A REPORT TO
THE APPROPRIATIONS COMMITTEE AND
THE FINANCE, REVENUE AND BONDING COMMITTEE
PURSUANT TO SECTION 2-36B OF THE CONNECTICUT GENERAL STATUTES
REGARDING THE FISCAL ACCOUNTABILITY OF STATE GOVERNMENT

FISCAL ACCOUNTABILITY REPORT
FISCAL YEARS 2011 – 2014

OFFICE OF POLICY AND MANAGEMENT
BRENDA L. SISCO, ACTING SECRETARY

NOVEMBER 15, 2010

SUMMARY

THIS REPORT INDICATES THE FOLLOWING:

- The General Fund is projected to experience a deficit of $3.37 billion in FY 2012, $3.23 billion in FY 2013, and $3.13 billion in FY 2014.
- The Special Transportation Fund is projected to experience a deficit of $76.5 million in FY 2012, $57.7 million in FY 2013, and $73.6 million in FY 2014.
- Projected current services spending levels exceed the constitutional and statutory spending cap by $1.34 billion in fiscal year 2012 and $1.61 billion in fiscal year 2013.
- The loss of one-time revenues, including federal ARRA dollars, that support on-going programs and projects contributes over $2.0 billion to these projected deficits.
- The budget reserve fund balance will be exhausted during FY 2011.
- These large deficits occur even with projected revenue growth in excess of $500 million in FY 2012 and $900 million in FY 2013.
- Debt service will continue to grow and consume a significant portion of the budget.
- The state faces significant long-term obligations including debt, unfunded pension liabilities and unfunded post-employment retirement benefits that are estimated to exceed $67 billion in total.
- While not a budgeted fund, the state's Unemployment Insurance Trust Fund is insolvent and has relied on federal loans, which must be repaid, to maintain benefits.

MAJOR ISSUES AND TRENDS IMPACTING THE STATE'S FISCAL SITUATION

- The performance of the income tax is significantly influenced by events in the financial markets which have been relatively volatile, thereby increasing the uncertainty of this revenue source.
- Significant cost drivers include the costs of personnel benefits including post-employment benefits, funding required for unfunded pension liabilities, and expenditures related to the Department of Social Services and the Department of Education.

CONNECTICUT MUST MEET THE CHALLENGE

Connecticut faces unprecedented budgetary challenges, both near term and into the future:

- Spending must be reduced by $1.34 billion in FY 2012 and $1.61 billion in FY 2013 in order to remain under the constitutional and statutory spending cap.
- The recovery will be slower and more prolonged than past recoveries.
- During the most recent recession the state lost 103,000 jobs and has yet to show any appreciable recovery in that measure.
- The state's unemployment rate is expected to remain elevated over the upcoming biennium.

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 2009-2011 biennium and projected expenditures for the same period.

FINANCIAL SUMMARY OF FUNDS
(in millions)

	Estimated	Estimated Current Services		Projected
General Fund	2010-11	2011-12	2012-13	2013-14
Revenues[1]	$ 17,934.8	$ 16,392.6	$ 17,254.8	$ 18,221.8
Expenditures	17,894.5	19,761.5	20,481.8	21,348.3
Misc. Adjustment to Resources of the Fund	(40.0)	-	-	-
Surplus/(Deficit)	$ 0.3	$ (3,368.9)	$ (3,227.0)	$ (3,126.5)
Special Transportation Fund				
Revenues	$ 1,182.3	$ 1,218.5	$ 1,281.4	$ 1,305.2
Expenditures	1,176.9	1,295.0	1,339.1	1,378.8
Surplus/(Deficit)	$ 5.4	$ (76.5)	$ (57.7)	$ (73.6)
Other Funds [2]				
Revenues	$ 166.5	$ 244.8	$ 240.1	$ 242.6
Expenditures	166.1	244.4	239.8	242.5
Surplus/(Deficit)	$ 0.4	$ 0.4	$ 0.3	$ 0.1
Total All Appropriated Funds				
Revenues	$ 19,283.6	$ 17,855.9	$ 18,776.3	$ 19,769.6
Expenditures	19,237.5	21,300.9	22,060.7	22,969.6
Misc. Adjustment to Resources of the Fund	(40.0)	-	-	-
Surplus/(Deficit)	$ 6.1	$ (3,445.0)	$ (3,284.4)	$ (3,200.0)
Expenditure Cap Results[3]				
Total All Appropriated Funds	$ 19,237.5	$ 21,300.9	$ 22,060.7	$ 22,969.6
Allowed Appropriations per Cap	19,348.3	19,956.2	20,444.9	21,055.0
Over/(Under) the Cap	$ (110.8)	$ 1,344.7	$ 1,615.8	$ 1,914.6
Revenues and the Expenditure Cap[4]				
Revenues - All Funds	$ 19,283.6	$ 17,855.9	$ 18,776.3	$ 19,769.6
Allowed Appropriations per Cap	19,348.3	19,956.2	20,444.9	21,055.0
Revenues Less Allowed Approps.	$ (64.7)	$ (2,100.3)	$ (1,668.6)	$ (1,285.4)

(1) Revenues reflect the October 15, 2010 consensus revenue figures.

(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 Fund, g) Workers' Compensation Fund, h) Criminal Injuries Compensation Fund.

(3) Although sufficient room remains under the cap for deficiency appropriations, any such appropriations would violate the balanced budget requirement.

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

Note: The report does not include an adjustment for conversion to GAAP.

SECTION 1

ESTIMATE OF STATE REVENUES, EXPENDITURES AND ENDING BALANCE

ASSUMPTIONS

ASSUMPTIONS USED TO DEVELOP EXPENDITURE ESTIMATES

The *Estimated FY 2011* column shows the current year appropriation adjusted to reflect deficiencies and lapses as estimated in OPM's October 20, 2010 letter to the Comptroller. FY 2012 and FY 2013 projections are based on OPM's current services estimates of expenditure requirements over the biennium and the FY 2014 projection is based the rollout of the FY 2013 current services estimate using the inflation factor noted below.

GENERAL ASSUMPTIONS

Projected expenditures for FY 2012 and FY 2013 are based on OPM's review of agency current services requests for the upcoming biennium. In general, the current services expenditure level reflects the cost of continuing existing programs and services and includes the following factors:

- Nondiscretionary increases, including caseload growth, mandated by federal or state law, court order or consent decree provisions.
- Operating costs of new buildings scheduled to open during the FY 2011-2013 biennium.
- New programs authorized by the General Assembly to begin during the FY 2011-2013 biennium.
- Reductions due to the completion of projects authorized in previous years or that result from changes in the scope, nature, timing or feasibility of a project.
- Annualization of partial costs from the prior fiscal year.
- Replacement cost of essential equipment.
- With notable exceptions, inflation allowances were based on the following assumptions:

Item	FY 2011-12 Over FY 2010-11	FY 2012-13 Over FY 2011-12
Food & Beverage	1.8%	1.8%
Medical Care	4.4%	4.2%
Fuel Oil, Natural Gas, and Electricity	4.9%	4.3%
Motor Vehicle Fuel (gasoline, diesel)	6.2%	3.4%
All Other (including discretionary grants and revolving fund)	2.5%	3.1%

In addition, costs related to settled collective bargaining agreements are built into agency budgets. The estimated cost of unsettled collective bargaining agreements is budgeted within OPM's Reserve for Salary Adjustments account. Agency budget estimates also reflect the cost of the 27th payroll which will occur in FY 2012.

Projections for FY 2014 are, with exceptions noted below, based on a standard inflation assumption of 2.8% and a medical inflation rate of 4.0%. Personal Services was inflated by 4.75% over the FY 2013 level. Expenditures increased by the standard inflation rates include: Other Expenses, Other Current Expenses, and Grants. Partial year costs are annualized. Equipment costs are not inflated and reflect the FY2013 current services estimate.

NOTABLE EXCEPTIONS

Listed below are significant items that were developed using other than the standard inflation guidelines, or that require further explanation.

STATE TREASURER - DEBT SERVICE

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

STATE COMPTROLLER

- *Government Accounting Standards Board* - Reflects full GASB membership cost.

STATE COMPTROLLER- MISCELLANEOUS

- *Equal Grants to Non-Profit General Hospitals, Loss of Taxes on State Property, Loss of Taxes on Private Tax-Exempt Property* - Reflects level funding.
- *Mashantucket Pequot and Mohegan Fund Grant* - Reflects statutory funding level ($135 million).

STATE COMPTROLLER - FRINGE BENEFITS

- *State Employees Retirement Contributions - General and Special Transportation Funds, Judges and Compensation Commissioners' Retirement* – Reflects latest actuarial estimates.
- *Higher Education Alternate Retirement System, Employers Social Security Tax - General and Special Transportation Funds* - FY 2012 reflects 27 pay periods.
- *State Employee Health Service Costs* - General and Special Transportation Funds and Retired Employee Health Service *Costs* - FY 2014 utilizes medical inflation rates.
- *GAAP Salary Reserve Account* - Public Act 10-173 requires an annual appropriation of one-tenth of the projected amount required to fund the next fiscal year with 27 payrolls (FY 2023).

DEPARTMENT OF REVENUE SERVICES

- *Collection and Litigation Contingency* - Assumes flat funding of the account.

OFFICE OF POLICY AND MANAGEMENT

- *P.I.L.O.T. New Manufacturing Machine & Equipment, Elderly Freeze Program* - Assumes flat funding.
- *Tax Relief for Elderly Renters* - Assumes 9% claims growth over inflation in each year.
- *Capital City Economic Development Authority* – Reflects anticipated FY 2012 expenditure level.

DEPARTMENT OF PUBLIC WORKS

- *Management Services* - The $702,000 increase beginning in FY 2012 reflects the transfer of management for Cedarcrest from the Department of Mental Health and Addiction Services to the Department of Public Works.
- *Rents and Moving* - The $807,116 increase in FY 2012 reflects actual rent and tax payments including rent escalators.

OFFICE OF CONSUMER COUNSEL

- *Indirect Cost* - The FY 2012 recommended amount is $59,239 less than the FY 2011 amount based on the Comptroller's estimated payment.

DEPARTMENT OF PUBLIC UTILITY CONTROL

- *Indirect Costs* - The FY 2012 recommended amount is $873,599 more than the FY 2011 amount based on the Comptroller's estimated payment.

DEPARTMENT OF CONSUMER PROTECTION

- *Other Expenses* - Current services amounts based on actual ongoing needs of the agency.

DEPARTMENT OF LABOR

- *Workforce Investment Act* - Reflects federal funds that are required to be appropriated by the states. Current projections assume no increase in federal funding.

WORKERS' COMPENSATION COMMISSION

- *Indirect Costs* - The FY 2012 recommended amount is $257,565 less than the FY 2011 amount based on the Comptroller's estimated payment.

DEPARTMENT OF PUBLIC HEALTH

- *New Laboratory* - A new Public Health Laboratory is under construction in Rocky Hill and is anticipated to be opened in December 2011. Partial year costs are included in Other Expenses and Personal Services for operating costs of the new facility in FY 2012 and annualized in FY 2013.
- *X-Ray Screening and Tuberculosis Care* – Reflects the anticipated costs of care of Tuberculosis cases that are the responsibility of DPH per statute.

DEPARTMENT OF DEVELOPMENTAL SERVICES

- *Personal Services*, *Other Expenses*, *Clinical Services* - Reflects anticipated changes in program configurations in various state operated settings.
- *Cooperative Placements Program* - Reflects anticipated caseload growth.
- *Cooperative Placements Program*, *Voluntary Services*, *Community Residential Services* - Reflects leap year payments in FY 2012.
- *Employment and Day Services*, *Community Residential Services* - Reflects anticipated caseload growth over the biennium for high school graduates and age outs.

DEPARTMENT MENTAL HEALTH AND ADDICTION SERVICES

- *Personal Services and Other Expenses* - 2014 - Adjustments include inflation on Disproportionate Share amount of \$77,640,000 whichis budgeted in the Department of Social Services - DMHAS/Disproportionate Share Account.
- *Other Expenses* - Reflects IT Consultants and Software for DOJ Related projects over the biennium.
- *Young Adult Services*, *TBI Community Services*, *Discharge and Diversion Services*, *Home and Community Based Services*, *General Assistance Managed Care* - Reflects anticipated caseload growth.
- *General Assistance Managed Care*, *Professional Services* - Reflects leap year payments in FY2011-12.

DEPARTMENT OF TRANSPORTATION

- *Town Aid Road Grants* - Since FY 2007, Town Aid Road Grants have been funded at the \$30 million level. FY 2014 reflects the Current Services funding for the biennium - \$8 million in the General Fund and \$22 million in the Special Transportation Fund.
- *Highway & Bridge Renewal Equipment*, *Tweed-New Haven Airport Grant* – Reflects level funding.

DEPARTMENT OF SOCIAL SERVICES

- *State Food Stamp Supplement*, *HUSKY Program*, *Medicaid*, *Old Age Assistance*, *Aid to the Blind*, *Aid to the Disabled*, *Temporary Assistance to Families*, *ConnPACE*, *Connecticut Home Care Program*, *Child Care - TANF/CCDBG*, *State Administered General Assistance* - Reflects anticipated rate and volume changes based on current trends.
- *Medicaid*, *Old Age Assistance*, *Aid to the Blind*, *Aid to the Disabled* - Reflects leap year payments in FY 2012.
- *Medicaid*, *Charter Oak Health Plan* - Reflects expansion of Medicaid coverage for low-income adults with income up to 133% of the federal poverty level beginning January 1, 2014 and reduction in expenditures under the Charter Oak Health Plan.
- *Medicaid* - Reflects rebasing of nursing home rates in FY 2012.
- *Medicaid*, *Housing/Homeless Services* - Reflects transition of additional clients under the Money Follows the Person initiative.
- *Charter Oak Health Plan* - Reflects resumption of premium subsidies in FY 2012 for individuals enrolled after June 1, 2010.
- *ConnPACE* - Reflects clients dis-enrolling from ConnPACE due to the expansion in eligibility for the Medicare Savings Programs.

DEPARTMENT OF EDUCATION

- *Personal Services*, *Other Expenses*, *Equipment*, *Textbooks*, *Repair of Instructional Equipment and Minor Repairs to Plant* - Reflects the transfer of funding from the State Department of Education for the separated Connecticut Technical High School System per PA 10-76.
- *Sheff Settlement* - Reflects funding being transferred to Magnet Schools, Open Choice and Interdistrict Cooperation Grants for distribution.
- *Charter Schools*, *Open Choice and Magnet Schools* - Reflect projected enrollment increases.
- *Transportation of School Children*, *Adult Education*, *Health Services for Pupils Private Schools*, *Excess Cost - Student Based (Special Education) and Non-Public School Transportation* - Reflect funding grants at the statutory, un-capped level.

