priority. Numerous Medicaid state plan amendments and waivers have been submitted or are in the process of being submitted to the federal government. Initiatives not requiring federal approval are being operationalized by impacted state agencies. In the current fiscal year and next, millions of dollars could be gained in new federal revenue due to these initiatives – above and beyond normal increases in federal Medicaid revenue resulting from growth in caseload and utilization. An interagency revenue maximization workgroup meets monthly to discuss revenue opportunities and implementation issues.

Some of the major revenue maximization efforts under development include:

- Developing a new waiver for individuals with acquired brain injury to allow Medicaid reimbursement for services supported by the Department of Mental Health and Addiction Services (DMHAS)' state-funded TBI Community Services account;
- Billing for community-based care for offenders in the Department of Correction, allowing the state to receive federal reimbursement for services that are currently being supported at 100% state cost;
- Developing a waiver that will allow the state to claim federal reimbursement for services rendered in a private institutional setting that are currently provided at 100% state cost;
- Developing waivers that will allow Medicaid reimbursement for certain behavioral/rehabilitation services being provided by the DMHAS that are currently at 100% state cost;
- Billing for costs in several state agencies associated with the administration of Medicaid services;
- Accrediting state operated Psychiatric Residential Treatment Facilities (PRTFs) to make services provided there Medicaid reimbursable;
- Taking advantage of an opportunity under the Affordable Care Act that will allow Department of Mental Health and Addiction Services /Department of Children and Families /Department of Social Services to provide better coordination of behavioral and physical health care for individuals with serious and persistent mental illness under a Health Home model. New funding of $13 million in FY 2015 for DMHAS combined with in-kind, state-operated and privately provided services will generate almost $55 million in revenue over 8 quarters (90% reimbursement for the first eight quarters).

While much effort goes into maximizing revenue, equal or greater effort goes into preserving existing sources of federal reimbursement. The Centers for Medicare and Medicaid Services has strengthened its compliance activities, resulting in significantly greater scrutiny of all state claims. Department of Social Services staff and impacted state agencies have experienced significantly increased time and effort explaining and justifying revenue items in order to sustain claims worth hundreds of millions of dollars that had once been considered "routine."

SUMMARY OF LOCAL AID



- Amounts include appropriations, revenue intercepts, Teachers' Retirement System contributions, state share of school construction, and other bonding programs in support of municipalities.

- LoCIP, STEAP, Local School Construction and Teachers' Retirement Debt Service are funded with General Obligation bonds.

- Regional Performance Incentive Grants are funded through revenue intercepts.

- The provisions that cap the Public School Transportation, Non-Public School Transportation, Adult Education, and Special Education Student Based grants expire at the end of the 2014-2015 biennium; it is assumed these caps will be extended through fiscal year 2018.

- Assumes level funding for Town Aid Road, municipal PILOT programs, LoCIP and STEAP and the statutory transfer amount for the Mashantucket Pequot and Mohegan grant.

- Support to municipalities constitutes 16.2% of the FY 2014 General Fund budget.

- Support to municipalities will be approximately $4.90 billion in FY 2015, a 3.9% increase over the FY 2014 level.

STATE AID TO OR ON BEHALF OF LOCAL GOVERNMENTS

(in Millions)