REGIONAL VOCATIONAL-TECHNICAL SCHOOL SYSTEM

- *Personal Services*, *Other Expenses*, *Equipment*, *Textbooks*, *Repair of Instructional Equipment and Minor Repairs to Plant* - Reflects the transfer of funding from the State Department of Education for the Connecticut Technical High School System per PA 10-76.

UNIVERSITY OF CONNECTICUT

- *Tuition Freeze* - Assumes level funding of appropriation that was provided in order to freeze tuition and extension fees for the 1999-2000 academic year.

TEACHERS' RETIREMENT BOARD

- *Retirement Contributions* - FY 2012 and FY 2013 based on June 30, 2010 valuation. FY 2014 reflects a 4% increase over FY 2013.
- *Retirees Health Service Cost and Municipal Health Insurance Cost* - Reflects medical inflation rate.

REGIONAL COMMUNITY-TECHNICAL COLLEGES

- *Tuition Freeze* - Assumes level funding of appropriation that was provided in order to freeze tuition and extension fees for the 1999-2000 academic year.

CONNECTICUT STATE UNIVERSITY

- *Tuition Freeze* - Assumes level funding of appropriation that was provided in order to freeze tuition and extension fees for the 1999-2000 academic year.

DEPARTMENT OF CHILDREN AND FAMILIES

- *Leap Year* - Board and Care for Children accounts reflect the cost of leap year for programs paid on a per diem basis.
- *Caseload Growth* - Board and Care Adoption, Foster Care and Residential accounts reflect anticipated growth in the number of clients served.
- *Single Cost Accounting Rate Increase* - Reflects rate increases determined through the Single Cost Accounting System for residential treatment facilities and no- nexus special education costs as authorized in statute.
- *Supportive Housing Rent Supports* – Reflects funding to support housing vouchers for new families in the Supportive Housing for Recovering Families program. Assumes families do not lose their housing vouchers even after they no longer qualify for time limited case management services.
- *Raise the Age of Juvenile Jurisdiction* - Reflects anticipated services required to meet the needs of youth who will be considered juveniles under the recent legislation. 16 year olds are considered juveniles as of January 1, 2010 and 17 year olds will be considered juveniles as of July 1, 2012.

JUDICIAL DEPARTMENT

- *Foreclosure Mediation Sunset* - Per PA 10-181, this program is statutorily due to expire 6/30/2012.

SUMMARY OF APPROPRIATED FUND PROJECTIONS

(In Millions)

	Estimated 2010-2011	Current Service 2011-2012	Current Service 2012-2013	Projected 2013-2014
GENERAL FUND				
DSS - Medicaid	$ 4,311.4	$ 4,670.5	$ 4,879.3	$ 5,154.0
STATEWIDE - Personal Services	2,349.1	2,554.7	2,474.2	2,596.8
SDE - Education Equalization Grants	1,889.6	1,889.6	1,889.6	1,942.5
OTT - Debt Service	1,485.7	1,713.6	1,704.4	1,724.3
OSC - Retired Employee Health Serv Cost	595.3	597.4	648.3	674.3
TRB - Retirement Contributions	581.6	757.2	787.5	819.0
OSC - Retirement Contributions	563.3	722.1	715.5	770.6
STATEWIDE - Other Expenses	552.9	514.8	532.5	547.8
OSC - State Employees Health Serv Cost	490.6	604.2	665.1	691.7
DDS - Community Residential Services	406.9	431.5	456.1	473.9
OSC - Employers Social Security Tax	232.3	246.7	248.4	255.3
UOC - Operating Expenses	219.8	241.4	234.5	241.1
DCF - Board & Care - Residential	180.7	201.9	218.5	231.3
DDS - Employment Opportunities & Day Svcs	179.1	192.7	209.7	217.4
SDE - Magnet Schools	174.1	215.9	235.6	242.2
CCC - Operating Expenses	155.8	163.0	159.5	164.0
CSU - Operating Expenses	154.9	168.3	164.7	169.3
SDE - Excess Cost - Student Based	139.8	169.9	183.4	188.5
DSS - Temporary Assist to Families - TANF	130.4	123.7	127.2	130.7
MHA - General Assistance Managed Care	128.8	153.4	177.1	184.2
UHC - Operating Expenses	118.8	125.6	121.3	124.7
SDE - Priority School Districts	117.2	118.5	120.4	123.8
DCF - Board and Care for Children - Foster	117.0	126.0	136.6	142.7
OTT - UConn 2000 - Debt Service	116.6	120.3	130.0	144.7
OSC - Loss Taxes Private Tax-Exempt Property	115.4	115.4	115.4	115.4
DSS - DMHAS – Disproportionate Share	105.9	105.9	105.9	105.9
DSS - Child Care Services - TANF/CCDBG	103.4	114.1	133.6	148.5
DOC - Inmate Medical Services	98.6	104.6	104.6	108.8
DCF - Board and Care for Children - Adoption	85.5	94.8	104.0	109.6
OPM - Reserve for Salary Adjustments	78.3	42.6	200.1	205.7
MHA - Grants for Mental Health Services	76.4	79.8	83.1	86.4
DSS - Connecticut Home Care Program	74.9	76.8	79.5	82.7
OSC - Loss of Taxes on State Property	73.5	73.5	73.5	73.5
OTT - Pension Obligation Bonds - TRB	65.3	80.9	121.4	145.1
DSS - Aid to the Disabled	61.6	68.9	73.3	78.4
JUD - Alternative Incarceration Program	55.5	58.2	60.2	61.9
MHA - Young Adult Services	54.4	63.0	68.9	71.6
SDE - Charter Schools	53.0	56.5	60.0	61.7
DSS - Disproportionate Share-Med Emer Asst	51.7	51.7	51.7	51.7
DSS - Housing/Homeless Services	50.2	53.6	57.6	61.6
OPM - P.I.L.O.T. New Mfg Machine & Equip	47.9	49.1	50.6	50.6
DOC - Community Support Services	40.4	41.4	42.7	43.9
MHA - Managed Service System	38.9	40.8	42.5	44.2
DSS - HUSKY Program	37.9	38.5	41.6	43.5
DDS - Early Intervention	37.9	38.8	40.0	41.2
DSS - Old Age Assistance	35.0	38.2	41.1	43.0
DSS - DSH-Urban Hospitals/Distressed	31.6	31.6	31.6	31.6
OSC - Higher Ed Alternative Retirement Sys	31.2	38.0	37.7	38.8
DDS - Voluntary Services	31.0	31.8	32.8	33.7
DHE - CT Aid for Public College Students	30.2	31.0	31.9	32.8
JUD - Juvenile Alternative Incarceration	30.2	31.0	32.0	32.9

SUMMARY OF APPROPRIATED FUND PROJECTIONS

(In Millions)

	Estimated 2010-2011	Current Service 2011-2012	Current Service 2012-2013	Projected 2013-2014
DOC - Workers' Compensation Claims	29.9	34.0	33.9	34.9
SDE - Transportation of School Children	28.6	88.7	94.1	96.8
DOL - Workforce Investment Act	28.6	28.6	28.6	28.6
DAS - Workers' Compensation Claims	27.2	28.9	29.0	29.8
SDE - Sheff Settlement	26.7	9.3	10.3	10.6
MHA - Grants for Substance Abuse Services	25.3	26.4	27.5	28.6
DCF - Community KidCare	24.2	24.9	25.6	26.3
OPM - Tax Relief for Elderly Renters	24.0	26.8	30.0	33.7
DHE - CT Independent College Student Grant	23.4	24.0	24.7	25.4
DDS - Cooperative Placements Program	21.6	22.7	23.8	24.5
SDE - Adult Education	20.6	21.9	22.6	23.2
OPM - Prop Tax Relief Elder-Circuit Breaker	20.5	21.0	21.7	22.3
ITD - Statewide Information Technology Services	20.3	22.5	22.4	23.0
SDE - Develop of Mastery Exams Grades 4,6&8	18.8	19.5	20.0	20.6
DOL - Jobs First Employment Services	17.6	18.1	18.5	19.0
DCF - Individualized Family Supports	17.5	18.0	18.7	19.2
DSS - Charter Oak Health Plan	17.4	22.7	27.0	23.2
DDS - Workers' Compensation Claims	16.2	18.3	19.4	20.3
DSS - State Administered General Assistance	15.7	16.8	17.6	18.5
DPW - Rents and Moving	15.1	12.6	12.7	13.1
SDE - OPEN Choice Program	14.5	19.8	22.1	22.7
DCF - Gts Psychiatric Clinics for Children	14.1	14.5	14.9	15.3
DCF - Support for Recovering Families	14.0	14.9	17.6	20.4
DCF - Juvenile Justice Outreach Services	13.5	13.8	15.2	16.7
MHA - Housing Supports and Services	13.4	14.0	14.6	15.2
DSS - Children's Trust Fund	13.2	13.5	13.9	14.3
MHA - Workers' Compensation Claims	12.3	13.2	13.4	14.0
CPC - Contracted Attorneys	12.3	12.5	12.5	12.9
MHA - Professional Services	11.8	12.3	12.8	13.3
JUD - Probate Court	11.3	9.0	8.1	8.3
DCF - Family Support Services	11.2	10.5	10.8	11.1
SDE - Interdistrict Cooperation	11.1	11.4	11.4	11.7
DSS - Connecticut Children's Medical Center	11.0	11.0	11.0	11.0
DSS - Child Day Care	10.6	10.9	11.2	11.5
DEP - Emergency Spill Response Account	10.6	11.2	11.1	11.4
DPS - Fleet Purchase	10.4	7.2	7.4	7.6
DPH - School Based Health Clinics	10.4	10.9	11.4	11.7
MHA - Employment Opportunities	10.4	10.7	11.0	11.3
STATEWIDE - ALL OTHER	553.8	678.4	703.4	724.0
General Fund - Gross	**$ 18,196.9**	**$ 19,878.7**	**$ 20,599.0**	**$ 21,465.5**
Reduce Outside Consultant Contracts (Total)	(95.0)	0.0	0.0	0.0
Estimated Unallocated Lapses	(89.5)	(89.5)	(89.5)	(89.5)
General Personal Services Reduction (Total)	(14.0)	(14.0)	(14.0)	(14.0)
General Other Expenses Reductions (Total)	(11.0)	(11.0)	(11.0)	(11.0)
Legislative Unallocated Lapses	(2.7)	(2.7)	(2.7)	(2.7)
Reduce Other Expenses to FY 07 Levels (Total)	(32.0)	0.0	0.0	0.0
Personal Services Reductions - Legislative Agencies	(1.2)	0.0	0.0	0.0
DoIT Lapse - Legislative Agencies	(0.0)	0.0	0.0	0.0
Management Reduction - Legislative Agencies	(0.9)	0.0	0.0	0.0
Other Allocated Lapses	(56.1)	0.0	0.0	0.0
General Fund - Net	**$ 17,894.5**	**$ 19,761.5**	**$ 20,481.8**	**$ 21,348.3**

SUMMARY OF APPROPRIATED FUND PROJECTIONS

(In Millions)

	Estimated 2010-2011	Current Service 2011-2012	Current Service 2012-2013	Projected 2013-2014
SPECIAL TRANSPORTATION FUND - Gross	$ 1,187.9	$ 1,306.0	$ 1,350.1	$ 1,389.8
Estimated Unallocated Lapses	(11.0)	(11.0)	(11.0)	(11.0)
Special Transportation Fund - Net	**$ 1,176.9**	**$ 1,295.0**	**$ 1,339.1**	**$ 1,378.8**
BANKING FUND	24.0	26.1	22.2	21.8
INSURANCE FUND	26.3	26.9	26.4	27.4
CONSUMER COUNSEL/PUBLIC UTILITY FUND	24.5	26.3	26.0	27.0
WORKERS' COMPENSATION FUND	22.2	22.5	22.5	23.3
MASHANTUCKET PEQUOT AND MOHEGAN FUND	61.8	135.0	135.0	135.0
SOLDIERS, SAILORS AND MARINES FUND	3.0	3.1	3.2	3.3
REGIONAL MARKET OPERATION FUND	1.0	1.0	1.0	1.0
CRIMINAL INJURIES COMPENSATION FUND	3.4	3.5	3.6	3.7
TOTAL ALL FUNDS - NET	**$ 19,237.5**	**$ 21,300.9**	**$ 22,060.7**	**$ 22,969.6**

PROJECTED REVENUES

Per the October 15, 2010 Consensus Revenue Forecast

(In Millions)

General Fund

Taxes	2010-11	2011-12	2012-13	2013-14
Personal Income Tax	$ 6,810.0	$ 7,357.5	$ 8,005.0	$ 8,576.2
Sales & Use Tax	3,314.4	3,428.4	3,564.1	3,679.3
Corporation Tax	660.5	649.4	674.7	711.5
Public Service Tax	273.3	278.9	285.6	293.7
Inheritance & Estate Tax	139.0	103.3	107.0	110.2
Insurance Companies Tax	227.9	231.4	235.1	235.2
Cigarettes Tax	402.5	391.5	380.7	370.3
Real Estate Conveyance Tax	101.0	107.0	116.7	125.4
Oil Companies Tax	109.7	121.5	127.0	117.4
Alcoholic Beverages Tax	48.7	49.2	50.0	50.5
Admissions & Dues Tax	35.1	35.6	36.2	36.5
Miscellaneous Tax	141.4	141.5	141.4	141.4
Total Taxes	$ 12,263.5	$ 12,895.2	$ 13,723.5	$ 14,447.6
Less Refunds of Tax	(970.0)	(1,030.5)	(1,074.4)	(1,119.5)
Less R&D Credit Exchange	(9.6)	(10.5)	(11.0)	(11.5)
Total - Taxes Less Refunds	$ 11,283.9	$ 11,854.2	$ 12,638.1	$ 13,316.6
Other Revenue				
Transfers-Special Revenue	$ 291.0	$ 292.6	$ 293.9	$ 295.3
Indian Gaming Payments	366.8	381.8	393.6	403.6
Licenses, Permits, Fees	241.5	263.5	245.2	266.5
Sales of Commodities	35.8	36.4	37.3	38.2
Rents, Fines, Escheats	107.7	96.9	98.6	100.5
Investment Income	3.5	7.5	11.0	12.5
Miscellaneous	161.3	163.3	164.2	165.1
Less Refunds of Payments	(1.3)	(1.4)	(1.6)	(1.7)
Total - Other Revenue	$ 1,206.3	$ 1,240.6	$ 1,242.2	$ 1,280.0
Other Sources				
Federal Grants	$ 4,157.0	$ 3,454.6	$ 3,580.6	$ 3,832.0
Transfer From Tobacco Settlement	102.9	102.3	101.7	101.0
Transfers From (To) Other Funds	1,184.7	(259.1)	(307.8)	(307.8)
Total - Other Sources	$ 5,444.6	$ 3,297.8	$ 3,374.5	$ 3,625.2
Total - General Fund Revenues	$ 17,934.8	$ 16,392.6	$ 17,254.8	$ 18,221.8

Special Transportation Fund

Taxes	2010-11	2011-12	2012-13	2013-14
Motor Fuels Tax	$ 490.7	$ 497.5	$ 501.1	$ 504.7
Oil Companies Tax	165.3	165.3	165.3	179.2
Sales Tax - DMV	67.8	68.8	70.5	70.5
Total Taxes	$ 723.8	$ 731.6	$ 736.9	$ 754.4
Less Refunds of Taxes	(7.2)	(7.3)	(7.5)	(7.7)
Total - Taxes Less Refunds	$ 716.6	$ 724.3	$ 729.4	$ 746.7
Other Sources				
Motor Vehicle Receipts	$ 224.7	$ 228.9	$ 233.9	$ 238.5
Licenses, Permits, Fees	137.1	140.0	142.2	144.2
Interest Income	15.0	20.0	22.0	22.0
Federal Grants	5.8	5.8	5.8	5.8
Transfers From (To) Other Funds	85.8	102.3	151.0	151.0
Less Refunds of Payments	(2.7)	(2.8)	(2.9)	(3.0)
Total - Other Sources	$ 465.7	$ 494.2	$ 552.0	$ 558.5
Total - STF Revenues	$ 1,182.3	$ 1,218.5	$ 1,281.4	$ 1,305.2

NOTE: The above revenue schedule reflects the October 15, 2010 consensus revenue estimates per PA 09-214.

PROJECTED REVENUES

(In Millions)

	2010-11	2011-12	2012-13	2013-14
Mashantucket Pequot and Mohegan Fund Revenues	$ 61.8	$ 135.0	$ 135.0	$ 135.0
Soldiers', Sailors', and Marines' Fund Revenues	$ 3.0	$ 3.2	$ 3.2	$ 3.3
Regional Market Operating Fund Revenues	$ 1.0	$ 1.0	$ 1.0	$ 1.0
Banking Fund Revenues	$ 24.1	$ 26.2	$ 22.2	$ 21.8
Insurance Fund Revenues	$ 26.3	$ 26.9	$ 26.5	$ 27.4
Consumer Counsel & Public Utility Control Revenues	$ 24.5	$ 26.4	$ 26.0	$ 27.0
Workers' Compensation Fund Revenues	$ 22.3	$ 22.6	$ 22.5	$ 23.3
Criminal Injuries Fund Revenues	$ 3.5	$ 3.5	$ 3.7	$ 3.7
All Appropriated Funds Revenues	$ 19,283.6	$ 17,855.9	$ 18,776.3	$ 19,769.6

ASSUMPTIONS USED TO DEVELOP REVENUE ESTIMATES

	Fiscal 2010-11	Fiscal 2011-12	Fiscal 2012-13	Fiscal 2013-14
UNITED STATES				
Gross Domestic Product	3.3%	5.5%	7.0%	5.4%
Real Gross Domestic Product	2.6%	4.3%	4.9%	3.5%
G.D.P. Deflator	0.7%	1.2%	2.0%	1.9%
Unemployment Rate	9.9%	9.3%	7.3%	5.8%
New Vehicle Sales (M)	11.99	13.79	15.94	17.07
Consumer Price Index	1.2%	2.1%	2.8%	2.7%
CONNECTICUT				
Personal Income	1.0%	4.2%	6.6%	6.4%
Nonagricultural Employment	-0.2%	0.6%	0.2%	0.2%
Housing Starts (T)	3.40	5.97	9.90	10.56
Unemployment Rate	9.1%	8.8%	7.1%	5.8%

M denotes millions
T denotes thousands

ECONOMIC GROWTH RATES FOR PROJECTED TAX REVENUES

(PERCENT CHANGE)

GENERAL FUND

Taxes	2010-11	2011-12	2012-13	2013-14
Personal Income Tax [1]	4.9, 10.0	7.0, 10.0	7.5, 10.0	7.0, 10.0
Sales & Use Tax	3.7	3.4	4.0	3.2
Corporation Tax	5.0	3.7	3.8	5.5
Public Service Tax	2.0	2.0	2.4	2.8
Inheritance & Estate Tax	4.0	4.5	3.5	3.0
Insurance Companies Tax	0.7	1.5	1.6	0.0
Cigarettes Tax	-4.3	-2.7	-2.8	-2.7
Real Estate Conveyance Tax	0.7	5.9	9.1	7.5
Oil Companies Tax	3.8	6.1	1.9	1.5
Alcoholic Beverages Tax	1.0	1.0	1.6	1.0
Admissions & Dues Tax	0.0	1.4	1.7	0.8

Special Transportation Fund

Taxes	2010-11	2011-12	2012-13	2013-14
Motor Fuels Tax	0.4	0.4	0.7	0.7
Sales Tax - DMV	0.0	1.5	2.5	0.0

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 Dept. of Revenue Services 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 2009 for business credits and income year 2008 for the personal income tax credit). An average value was derived over that time period which then became the base for fiscal year 2011. From fiscal year 2012 and forward, the dollar value of credits claimed was grown by appropriate growth rates.

Projected Total Amounts of Tax Credits Claimed
(In Thousands)

	2010-11	2011-12	2012-13	2013-14
Personal Income Tax Credits				
Property Tax	$ 365,000	$ 372,000	$ 379,000	$ 387,000
Angel Investor	-	6,000	3,000	3,000
Total Personal Income Tax	$ 365,000	$ 378,000	$ 382,000	$ 390,000
Business Tax Credits				
Fixed Capital	$ 42,000	$ 43,300	$ 44,600	$ 45,900
Human Capital	1,500	1,500	1,500	1,500
Electronic Data Processing[1]	30,000	30,900	31,800	32,800
Research and Experimental Expenditures	10,000	10,300	10,600	10,900
Research and Development Expenditures	5,000	5,200	5,400	5,600
Film Industry Production[1]	20,000	21,000	22,100	23,200
Film Industry Digital Animation[1]	10,000	15,000	15,000	15,000
Film Industry Infrastructure[1]	3,000	3,200	3,400	3,600
Urban and Industrial Reinvestment	5,000	15,000	18,000	20,000
Job Creation	3,000	5,000	8,000	11,000
Housing Program Contribution[1]	2,000	2,000	2,000	2,000
Historic Rehabilitation	1,500	1,500	1,500	1,500
Machinery and Equipment	1,500	1,500	1,500	1,500
All Other Credits	10,000	10,000	10,000	10,000
Total Business Tax Credits	$ 144,500	$ 165,400	$ 175,400	$ 184,500
Total Projected Amount Claimed	$ 509,500	$ 543,400	$ 557,400	$ 574,500

(1) Includes credits claimed under the Corporation Tax and the Insurance Premiums 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 PUBLIC WORKS

A shortfall is anticipated in the Department of Public Works totaling $6.4 million in the Other Expenses, Management Services, and Rents and Moving Expenses accounts due to the holdbacks programmed to achieve budgeted savings, particularly those for contract reductions and reducing Other Expenses to FY 2007 levels.

DEPARTMENT OF PUBLIC SAFETY

The Department of Public Safety will experience a shortfall totaling $8.4 million in the Other Expenses and Fleet Services accounts. The $5.0 million Other Expenses shortfall is a result of programmed holdbacks that are 21% of the appropriation, which funds utilities, telecommunications, fuel and maintenance costs for motor vehicles and other critical public safety costs. The $3.4 million Fleet Services shortfall is the result of a programmed holdback that will not be met due to the need to replace aging State Trooper vehicles which have become more costly to repair and maintain than to replace.

DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES

A $23.1 million shortfall is anticipated in the General Assistance Managed Care account to reflect higher than budgeted caseload and utilization for this population. In addition, a $5.3 million Other Expenses shortfall is projected due to holdbacks programmed to achieve budgeted savings.

DEPARTMENT OF SOCIAL SERVICES

A net deficiency of $157.5 million is projected in the Medicaid account, primarily as a result of overly aggressive budgeted savings estimates or implementation timelines. Additionally, several initiatives require approval from the federal government, and one is the subject of ongoing litigation, resulting in delays in budgeted savings. A $15 million deficiency is anticipated in Other Expenses, largely as a result of the required holdbacks, which represent over 21% of the agency's Other Expenses appropriation. The vast majority of expenses under this account support key contractual obligations, such as eligibility management and the Medicaid claims payment system, which are required to support the array of programs provided by the department.

DEPARTMENT OF CORRECTION

The Department of Correction is forecast to incur a $12.0 million deficiency in Other Expenses because of the implementation of budgeted holdbacks, which represent 20% of the agency's Other Expenses appropriation. This account funds food and utility expenses and other costs of ru nning and maintaining the correctional system.

PUBLIC DEFENDER SERVICES COMMISSION

The Public Defender Services Commission is anticipated to end the year with a $2.1 million deficiency: $0.2 million in Other Expenses, $0.2 million in the Special Public Defenders -Contractual account, $1.0 million in the Special Public Defenders - Noncontractual account, and $0.7 million in the Expert Witnesses account. Approximately $545,000 of the total shortfall is due to FY 2010 bills that were unpaid even after May 2010 Finance Advisory Committee action to realign funds to enable the Commission to pay its bills.

COMMISSION ON CHILD PROTECTION

A $2.6 million shortfall is estimated in the Child Protection Commission's Contracted Attorneys account due to increased use of services from contracted attorneys as well as an unbudgeted increase in the rates paid to those attorneys . Based on agency trends, this deficiency is anticipated to continue to grow.

DAS-WORKER'S COMPENSATION CLAIMS

A $1.0 million deficiency is anticipated in the Department of Administrative Services' Workers Compensation Claims account due to claims costs that exceed the estimates used in developing the budget.

STATEWIDE LAPSES

Achievement of $50 million in savings for Enhancing Agency Outcomes is not anticipated given the lack of a plan and timeline for accomplishing this budgeted lapse.

ENERGY ASSISTANCE

The deficiencies outlined above assume no state resources will be provided to continue benefits under the Connecticut Energy Assistance Program should federal funding be exhausted before the winter heating season concludes. On September 22, 2010, the legislature modified the LIHEAP block grant allocation plan to reflect continuation of last year's benefit levels despite the likelihood of reduced federal funding this program year. Any state expenditure beyond the level of federal funding would be unbudgeted.

SECTION 4

PROJECTED BALANCE OF THE BUDGET RESERVE FUND

BUDGET RESERVE FUND

PROJECTED FUND BALANCE

BUDGET RESERVE FUND ACTIVITY

	2009-10	2010-11	2011-12	2012-13	2013-14
Beginning Balance	$ 1,381.7	$ 103.2	$ -	$ -	$ -
Deposits/(Withdrawals)	(1,278.5)	(103.2)	-	-	-
Ending Balance	$ 103.2	$ -	$ -	$ -	$ -
Balance as Percent of Budget	0.6%	0.0%	0.0%	0.0%	0.0%
Balance Over/(Under) Target	$ (1,663.5)	$ (1,639.3)	$ (1,725.5)	$ (1,822.2)	$ (1,921.2)
Available Over BRF Target [1]	$ -	$ -	$ -	$ -	$ -

PLANNED DISPOSITION OF FUTURE SURPLUSES

Per PA09-3 of the June Special Session, any surplus in FY 2011 through FY 2017 must be used first to redeem FY 2009 Economic Recovery Notes ($947.6 million), and then to redeem FY 2011 Economic Recovery Revenue Bonds (an expected $646 million).

Therefore, the state would have to generate surpluses of almost $1.6 billion before the first deposit into the Budget Reserve Fund could be made.

CALCULATION OF BUDGET RESERVE TARGET BALANCE

	2011-12	2012-13	2013-14
General Fund Appropriations*	$ 16,392.6	$ 17,254.8	$ 18,221.8
Target Balance [2]	$ 1,725.5	$ 1,822.2	$ 1,921.2 [3]
Balance Over/(Under) Target	$ (1,725.5)	$ (1,822.2)	$ (1,921.2)

(1) Available for debt service and/or unfunded liabilities when BRF target of 10% has been reached.
(2) Target Balance is equal to ten percent of the next fiscal year's adjusted general fund appropriations.
(3) FY 2014 Target Balance assumes average expenditure growth rate of previous two years.

*Appropriations are equal to Consensus Revenue

Section 5

Projected Bond Authorizations, Allocations and Issuances

FIVE YEAR BOND PROJECTIONS

	FY2011	FY2012	FY2013	FY2014	FY2015
Bond Authorizations					
General Obligation Bonds	$ 896,728,578	$ 950,000,000	$ 950,000,000	$ 950,000,000	$ 950,000,000
Special Tax Obligation Bonds	272,725,000	270,000,000	280,000,000	300,000,000	300,000,000
Clean Water Fund Revenue Bonds	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000
UCONN 21st Century	138,800,000	157,200,000	143,000,000	140,000,000	128,500,000
CSUS 2020	95,000,000	95,000,000	95,000,000	95,000,000	95,000,000
Total Bond Authorizations	**$ 1,523,253,578**	**$ 1,592,200,000**	**$ 1,588,000,000**	**$ 1,605,000,000**	**$ 1,593,500,000**
Bond Allocations					
General Obligation Bonds					
School Construction Program	$ 641,600,000	$ 536,400,000	$ 592,300,000	$ 613,800,000	$ 611,400,000
Urban Action Grants	15,000,000	50,000,000	50,000,000	40,000,000	30,000,000
Small Town Economic Assistance Program	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Housing Trust Fund	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Clean Water Grants	80,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Manufacturing Assistance Act	45,000,000	50,000,000	50,000,000	40,000,000	30,000,000
Local Capital Improvement Program	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Community College System	51,424,000	85,061,000	46,492,000	70,421,500	109,592,500
Connecticut State University System - CSUS2020	95,000,000	95,000,000	95,000,000	95,000,000	95,000,000
All other GO projects/programs	73,176,000	106,339,000	103,208,000	80,778,500	75,507,500
UCONN 21st Century	138,800,000	157,200,000	143,000,000	140,000,000	128,500,000
Total General Obligation Bonds	$ 1,200,000,000	$ 1,200,000,000	$ 1,200,000,000	$ 1,200,000,000	$ 1,200,000,000
Special Tax Obligation Bonds	800,000,000	600,000,000	600,000,000	300,000,000	300,000,000
Clean Water Fund Revenue Bonds	200,000,000	120,000,000	120,000,000	120,000,000	120,000,000
Total Bond Allocations	**$ 2,200,000,000**	**$ 1,920,000,000**	**$ 1,920,000,000**	**$ 1,620,000,000**	**$ 1,620,000,000**

	FY2011	FY2012	FY2013	FY2014	FY2015
Bond Issuance					
General Obligation Bonds	$ 1,100,000,000	$ 1,100,000,000	$ 1,100,000,000	$ 1,100,000,000	$ 1,100,000,000
Special Tax Obligation Bonds	600,000,000	550,000,000	550,000,000	525,000,000	525,000,000
Clean Water Revenue Bonds	200,000,000	200,000,000	300,000,000	300,000,000	300,000,000
UCONN 21st Century	138,800,000	157,200,000	143,000,000	140,000,000	128,500,000
Total Bond Issuance	**$ 2,038,800,000**	**$ 2,007,200,000**	**$ 2,093,000,000**	**$ 2,065,000,000**	**$ 2,053,500,000**

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. 10a-109g as amended.
CSUS2020 authorizations in accordance with C.G.S. 10a-91e as amended.