GRANT	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
State Owned PILOT*	$ 78.3	$ 73.6	$ 73.6	$ 73.6	$ 73.6
Transfer from CT Airport Authority for Bradley Airport Property	0.0	4.7	4.7	4.7	4.7
College & Hospital PILOT	115.4	115.4	115.4	115.4	115.4
Mashantucket Pequot & Mohegan Grant	61.8	61.8	135.0	135.0	135.0
Town Aid Road Grant	60.0	60.0	30.0	30.0	30.0
LoCIP	30.0	30.0	30.0	30.0	30.0
Regional Performance Incentive Grants	9.9	10.2	10.6	11.0	11.5
STEAP	20.0	20.0	20.0	20.0	20.0
Grants for Municipal Aid Projects	56.4	56.4	0.0	0.0	0.0
Municipal Aid Adjustment	4.5	3.6	0.0	0.0	0.0
Miscellaneous General Government Grants	38.3	38.8	39.7	40.5	41.4
Subtotal - General Government	**$ 474.7**	**$ 474.6**	**$ 459.0**	**$ 460.2**	**$ 461.6**
Public School Transportation	$ 24.9	$ 24.9	$ 24.9	$ 24.9	$ 24.9
Non-Public School Transportation	3.6	3.6	3.6	3.6	3.6
Adult Education	20.6	21.0	21.0	21.0	21.0
Education Cost Sharing**	1,990.3	2,031.3	2,031.3	2,031.3	2,031.3
Magnet Schools	274.4	281.3	281.3	281.3	281.3
Special Education - Student Based	139.8	139.8	139.8	139.8	139.8
Local School Construction	500.0	600.0	600.0	600.0	600.0
Miscellaneous Education Grants	177.6	182.2	182.2	182.2	182.2
Subtotal - Education	**$ 3,131.2**	**$ 3,284.1**	**$ 3,284.1**	**$ 3,284.1**	**$ 3,284.1**
Teachers' Retirement Contributions, Retiree Health Service Cost & Debt Service	$ 1,114.0	$ 1,144.7	$ 1,232.3	$ 1,305.8	$ 1,419.8
Subtotal - Teachers' Retirement	**$ 1,114.0**	**$ 1,144.7**	**$ 1,232.3**	**$ 1,305.8**	**$ 1,419.8**
Total - Aid to Municipalities	**$ 4,719.9**	**$ 4,903.4**	**$ 4,975.4**	**$ 5,050.1**	**$ 5,165.5**

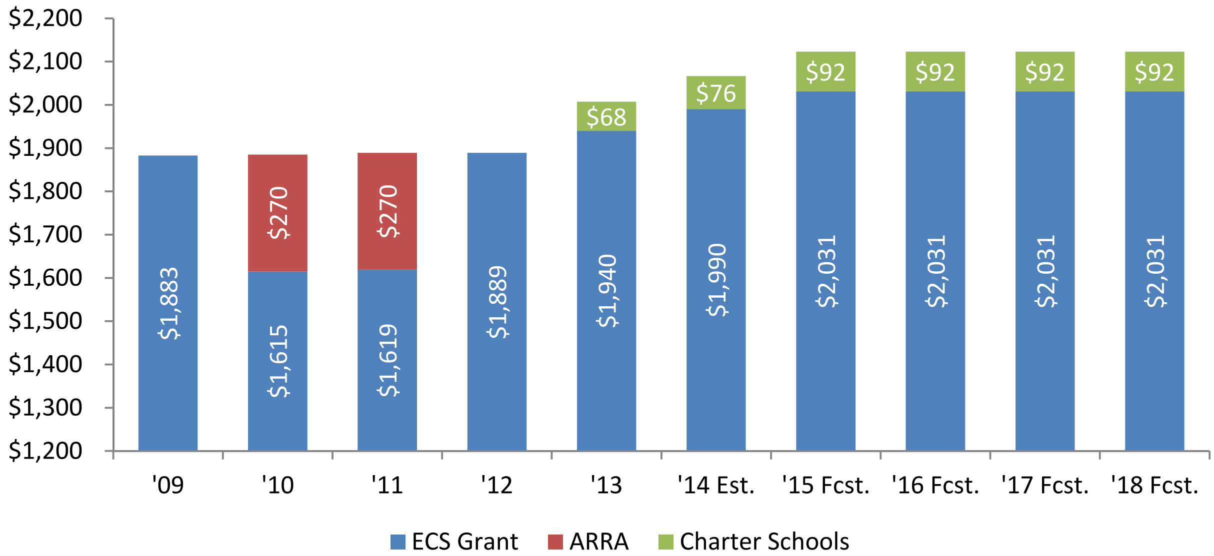
Notes:

*For FY 2014, figures for the State Owned PILOT includes annual transfers from the Bradley Enterprise Fund in an amount necessary to pay 20% of the PILOT for certain Bradley International Airport Property. Beginning in FY 2015 the four towns will receive a payment of $4.67 million directly from the CT Airport Authority.

** ECS does not include the portion of the appropriation that is attributable to the Charter Schools.

EDUCATION COST SHARING GRANT

(In Millions)



- The Education Cost Sharing Grant (ECS) is the state's major education grant, designed to equalize the ability of towns to finance local education costs.
- Expenditures for FY 2010 and FY 2011 included federal American Recovery and Reinvestment Act State Fiscal Stabilization Fund (ARRA SFSF) funding of $269 million (14% of the grant).
- Beginning in FY 2013, Charter School Grants are appropriated under the ECS grant.