Bond Allocations

The projected bond allocations in no way represent a commitment to fund any of these programs or projects.
School Construction Program allocations based on budget projections prepared by the Department of Education.
Community College allocations are based on project status and available resources.

SECTION 6

REVENUE AND EXPENDITURE TRENDS, MAJOR COST DRIVERS

WATCH LIST

FY2011 AREAS OF CONCERN

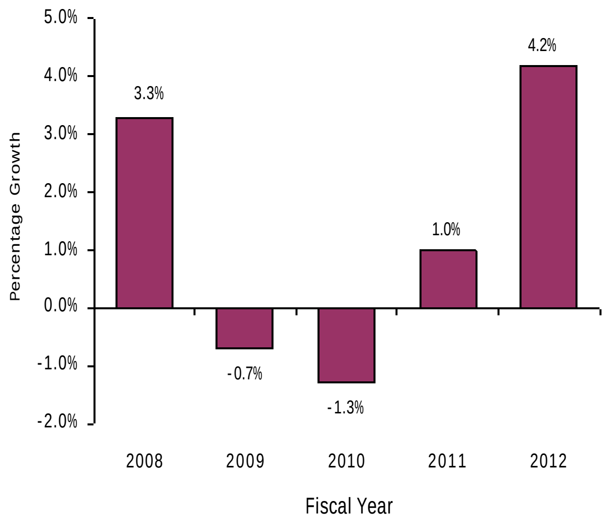
(In Millions)

GENERAL FUND

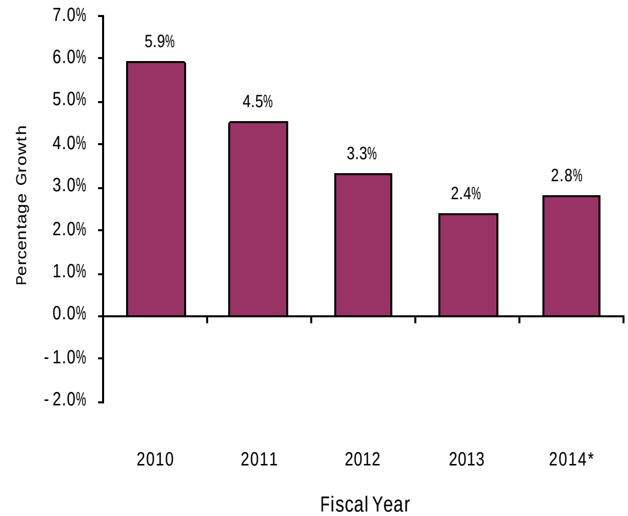
- Statewide lapses
    - Contract savings
    - Other Expenses to FY 2007 levels
    - Unallocated lapses
- Enhancing agency outcomes lapse
- Department of Public Health - reinvention savings
- Department of Social Services
    - Reduce MCO rates by 3%
    - Manage services for Aged, Blind and Disabled
    - Medicaid for low income adults (DSS and DMHAS)

EXPENDITURE CAP

CT PERSONAL INCOME GROWTH



CT EXPENDITURE CAP GROWTH RATE



* Inflation is the limiting factor

- Although revenues have been the sole limiting factor for the budget over the past few years, that is about to change.
- Personal Income growth serves as the expenditure cap's proxy for the economy's ability to pay for government services.
- Two years of declines in Connecticut personal income will take their toll on upcoming expenditure cap rates.
- The next few years will witness the lowest allowable expenditure cap growth rates since its inception.
- So low in fact that the secondary measure of inflation is projected to be the limiting factor in 2014.
- The 5-year moving average of Personal Income is projected to fall to 1.6% which is below the projected growth in inflation of 2.8%.

STRUCTURAL HOLES

IMPACT ON FISCAL 2012- GENERAL FUND

(In Millions)

			11/15/2010 Projection
	REVENUE		
1.	Economic Recovery Revenue Bond Transfer/Securitization	$	646.6
2.	FY 2010 Excess Revenue-(reduces securitization)		309.4
3.	Transfer of Competitive Transition Assessment Charge		40.0
4.	ARRA- Federal Stimulus		739.6
5.	Budget Reserve Fund		103.2
6.	Transfer of FY 2010 Resources to FY 2011		140.0
7.	Corporation Tax Surcharge		34.1
8.	Special Transportation Fund Transfer		16.5
9.	Retroactive Social Security Billing		37.0
10.	UCHC Medical Malpractice Account Transfer		10.0
	Total Revenue	**$**	**2,076.4**
	EXPENDITURES		
11.	Debt Service- Economic Recovery Notes - FY 2009	$	208.4
12.	27th Payroll (General Fund Only)		119.0
13.	Leap Year Costs		7.4
	Total Expenditures	**$**	**334.8**
	Grand Total	**$**	**2,411.2**
	% of FY 2011 Adopted Budget		13.6%

STRUCTURAL BUDGET HOLE: occurs when non-recurring revenue resources fund on-going budget expenses. For example, the one-time federal stimulus funds in excess of $700 million received in FY 2011 paid for current operating expenses that will still need to be paid for in FY 2012, and thus additional revenue and/or expenditure cuts must be made in order to balance the budget. A structural hole can also occur when additional expenditures have been incurred without identifying a specific revenue source to pay for the additional costs.

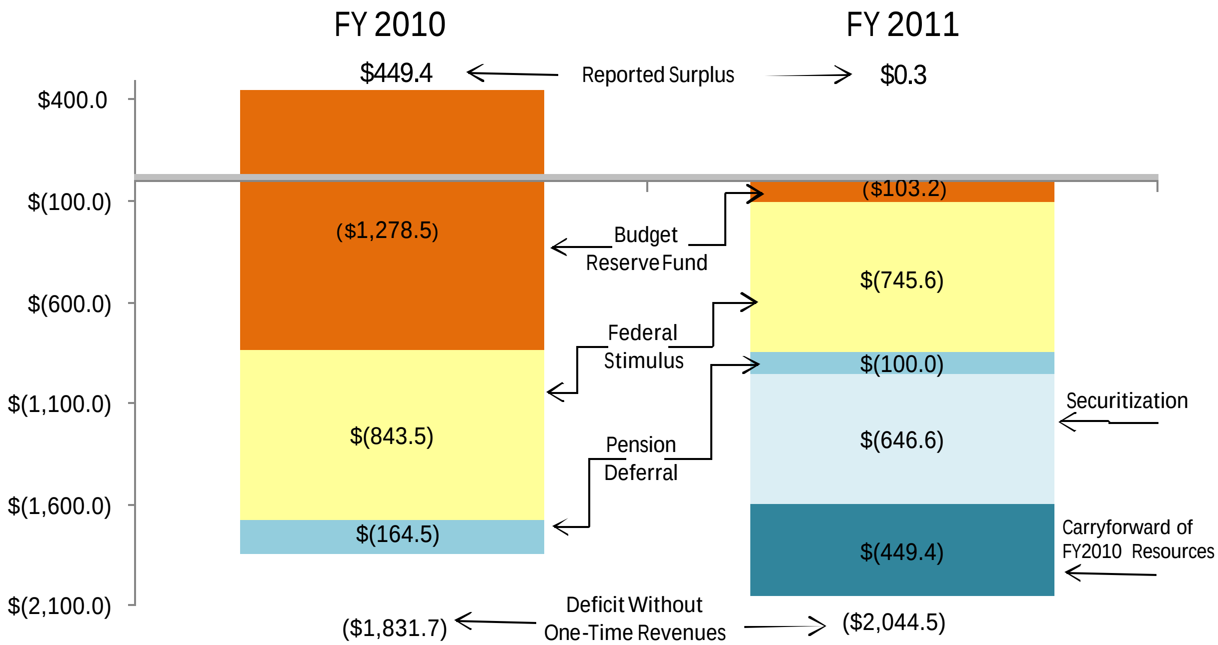
FY 2013- ADDITIONAL STRUCTURAL HOLES

1. Beginning in FY 2013, PA 10-173 requires that the state set aside approximately $15.9 million per annum to fund the next 27th payroll.
2. Also beginning in FY 2013 the first of three 2009 Retirement Incentive Plan Accruals (vacation & sick time) will be paid, estimated to be $18.46 million per annum.

REPORTED SURPLUSES

ARE NOT AS THEY SEEM

(In Millions)



- Both FY 2010 and FY 2011 relied upon an inordinate amount of one-time revenues such as the budget reserve fund, federal stimulus funds, and securitization.
- Without these one-time revenues the state's reported surpluses would actually be significant deficits.

ECONOMIC RECOVERY REVENUE BONDS
(A.K.A. SECURITIZATION)

FY 2011 Financing Plan
Economic Recovery Revenue Bonds (ERRB's)
(in millions)

	FY 2011
Original Securitization Required	$ 1,290.7
Reduction due to Revenue Improvement	(301.0)
Total Revised Requirement	$ 989.7
Competitive Transition Assessment (CTA) Charge - 1st 6 months	(40.0)
Cost of Issuance	6.3
Total Revised Financing Requirement / Transfer to General Fund	$ 956.0
Reduction due to Actual Revenue Improvement- May through July	$ (309.4)
Final Financing Requirement / Transfer to General Fund	**$ 646.6**

- Public Act 09-7 of the September Special Session required the State Treasurer and the Secretary of the Office of Policy and Management (OPM) to jointly develop a securitization plan to raise up to $1.3 billion in net general fund state revenue for FY 2011.
- The General Assembly ultimately adopted Public Act 10-179 which authorized the issuance of Economic Recovery Revenue Bonds (ERRB's) for a period of 8 years. The ERRB's will be secured by two charges on consumers' electric bills: the Competitive Transition Assessment (CTA) (stranded cost charge) and the Energy Conservation and Load Management (ECLM) charge for a total of approximately $96 million annually.

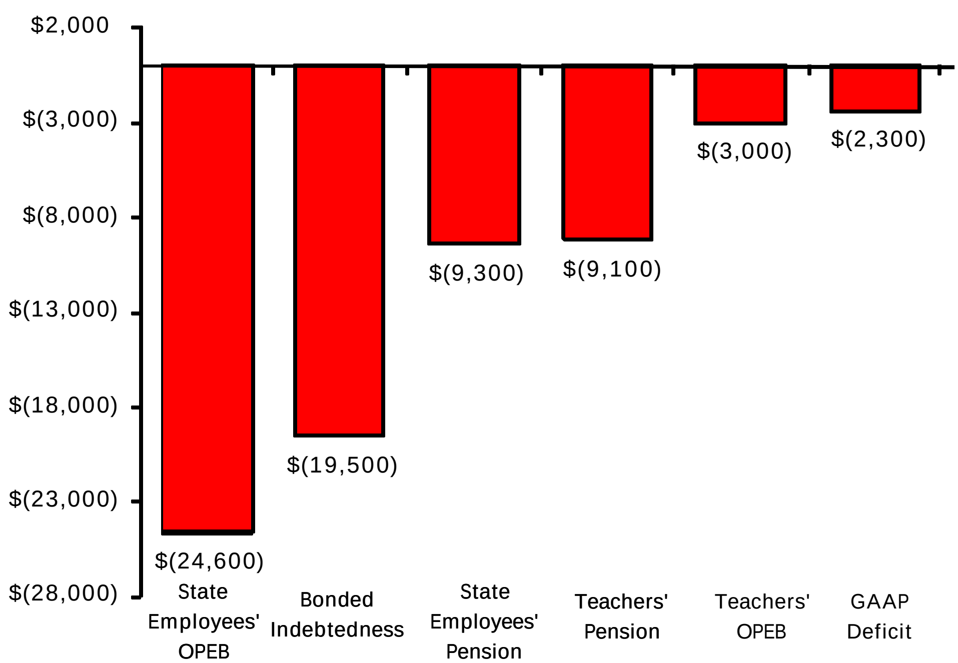
LONG-TERM OBLIGATIONS

- The state's long-term obligations total $67.8 billion, up 9.9% from last year's reported amount of $61.7 billion.
- This equates to approximately $19,400 for every man, woman and child in Connecticut, up $1,772 from last year's reported amount of $17,628.
- In comparison, total Personal Income Tax collections in FY 2011 will only be $6.8 billion.

LONG-TERM OBLIGATIONS
(In Billions)

Bonded Indebtedness - As of 8/31/10	$ 19.5
State Employee Pensions - Unfunded 6/30/08	9.3
Teachers' Pension - Unfunded 6/30/10	9.1
State Employee Post Retirement Health and Life - Unfunded	24.6
Teachers' Post Retirement Health and Life - Unfunded	3.0
Cumulative GAAP Deficit (General Fund Unreserved) 6/30/2009	2.3
Total	$ 67.8

LONG-TERM OBLIGATIONS ARE SIGNIFICANT
(In Millions)



DEBT BURDEN

State Debt Comparison Among the 50 States in 2008

Ranked by Per Capita State Debt-2008			Ranked by State Debt As a % of Personal Income (PI)- 2008		
Rank	State	Amount ($)	Rank	State	Debt/PI
1	Massachusetts	$ 11,026	1	Alaska	22.1%
2	Alaska	9,480	2	Massachusetts	21.8%
3	Rhode Island	8,458	3	Rhode Island	20.5%
4	**CONNECTICUT**	**7,886**	4	Delaware	16.2%
5	Delaware	6,573	5	Montana	14.7%
6	New Jersey	6,104	6	Vermont	14.0%
7	New Hampshire	5,994	7	New Hampshire	13.8%
8	New York	5,874	**8**	**CONNECTICUT**	**13.8%**
9	Vermont	5,432	9	New York	12.2%
10	Montana	5,115	10	New Jersey	11.9%
11	Hawaii	4,706	11	New Mexico	11.9%
12	Illinois	4,561	12	West Virginia	11.4%
	UNITED STATES	$ 3,316		UNITED STATES	8.2%

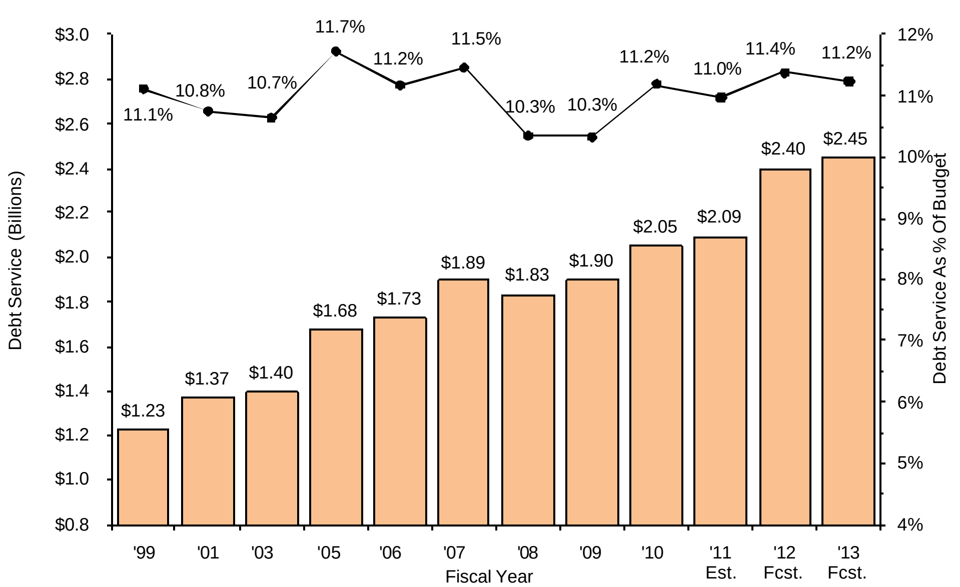
Source: U.S. Department of Commerce, Census & BEA

- Connecticut's debt burden in 2008 equals $7,886 per person.
- The state's burden is more than 2 times the national average, and higher than most of its neighboring states.
- Even after adjusting for its high personal income, Connecticut would still rank 8th in the nation in 2008.
- Even after adjusting for debt issued by counties and other political subdivisions, Connecticut would still rank 5th per capita in the nation or 31st on a personal income basis in 2008.