UNEMPLOYMENT COMPENSATION FUND

The Unemployment Compensation Fund ("trust fund") is established pursuant to Connecticut General Statutes Section 31-261 for the purpose of paying benefits to unemployed workers. The trust fund is funded through payroll tax contributions paid by employers, and is not a budgeted fund of the state. The recent high unemployment rates in Connecticut will have an effect on Connecticut businesses for the next several years.

- As of September 2013, the Connecticut seasonally adjusted unemployment rate was 8.1%, leading to a sustained high level of claims against the fund.
- The maximum weekly benefit rate is $590 for new claims effective October 6, 2013. Connecticut also pays $15 per dependent child up to a maximum of $75. Connecticut ranks 6th in the nation as to the maximum amount of benefits provided.
- In 2010, increases in job losses resulted in benefit payouts of approximately $1.3 billion from the trust fund, while only $700 million in taxes were collected. UI benefit payouts continued to exceed revenues in 2011 and 2012. Though 2013 data has not yet been finalized, initial analysis indicates that revenues will outpace benefit payouts due to a decrease in expenditure levels. This trend is expected to continue throughout 2014 and 2015. If expenditures continue to decline, it is estimated that revenues could exceed benefit payouts by approximately $200 million in each year of the biennium.
- Even with the fund solvency tax generating its maximum revenue annually, the trust fund became insolvent in October 2009.
- To continue making unemployment payments, Connecticut, like other states, has been borrowing from the federal government. The American Recovery and Reinvestment Act provided interest free borrowing through calendar year 2010. However, states with loans outstanding at the beginning of 2011 are subject to interest on these loans.
- Since Connecticut was unable to repay borrowed funds within two years, in January 2012 the federal government increased federal unemployment taxes on employers by increasing the current federal unemployment tax incrementally until the loan is fully repaid. The additional tax rate applied to CY2013 is 0.9%, resulting in a total effective rate of 1.5%.
- Current projections, which are based on existing statutory provisions (both state and federal), indicate the need for continued borrowing until at least CY 2015. It is anticipated that final repayment of the loans may occur by CY 2016.

Projected Cash Flow - Federal Unemployment Insurance *

Calendar Year	Amount Borrowed	Repaid by State UI Taxes	Repaid by Increased Federal UI Taxes
2009	$180,000,000	$0	$0
2010	$345,000,000	$0	$0
2011	$285,000,000	$100,000,000	$0
2012	$125,000,000	$175,000,000	$30,000,000
2013	$155,000,000	$155,000,000	$60,000,000
2014	$100,000,000*	$400,000,000*	$90,000,000*
2015	$100,000,000*	$160,000,000*	$120,000,000*
2016	$100,000,000*	$100,000,000*	$0*
Totals	**$1,390,000,000**	**$1,090,000,000**	**$300,000,000**

*The figures above are based on current statutory provisions as well as projections of many variables such as unemployment benefit payouts, tax revenues, growth in wages and growth in labor force. Changes in these variables could result in changes in the borrowing amounts and also in the repayment schedule. Loan repayments by state taxes are estimated after payment of benefits. Please note that while borrowing is anticipated in calendar years 2012 to 2016, amounts borrowed in those years are anticipated to be paid back in the year borrowed. Funds borrowed in 2012 and 2013 will be classified as "cash flow loans" will not be subject to interest.

SECTION 7

ANALYSIS OF POSSIBLE USES OF SURPLUS FUNDS

GENERAL FUND OPERATING SURPLUS / (DEFICIT)

(In Millions)