IMPACT OF DEBT EXPENSES

DEBT SERVICE EXPENDITURES

GENERAL AND SPECIAL TRANSPORTATION FUNDS



- Debt service expenditures have doubled since 1999.
- The increase in debt service expenditures crowds out discretionary spending.
- With the issuance of nearly $1.0 billion in Economic Recovery Notes to fund the FY 2009 deficit, debt service as a percentage of expenditures climbs to 11.4% in FY 2012.

CONNECTICUT'S BOND RATING

CURRENT GENERAL OBLIGATION BOND RATING

Moody's	Standard & Poor's	Fitch
Aa2	AA	AA

- 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 downgrade to AA by Fitch in June 2010. Moody's and Fitch had recalibrated the state's rating to Aa2 and AA+, respectively, in April 2010.**

	Number of States Rated		
Rating	Moody's	S&P	Fitch
Better than CT	27	19	27
Equal to CT	9	15	6
Lower than CT	2	4	3
Total*	38	38	36

* 39 states issue GO bonds. All 39 states are rated by Standard and Poor's, except for Fitch, which has no ratings for Arkansas and New Mexico.

CONNECTICUT'S CREDIT RATING

State Credit Strengths

- Application of operating surpluses to the Budget Reserve Fund
- Early repayment of the Economic Recovery Notes issued to cover the FY 2002 and FY 2003 operating deficits
- Wealthiest state in the nation with per capital income well above national levels

State Credit Challenges

- Use of one-time solutions to close budget gaps and balance recent budgets reduce financial flexibility and increase out year structural budget gaps.
- 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

- Increased use of one-time budget solutions
- Further revenue weakness due to delay in economic recovery
- Further use of deficit financings to resolve budget gaps
- Reduction in cash flow- reduced liquidity
- Failure to identify a fiscal plan to restore structural balance after the use one-time solutions including securitization and federal stimulus funds

NEIGHBORING STATES' RATINGS

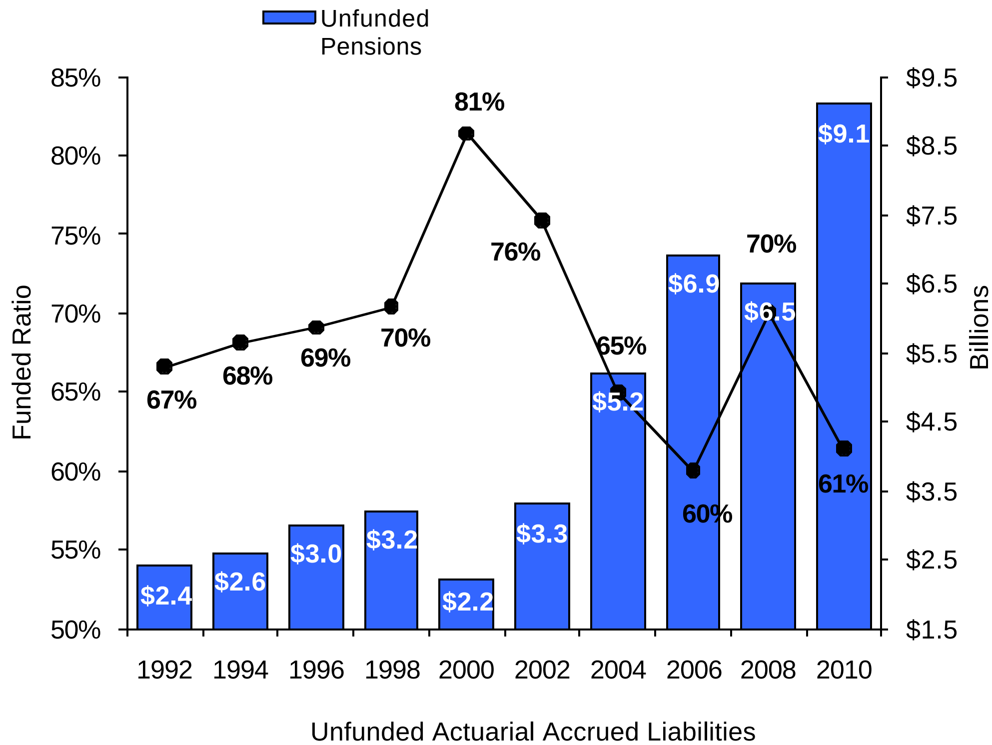
- Currently, neighboring states that are rated better or lower than Connecticut's Aa 2 Moody's rating are:
  - Better than CT: Vermont (Aaa), Massachusetts (Aa1), and New Hampshire (Aa 1)
  - Lower than CT: None
- Currently, neighboring states that are rated better or lower than Connecticut's AA Standard and Poor's rating are:
  - Better than CT: Vermont (AA+)
  - Lower than CT: None
- Currently, neighboring states that are rated better or lower than Connecticut's AA Fitch rating are:
  - Better than CT: Vermont (AAA)
  - Lower than CT: None

IMPORTANCE OF BOND RATINGS

- The rating process informs investors about risk
- The rating process shows how we compare relative to other investments
- Connecticut is a high-debt state
- Low ratings will result in higher borrowing costs

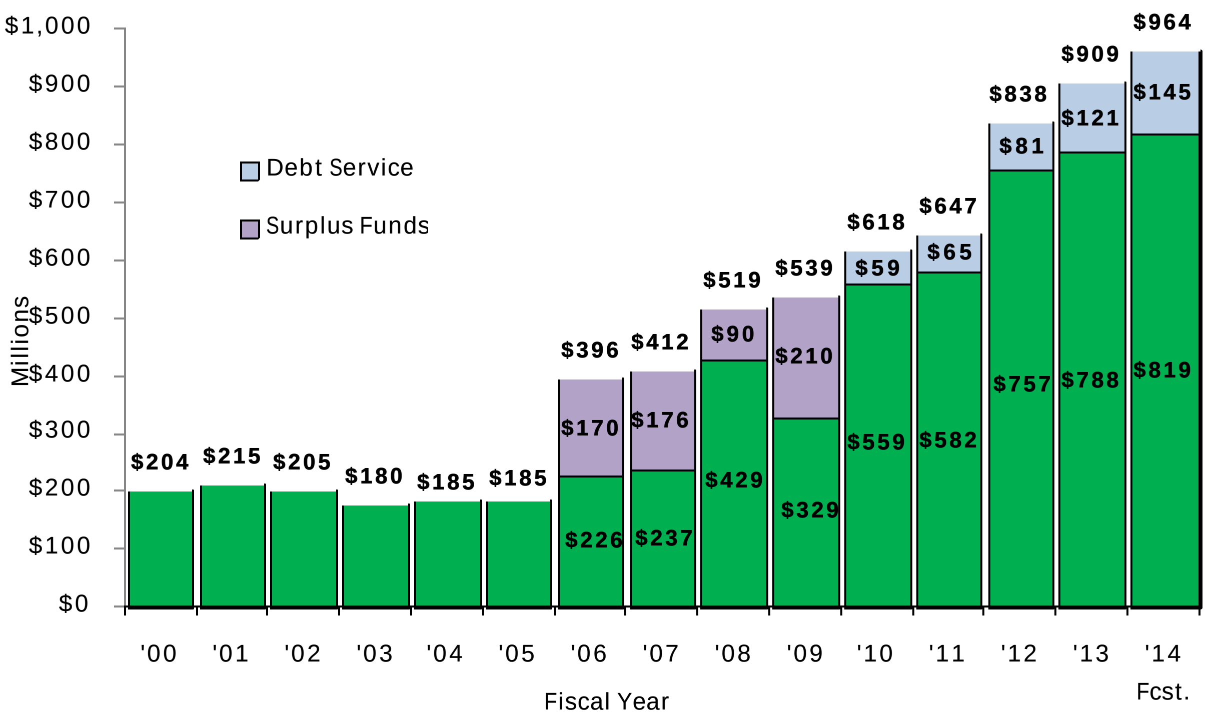
UNFUNDED PENSIONS

CONNECTICUT TEACHERS' RETIREMENT SYSTEM AS OF 6/30



- The State's obligations at the end of FY2010 total $9.1 billion
- Contributions in FY2006, FY2007, FY2008 and FY 2009 were insufficient and were supplemented by the use of surplus funds
- The $9.1 billion includes investment losses from 2008 and 2009 which overwhelm other actuarial gains. This resulted in an increase in the UAAL and decrease in the funded ratio.

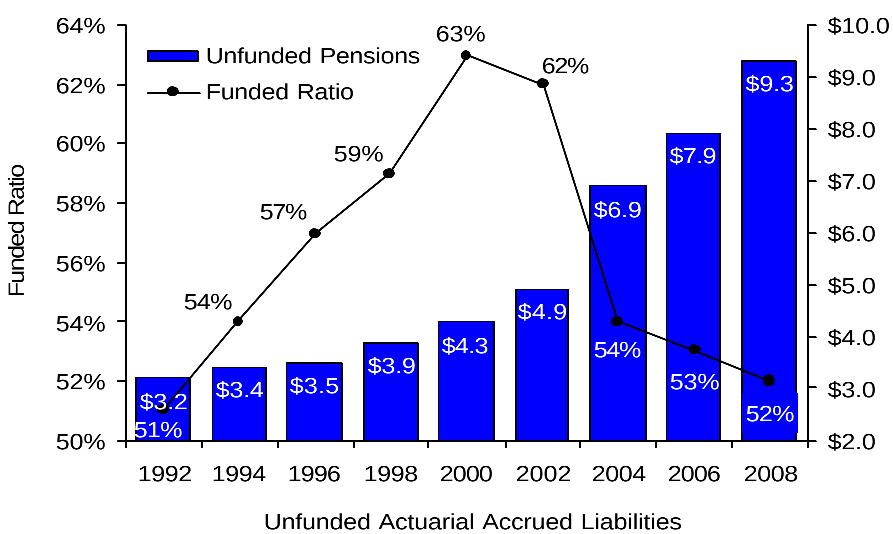
TEACHERS' RETIREMENT SYSTEM CONTRIBUTIONS *



* FY10 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.

UNFUNDED PENSIONS

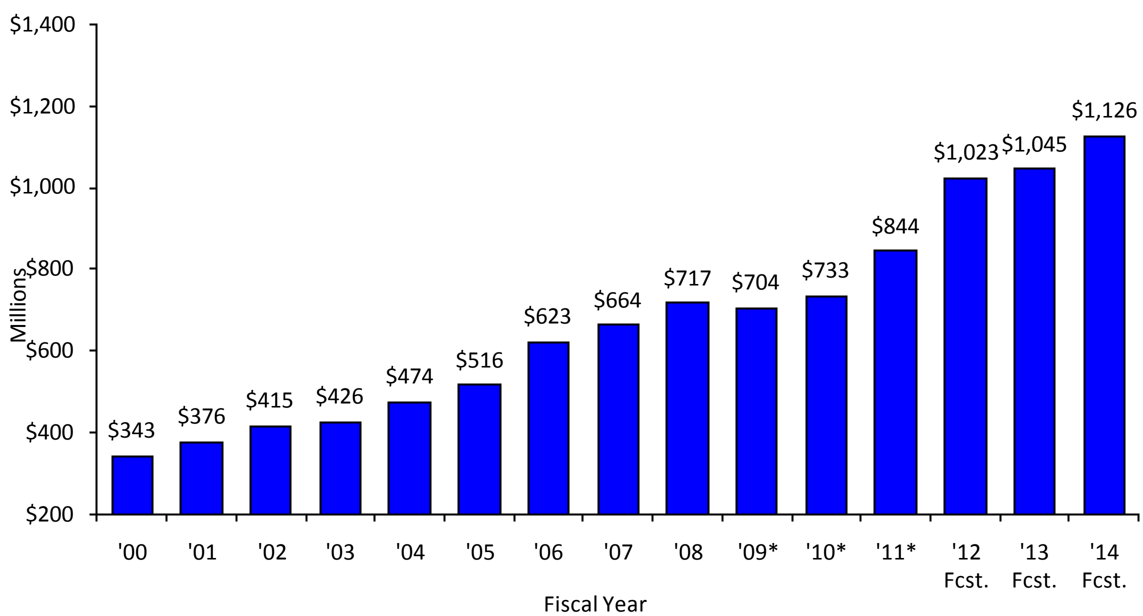
STATE EMPLOYEES RETIREMENT SYSTEM AS OF 6/30



- State Employees unfunded pension liabilities continue to grow
- The State's obligations at the end of FY2008 total $9.3 billion
- This obligation represents roughly $2,650 for every man, woman, and child in the State

STATE EMPLOYEES RETIREMENT SYSTEM CONTRIBUTIONS

(In Millions)



* FYs '09, '10 and '11 include deferrals of the SERS Contribution per the 2009 SEBAC Agreement.

- This obligation rose even with the large increase in equity valuations that took place over the 1990s
- The required contribution will rise by approximately $201M over the next two fiscal years
- The deferral of the SERS contribution is $50M in FY09, $164.5M in FY10 and $100M in FY11.

OTHER POST EMPLOYMENT BENEFITS

- The Governmental Accounting Standards Board (GASB) requires states to report on unfunded liabilities due to other post-employment benefits (OPEB), such as health, dental and life insurance for retirees.
- There is currently no requirement to fund OPEB liabilities
    - Required funding is expected within the next several years
    - Some states have already begun funding OPEB, which is looked upon favorably by rating agencies
- Connecticut has the highest OPEB actuarially accrued liability (AAL) per capita and OPEB actuarially required contribution (ARC) per capita of the New England states.
- Under various measures, Connecticut consistently ranks among the states with the highest unfunded Other Post Employment Benefit levels.