Fiscal Year	Revenue		Expenditure	Adjustment	Surplus/(Deficit)	
1975-76	$ 1,688.7		$ 1,654.6	$ 0.6	$ 34.7	
1976-77	1,845.1		1,771.7	0.1	73.5	
1977-78	2,010.5		1,917.4	0.6	93.7	
1978-79	2,222.2		2,156.6	1.1	66.7	
1979-80	2,394.1		2,393.6	2.6	3.1	
1980-81	2,660.9		2,726.6	-	(65.7)	
1981-82	2,994.5		2,968.6	-	25.9	
1982-83	3,233.9		3,241.9	(0.2)	(8.2)	
1983-84	3,840.2		3,624.6	(2.4)	213.2	
1984-85	4,010.9		3,636.7	(8.7)	365.5	
1985-86	4,317.9		4,011.8	(56.0)	250.1	
1986-87	4,741.9		4,356.2	(20.5)	365.2	
1987-88	4,860.3		4,966.6	(9.3)	(115.6)	
1988-89	5,573.6		5,594.4	(7.2)	(28.0)	
1989-90	6,112.0		6,372.6	1.1	(259.5)	
1990-91	5,817.9		6,625.2	(1.2)	(808.5)	
1991-92	7,389.4		7,276.6	(2.6)	110.2	
1992-93	7,569.0		7,456.6	1.1	113.5	
1993-94	7,914.2		8,008.1	113.6	19.7	
1994-95	8,479.7		8,400.9	1.7	80.5	
1995-96	9,111.1		8,861.6	0.5	250.0	
1996-97	9,582.1		9,311.0	(8.5)	262.6	
1997-98	10,142.2		9,830.3	1.0	312.9	
1998-99	10,616.4		10,545.9	1.3	71.8	
1999-2000	11,213.6		10,911.1	(2.1)	300.4	
2000-01	11,985.5		11,930.6	(24.2)	30.7	
2001-02	10,845.4		11,643.2	(19.3)	(817.1)	
2002-03	12,023.3		12,128.3	8.4	(96.6)	
2003-04	13,123.8		12,823.4	1.8	302.2	
2004-05	14,062.9		13,680.8	(18.2)	363.9	
2005-06	14,998.7		14,533.2	(19.0)	446.5	
2006-07	15,742.6		15,461.0	(12.4)	269.2	
2007-08	16,418.8		16,300.5	(18.9)	99.4	(1)
2008-09	15,700.8		16,640.2	(8.3)	(947.6)	(2)
2009-10	17,688.5	(3)	17,240.7	2.1	449.9	(4)
2010-11	18,157.4	(5)	17,924.7	4.2	236.9	(6)
2011-12	18,561.6		18,711.1	5.8	(143.6)	(7)
2012-13	19,405.9		19,007.9	0.7	398.8	(8)
2013-14 (proj.)[9]	17,249.6		17,114.9	-	134.7	(10)
2014-15 (proj.)[9]	17,532.7		17,497.6	-	35.1	(11)

(1) PA 07-1 reserved $16.0 million of FY 2008 revenue for use in FY 2009. In addition, PA 08-1 & 08-2 of the August Special Session reserved a total of $83.4 million of the FY 2008 surplus for use in FY 2009.

(2) Covered by issuing Economic Recovery Notes, per PA 09-2, JSS

(3) Includes $1,278.5 million of Budget Reserve Fund monies-without these monies, the deficit would have been $829.1 million.

(4) Per the Comptroller's audited financial results dated December 31, 2010, for the fiscal year ending June 30, 2010. Per PA 10-179, $140.0 million is reserved for use in FY 2011 and the remaining $309.4 million will reduce the amount to be securitized in FY 2011.

(5) Includes $449.4 million from the FY 2010 surplus.

(6) Per the Comptroller's financial results dated September 1, 2011, for the fiscal year ending June 30, 2011. $222.4 million of the surplus was transferred to the Budget Reserve Fund in PA 12-104 and the remainder via Comptroller reclassification.

(7) Per the 9/4/2012 Comptroller's Letter. Covered by a transfer from the Budget Reserve Fund.

(8) Per the 9/3/2013 Comptroller's Letter. Per section 58 of PA 13-184, $220.8 million is reserved for use in FY 2014 and FY 2015.

(9) Beginning in FY 2014 the state commenced net budgeting of Medicaid. This reduced appropriated revenues and expenditures by $2,768.7 million in FY 2014 and by $3,204.9 million in FY 2015.

(10) Per the 11/8/2013 Consensus Revenue Forecast and OPM estimated expenditures. Includes $190.8 million of FY 2013 surplus.

(11) Per the 11/8/2013 Consensus Revenue Forecast and OPM estimated expenditures. Includes $30.0 million of FY 2013 surplus.

ANALYSIS OF POSSIBLE USES OF SURPLUS FUNDS

Under current law (CGS 4-30a), unappropriated surpluses are committed to the Budget Reserve Fund. Replenishment of the Budget Reserve Fund to the ten percent maximum authorized by CGS 4-30a would require approximately $1.8 billion. Other possible uses of surplus funds could include:

- Reducing bonded indebtedness;
- Reducing the unfunded liability in the State Employees Retirement Fund;
- Reducing the unfunded liability in the Teachers Retirement Fund;
- Reducing the unfunded liability for Other Post Employment Benefits; or
- Providing funds for Higher Education Matching Grants as per sections 10a-77a, 10a-99a, 10a-109c, 10a-109i and 10a-143a of the General Statutes.