State	2008 OPEB AAL Per Capita (as % of Per Capita Income)	2008 OPEB ARC Per Capita	2008 Funding Ratio
Connecticut*	$7,428 (11.8%)	$491	0%
Maine	3,334 (8.7%)	124	1.2%
Massachusetts	2,338 (4.1%)	128	1.8%
New Hampshire	2,443 (5.1%)	203	5.4%
Rhode Island	748 (1.7%)	44	0%
Vermont	2,606 (6.1%)	173	0.2%

* The figures for Connecticut reflect a 4.5% pay-as-you-go discount rate.

Source: "The Trillion Dollar Gap: Underfunded State Retirement Systems and the Roads to Reform", The Pew Center on the States, February 2010.

- On October 28, 2010, the Connecticut State Post Employment Benefits Commission released its final report to the Governor. The report noted that the three main reasons for difference in per capita OPEB liability amounts are:
    1. Benefit levels and plan costs;
    2. Population covered; and
    3. Funding policy.
- In Connecticut, employees who work at least ten years are eligible to receive full comprehensive health care coverage for themselves, spouses and dependents when they begin receiving retirement benefits, with 55 being the early retirement age for non-hazardous duty employees.
- The premium shares for health care coverage are minimal, ranging from zero to a maximum of three percent.
- Unlike pensions, once vested, the level of benefits received is not tied to the number of years of service. The Rule of 75 (years of service plus age) in the 2009 SEBAC agreement will delay when affected employees (those with less than ten years of service as of July 1, 2009) can begin receiving retiree health insurance.

STATUS OF COLLECTIVE BARGAINING AGREEMENTS

As the result of the 2009 SEBAC negotiations, the State is in the highly unusual position of having all but two of its collective bargaining agreements expire at the same time (6/30/12). This will create significant challenges for the Office of Labor Relations which is responsible for negotiating the contracts for thirteen of the largest bargaining units comprising 69% of the total full time unionized workforce.

The pattern of wage increases set by previously settled/arbitrated agreements for a given contract year have historically played a significant role in the settlement/arbitration of subsequent agreements. The relative lack of a pattern for the 2012-13 contract year will have numerous strategic implications for both labor and management.

	BARGAINING UNIT	Full Time Employees As of 7/1/10	Full Time Payroll (All Funds) As of 7/1/10
	CONTRACT EXPIRES END OF FY 2011		
1	Correctional Officers (NP-4) [a]	5,040	$258,822,198
	CONTRACT EXPIRES END OF FY 2012		
2	State Police (NP-1)	1,098	$81,426,489
3	Service/Maintenance (NP-2) [b]	3,921	$190,939,259
4	Administrative Clerical (NP-3)	4,157	$210,393,156
5	Protective Services (NP-5)	843	$51,887,595
6	Health Care Paraprofessional (NP-6) [c]	3,685	$195,110,612
7	Health Care Professionals (P-1) [c]	2,952	$252,080,161
8	Social and Human Services (P-2)	3,660	$251,715,806
9	Education - Administrators (P-3A) [c]	251	$25,956,620
10	Education - Educators (P-3B) [c]	734	$56,933,192
11	Engineering, Scientific and Technical (P-4) [c]	2,524	$202,812,767
12	Administrative and Residual (P-5)	3,008	$234,876,984
13	Vocational Technical Faculty [c]	1,110	$86,673,365
14	Vocational Technical Administration [c]	52	$6,885,491
15	Technical College Faculty	167	$13,308,423
16	Connecticut State University Faculty (AAUP)	1,679	$123,630,934
17	Connecticut State University Administrative Faculty	690	$51,331,671
18	Community College Faculty	1,774	$95,504,651
19	University of Connecticut Faculty (AAUP)	1,547	$158,227,481
20	University of Connecticut Professionals (UCPEA)	1,653	$100,750,976
21	Judicial Professional Employees	1,247	$97,764,764
22	Judicial Non-Professional Employees	1,286	$74,314,936
23	UConn Health Center Non-Faculty Professionals	1,977	$120,343,577
24	Criminal Justice Prosecutors	253	$32,238,713
25	Technical College Administrators	91	$6,321,377
26	Criminal Justice Employees	130	$7,029,461
27	Department of Higher Education Professionals	37	$2,693,409
29	Judicial Marshals	657	$27,836,843
30	Correctional Supervisors (NP-8)	505	$40,108,697
31	Criminal Justice Inspectors	76	$6,780,957
	Total Expiring 6/30/2012	41,824	$2,809,813,560
	CONTRACT EXPIRES END OF FY 2013		
32	Supervising Judicial Marshals	63	$3,738,100
	Total - All Contracts	46,927	3,072,373,858

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

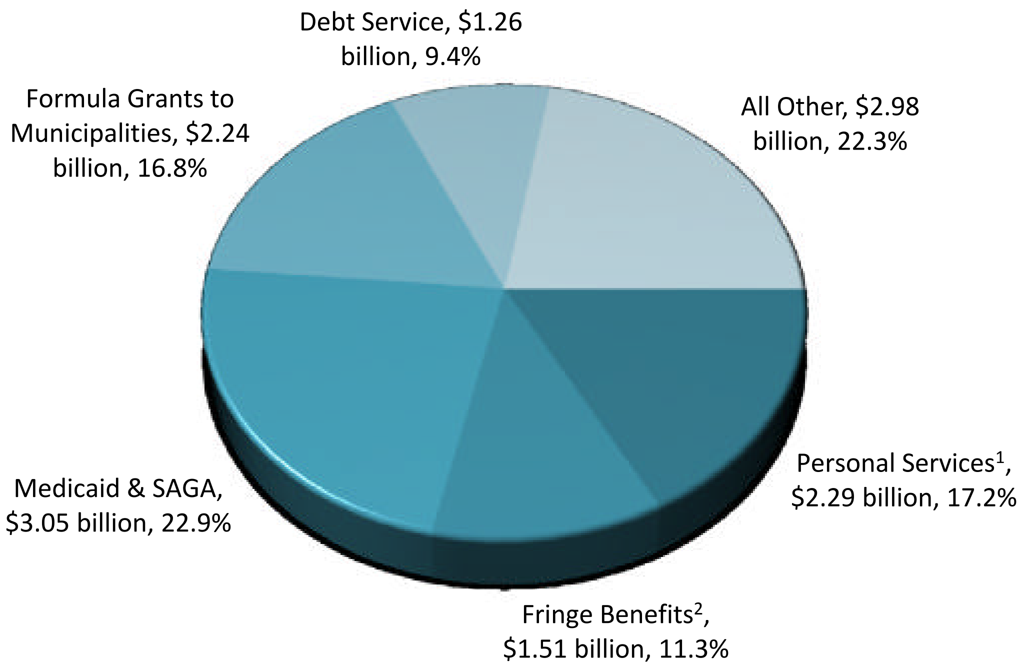
(a) Standard schedule is 36.25 hours/week. Some employees are on 40 hour/week schedules

(b) Standard schedule is 37.5 hours/week

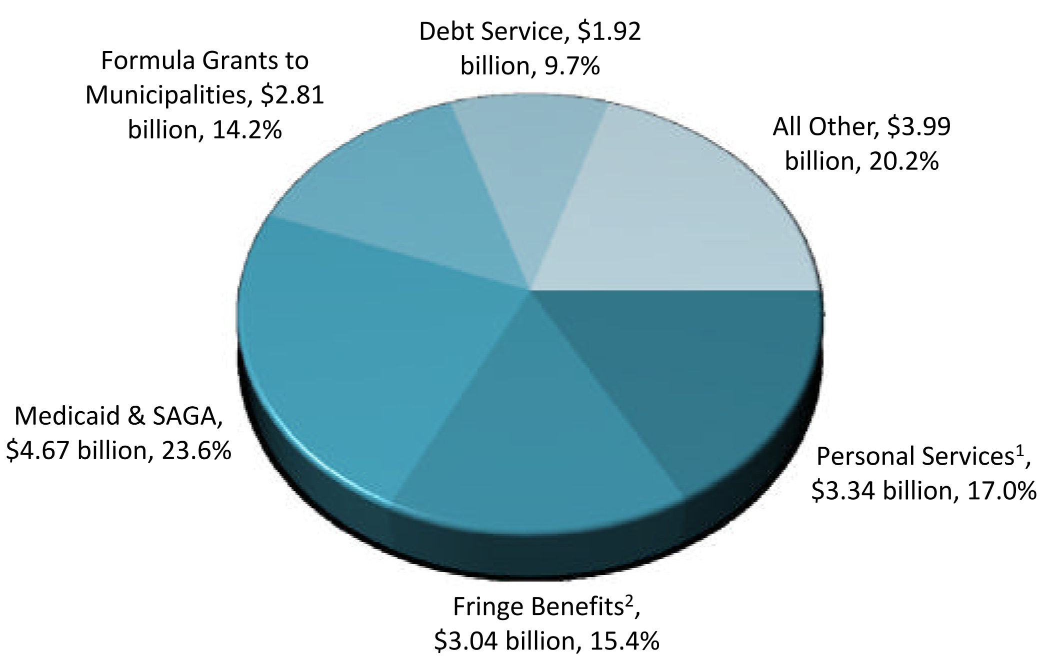
(c) Standard schedule is 35 hours/week. In the health care units, some employees are on 37.5 and 40 hour/week schedules. In the Engineering, Scientific, and Technical unit, some employees are on 40 hour/week schedules.

COMPONENTS OF GENERAL FUND SPENDING FY 2005 vs. FY 2012

FY 2005 Actual Expenditures (Total = $13.33 billion)



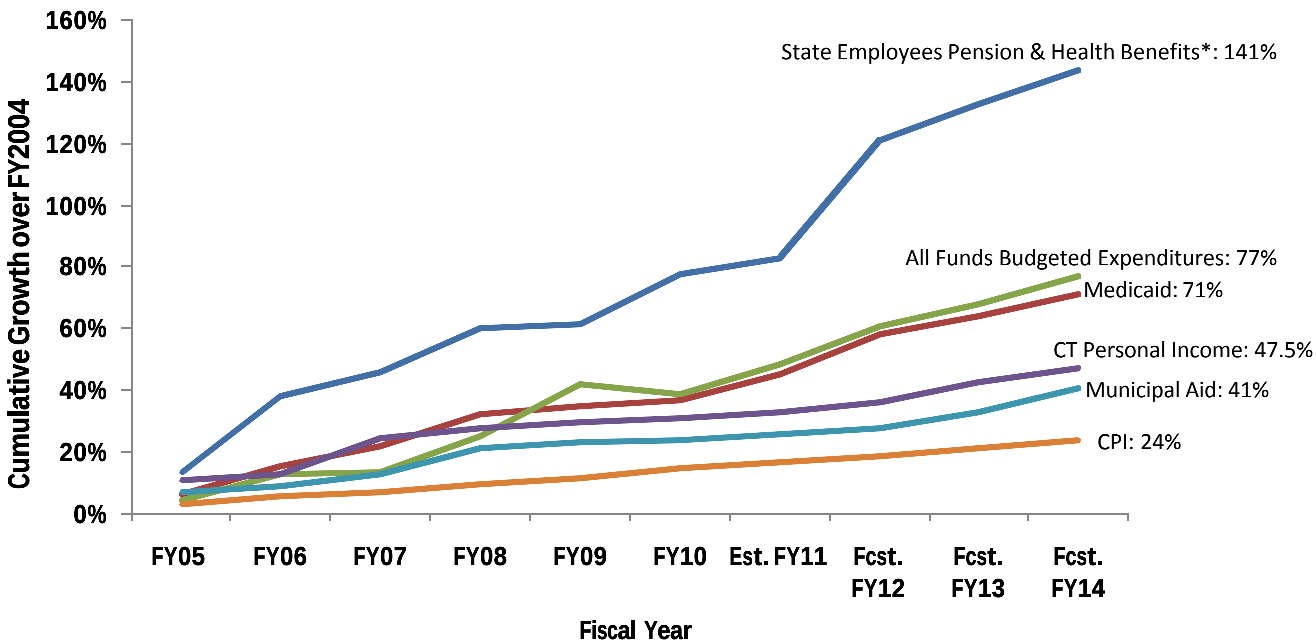
FY 2012 Current Services Projection (Total = $19.64 billion)



[1] Personal Services includes Personal Services Account plus estimated PS costs in Other Current Expense accounts including Higher Education block grants. FY 2012 amount excludes estimated value of 27th payroll.

[2] Fringe benefits includes Teachers Retirement and Healthcare costs.

GROWTH IN SIGNIFICANT STATE EXPENDITURES



*Includes teachers' retiree pension and healthcare costs

- The increase for State Employees Pension and Health Benefits is much higher than that of the overall budget over this period and the rate of growth is accelerating relative to the other categories.
- State Employees Pension and Health Benefits and Medicaid are the principal cost drivers during this period and show increasing growth tre nds over the Consumer Price Index (CPI), and the remaining budget.
- The above figures assume no amortization of Other Post Employment Benefits (OPEB) obligations.

CAPITAL GAINS VOLATILITY

CAPITAL GAINS REALIZATIONS REPORTED BY CT RESIDENTS AND RETURN ON THE S&P

(In Millions)

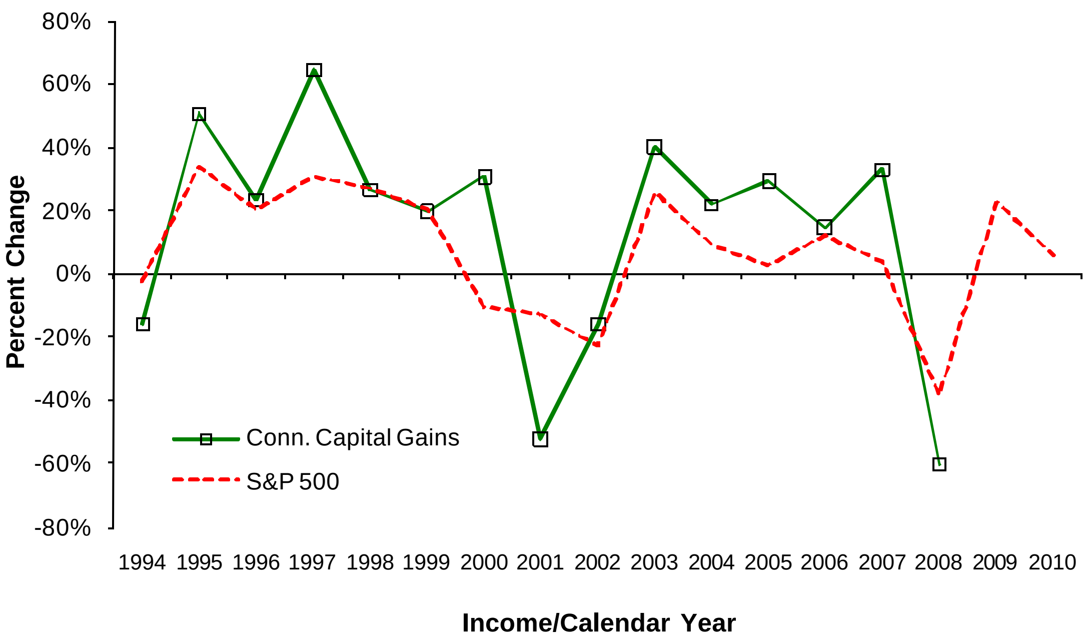
Income Year	Conn. Capital Gains	Percent Change	S&P 500 Percent Change	
1994	$2,547	-16%	-2%	
1995	$3,832	50%	34%	
1996	$4,732	23%	20%	
1997	$7,787	65%	31%	
1998	$9,867	27%	27%	
1999	$11,800	20%	20%	
2000	$15,435	31%	-10%	
2001	$7,391	-52%	-13%	
2002	$6,231	-16%	-23%	
2003	$8,723	40%	26%	
2004	$10,626	22%	9%	
2005	$13,765	30%	3%	
2006	$15,784	15%	12%	
2007	$21,006	33%	4%	
2008	$8,377	-60%	-38%	
2009	Data not yet available		23%	
2010			6%	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, they can represent just 5% of total adjusted gross income.
- Unfortunately, a record high year can be immediately followed by a record low year, devastating state finances.
- In 2008, Capital Gains fell significantly following a record high in 2007.

Sources: Department of Revenue Services and Internal Revenue Service various years
YTD through 10/29/2010

INCOME TAX GROWTH REMAINS TENUOUS

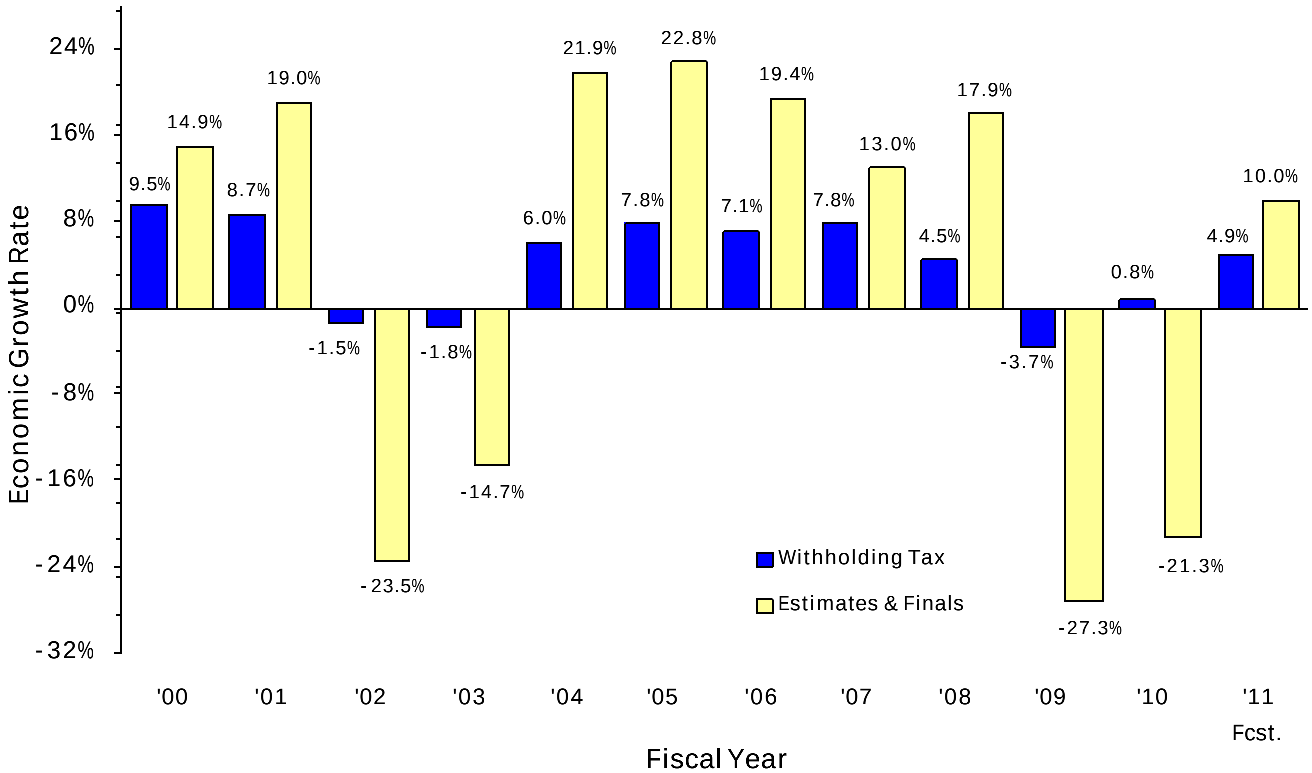
CONNECTICUT CAPITAL GAINS AND THE S&P 500



- The growth in the markets in 2009 have helped revenue collections, but they are now in the past.
- While the equity markets provided a healthy recovery in 2009, returns in 2010 do not bode well for accelerated and sustained growth in the short run.

PERSONAL INCOME TAX TRENDS

ECONOMIC GROWTH RATES OF THE PERSONAL INCOME TAX

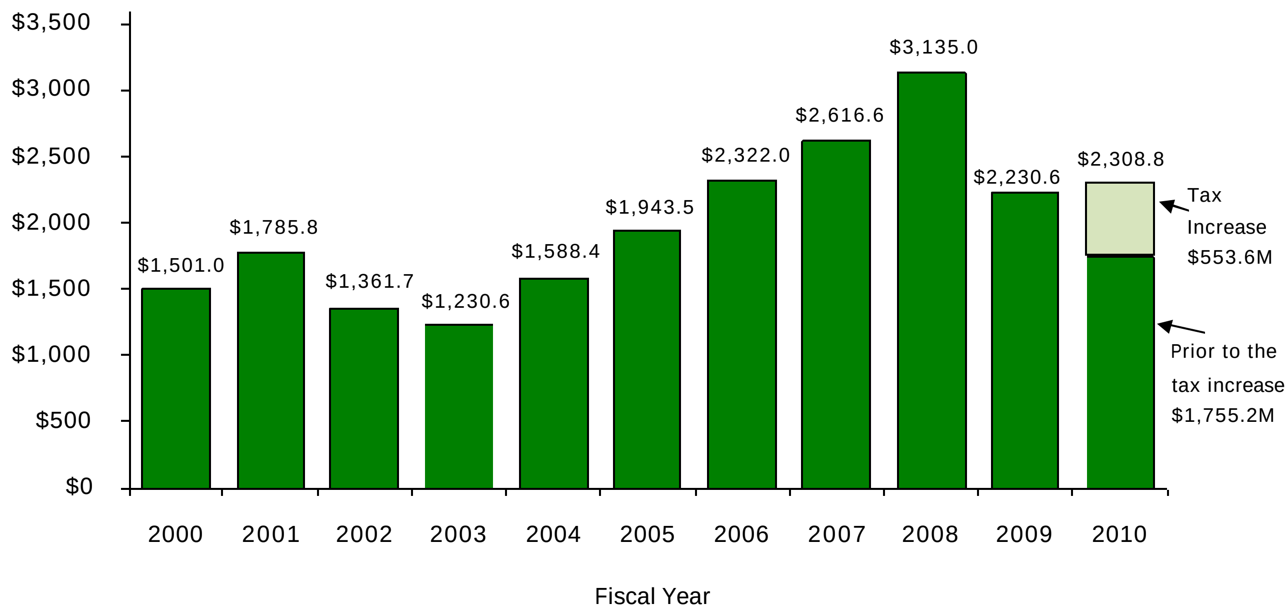


- Over the past decade Connecticut's income tax revenue has fluctuated dramatically.
- This was due to the performance of the stock market and two recessions.
- Performance in the financial markets significantly influences the growth in this revenue source.

ESTIMATES AND FINALS INCOME TAX

ESTIMATES AND FINALS PERSONAL INCOME TAX COLLECTIONS

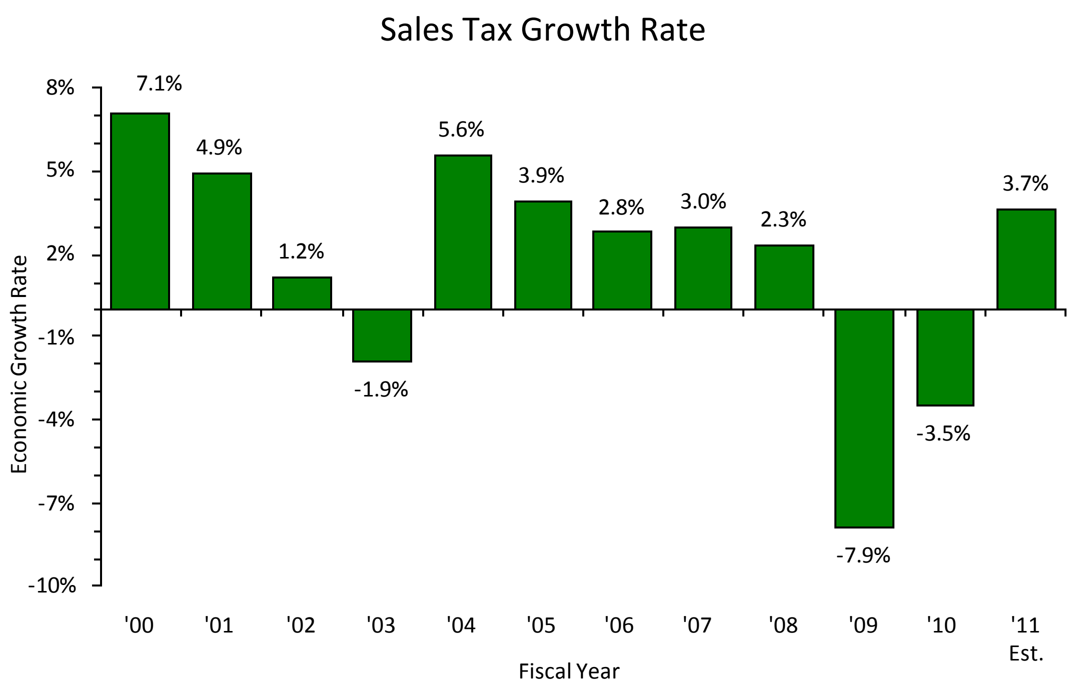
(In Millions)



- 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, they 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 additi onal $475.4 million 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%

SALES TAX TRENDS

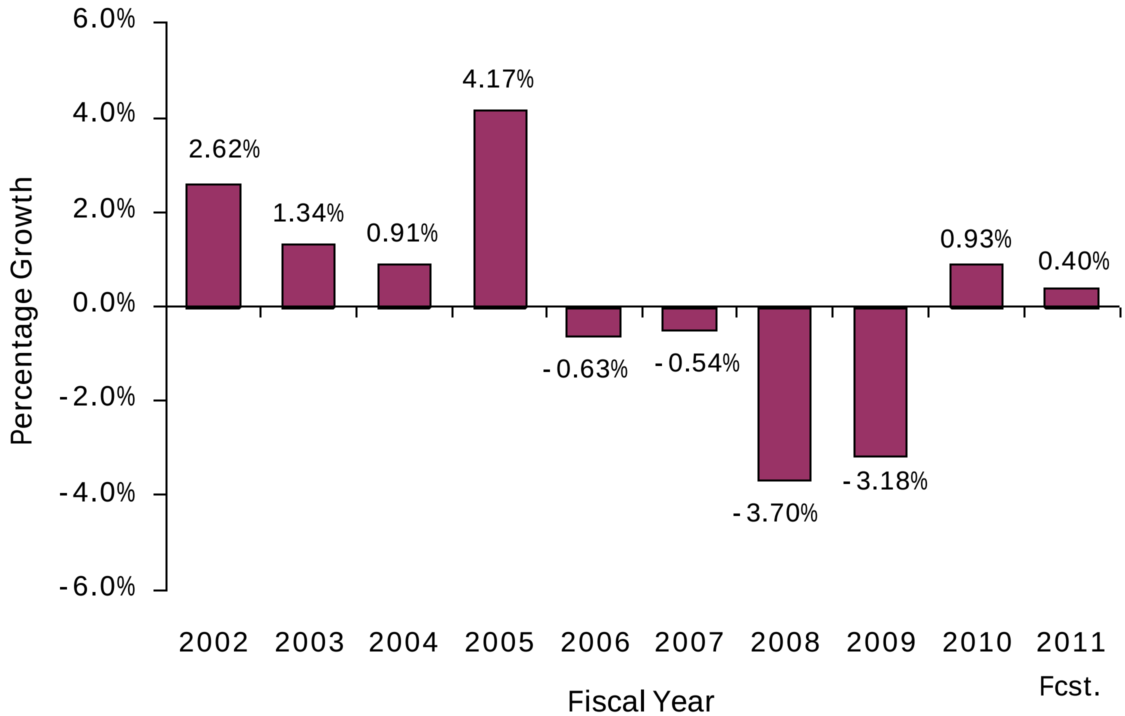
ECONOMIC GROWTH RATES OF THE SALES AND USE TAX



- 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 the 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 2010 showed some signs of improvement as employment and personal income increased.
- Consumers have increased their saving in an attempt to reduce debt and improve their balance sheets and yet households' wealth remains 20% below its 2007 peak.
- Consumer credit outstanding remains 6% below its 2008 peak.
- A 1.0% increase in the sales and use tax growth rate results in a revenue gain of more than $30 million.

MOTOR FUELS TAX TRENDS
AND THE SPECIAL TRANSPORTATION FUND

ECONOMIC GROWTH RATES OF THE MOTOR FUELS TAX



- In FY 2010, Motor Fuels tax revenue equaled 45% of the total revenue of the Special Transportation Fund.
- Consumers began to curtail consumption as prices began to rise.
- 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.
- Only recently has gasoline consumption begun to rise again, however, FY 2011 is projected to remain 6.4% below the FY 2005 peak and nearly equivalent to FY 2002 consumption levels.

DEPARTMENT OF TRANSPORTATION

MAJOR EXPENDITURE INCREASES

RAIL OPERATIONS

- The Current Services increase for the Rail Operations account is estimated at $12.5 million in FY 2012 and an additional $10.2 million in FY 2013 - mostly driven by increases determined by Metro North in accordance with the current agreement.

- Federal mandate significantly increases the number, and therefore the cost, of bridge inspections in FY 2012 and FY 2013.

- The Current Services level does not include funding for the federal Passenger Rail Investment and Improvement Act of 2008 (PRIIA). According to Amtrak's interpretation of PRIIA, there would be a phased-in pickup by the State of the costs of the New Haven-Hartford-Springfield line currently 100% borne by Amtrak. Connecticut is disputing this interpretation.

- The Metro North Fare Adjustment credit has resulted in a charge to Connecticut since New York fare increases have outpaced Connecticut increases.

- The potential exists for another charge to Connecticut (a hold down credit charge) by Metro North since New York would be required to limit its fare increases in order to assure that the fare for trip of a shorter distance is not greater than the fare for a trip of a longer distance.

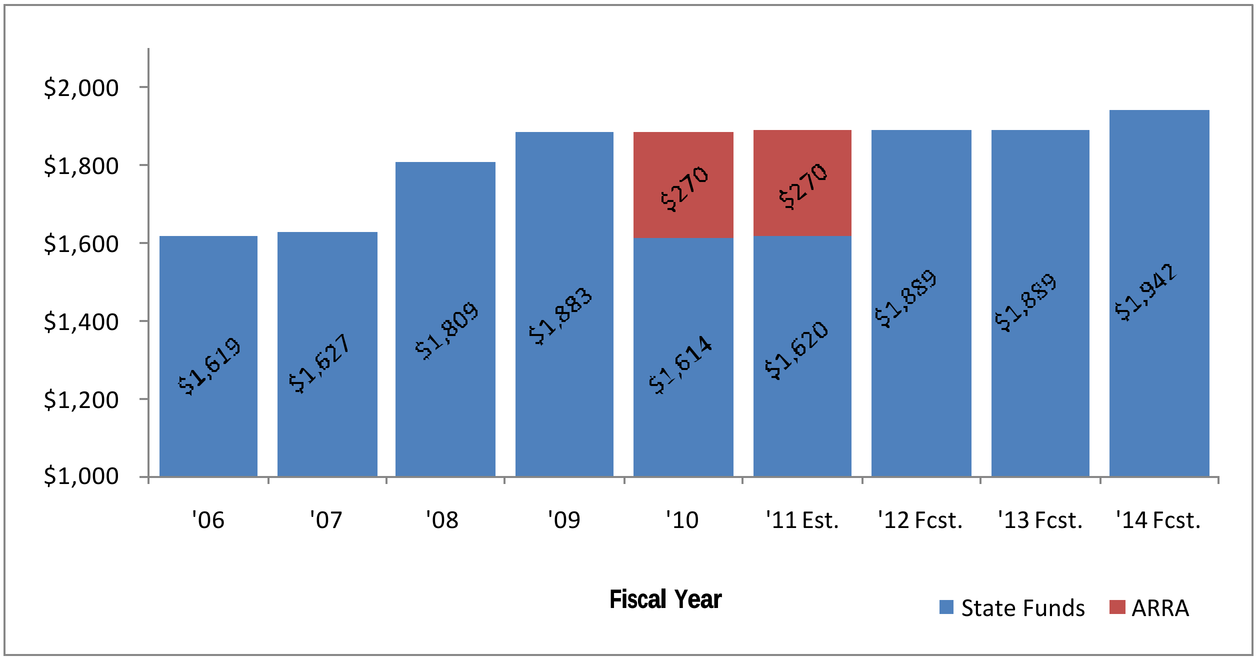
BUS OPERATIONS

- The Current Services increase for the Bus Operations account is estimated at $8.5 million in FY 2012 and an additional $5 million in FY 2013.

- Expenses are increasing while fares and local subsidies remain level, causing the State subsidy to increase.

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.
- The budget for FY2010 and FY2011 included federal ARRA SFSF funding of $269.5 million (14% of the grant) for a total of nearly $1.9 billion in ECS funding for both years.

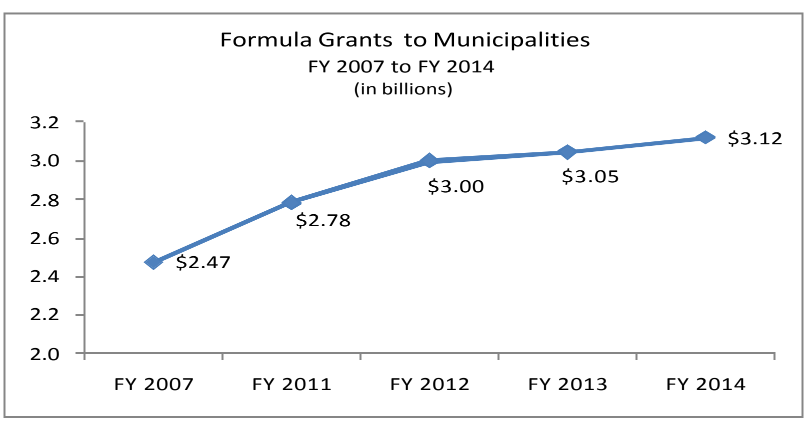
SUMMARY OF LOCAL AID

ESTIMATED FORMULA GRANTS TO MUNICIPALITIES

(In Millions)

GRANT	FY 2011	FY 2012	FY 2013	FY 2014
State Owned PILOT	$ 77.9	$ 77.9	$ 77.9	$ 77.9
College & Hospital PILOT	115.4	115.4	115.4	115.4
Pequot Grant	61.8	135.0	135.0	135.0
Town Aid Road Grant	30.0	30.0	30.0	30.0
LoCIP	30.0	30.0	30.0	30.0
Miscellaneous General Grants	21.0	21.5	22.4	23.2
Machinery & Equipment	47.9	49.1	50.6	50.6
Subtotal - General Government	$ 384.0	$ 458.9	$ 461.3	$ 462.1
Public School Transportation	$ 28.6	$ 88.7	$ 94.1	$ 96.8
Non-Public School Transportation	4.0	5.4	5.6	5.7
Adult Education	20.6	21.9	22.6	23.3
Education Cost Sharing	1,889.6	1,889.6	1,889.6	1,942.5
Magnet Schools	174.1	215.9	235.6	242.2
Special Education - Student Based	139.8	169.9	183.4	188.5
Miscellaneous Education Grants	142.1	149.2	153.9	158.2
Subtotal - Education	$ 2,398.8	$ 2,540.6	$ 2,584.8	$ 2,657.2
Total - Formula Grants	$ 2,782.8	$ 2,999.5	$ 3,046.1	$ 3,119.3

- Education Cost Sharing includes $269 million in ARRA funds in FY2011.
- The LoCIP grant program is funded with General Obligation (GO) bonds.
- In FY2011the Town Aid Road Grant was funded with $8 million GO bonds and $22 million Special Tax Obligation (STO) bonds.
- Figures for education grants in FY 2012 through FY 2014 reflect current services without current statutory caps on growth which expire on June 30, 2011.
- *Grants to Municipalities* comprises 15.3% of the FY2011 General Fund budget.
- *Grants to Municipalities* will be approximately $3.0 billion in FY 2012 which is a 7.8% increase over the FY2011 level.



- Formula grants to municipalities, which totals a projected $3.12 billion in FY 2014, have increased since FY 2007.

ENERGY ASSISTANCE

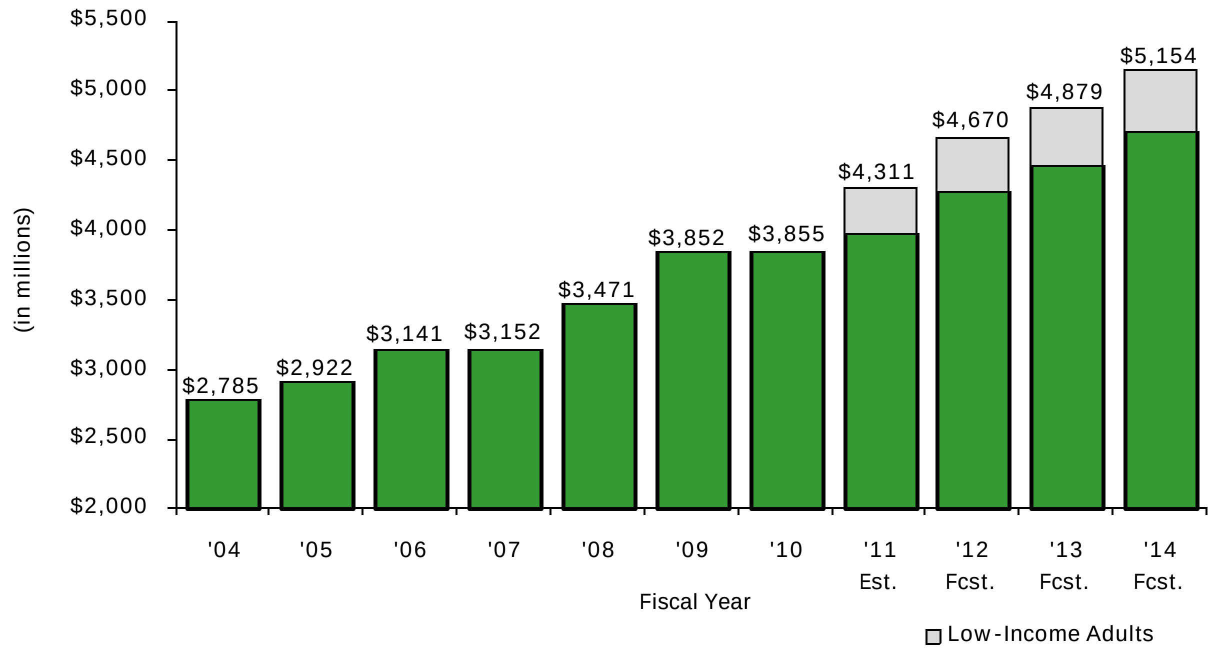
In FY 2009, benefits under the Connecticut Energy Assistance Program were increased dramatically to reflect substantially higher deliverable fuel costs that were anticipated at the time the allocation plan was being developed. Although heating oil prices never reached the $5 a gallon that was being projected and, in fact, the average retail price for heating oil over the FY 2009 heating season dropped significantly (to less than $2.50 a gallon), program benefits that were increased to address higher fuel costs – which did not materialize – were not reduced. In FY 2010, the state was able to essentially maintain the higher benefit levels, proposing only a modest reduction in benefits. For both FY 2009 and FY 2010, the state was fortunate to receive unprecedented levels of federal funding under the Low Income Home Energy Assistance Program (LIHEAP) to support the higher benefit levels.

These funding levels, however, are not expected to continue into FY 2011. The President's proposed budget recommends funding of $2.5 billion plus $790 million in emergency contingency funding, while the Senate Appropriations Committee has approved a funding level of $2.7 billion plus $590 million in emergency funding. This is significantly less than last fiscal year when the LIHEAP block grant was funded at $4.5 billion plus $590.3 million in emergency contingency funding. Governor Rell's proposed allocation plan for the FY 2011 LIHEAP block grant recognized that there is no need to take emergency measures to maintain the higher benefit levels from the last two years nor can we afford to given the state's current fiscal situation. The Governor's plan proposed benefit levels which were in line with the levels that were in place prior to FY 2009 and would allow the program to meet its basic mission of assisting low-income households in covering their winter heating costs. Based on the funding level proposed by the President, the plan assumed a block grant funding level for the state of $52.7 million, a reduction of $44.2 million from last year's block grant level of $96.9 million.

Despite the potential for reduced federal funding this program year, the legislative committees of cognizance modified the Governor's allocation plan, voting to maintain last year's CEAP benefits. In modifying the plan, the chairs of the committees of cognizance noted that, once the federal funding is exhausted, the program will need to close. Under the continuing resolution, Congress is allocating funds based on a funding level of $2.7 billion, which translates to $59.7 million for Connecticut ($37.2 million less than last year's block grant level). Given application and commitment activity to date, the Department of Social Services estimates that LIHEAP funding could be exhausted by the end of December. Nevertheless, consistent with the direction indicated by the legislature, OPM is assuming that no state resources will be provided to continue benefits under the Connecticut Energy Assistance Program should federal funding be exhausted before the winter heating season concludes.

DEPARTMENT OF SOCIAL SERVICES

MEDICAID EXPENDITURES



- With expenditures increasing 85% from FY 2004 to FY 2014, growth in the Medicaid program is the major cost driver in the Department of Social Services.
- In FY 2010, Medicaid accounted for approximately 77% of DSS' budget.
- Medicaid growth since FY 2004 has been affected by the implementation of a nursing home provider tax that resulted in a 17% increase in rates, and increases in areas such as the HUSKY program and medical care under fee-for-service. Medicaid expenditures grew by only 3.5% from FY 2006 to FY 2007 due to the shift of pharmaceutical costs to the federal government under Medicare Part D. Other cost drivers include rate increases for hospitals, nursing homes, physicians and other providers in both managed care and fee-for-service.
- Projected expenditures for FY 2011 thru FY 2014 reflect the Medicaid expansion for low income adults (the so-called "SAGA waiver"), which will result in additional growth in Medicaid beginning in FY 2011.
- Future growth will also be impacted by increased alternatives to nursing home care, expansions in enrollment due to the enrollment in schools and enrollment at birth initiatives and increased eligibility for HUSKY adults and pregnant women, as well as increased utilization due to Governor's Rell's authorization of $25.8 million in bond funds to expand community health centers.

EFFORTS TO OBTAIN FEDERAL FUNDS

AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

During fiscal years 2009, 2010, and 2011, the American Recovery and Reinvestment Act (P.L. 111-5) of 2009 provided increased funding for state government, helping to weather the decline in revenues resulting from the economic downturn. Total ARRA funding budgeted as General Fund revenue during this period is anticipated to be nearly $2 billion:

- Medicaid - $1,441.7 million;
- Title IV-E (foster care and adoption) - $14.6 million; and
- Education stabilization - $541.9 million.

EDJOBS

In August 2010, the President signed HR 1586, the Education Jobs and Medicaid Assistance Act (EdJobs). EdJobs was crafted to provide immediate relief to local school districts to hire teachers and school level personnel primarily for this school year. Under EdJobs, $110 million will flow directly to school districts to save school level jobs in this school year (districts also have the option of using the funding next year).

OTHER EFFORTS TO MAXIMIZE FEDERAL FUNDING

The administration continues to make federal revenue maximization efforts a priority. Numerous Medicaid state amendments and waivers have been submitted or are in the process of being submitted to the federal government. 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 revenue resulting from caseload growth.

Some of the major revenue maximization efforts under development include:

- Retroactive billing for a rate adjustment in mental health group homes;
- Transferring Department of Developmental Services clients from out-of-state to Connecticut placements to allow them to be served through DDS waivers, thus garnering federal reimbursement;
- An autism waiver that will serve existing clients of the Departments of Developmental Services, Mental Health and Addiction Services and Children and Families that will allow the state to receive federal reimbursement for services currently being provided at 100% state cost;
- A new supports waiver anticipated to begin as early as April 2012 that would allow the state to receive federal reimbursement for employment and day services for clients of the Department of Developmental Services that are currently being provided at 100% state cost;
- Retroactive billing for a 2010 rate adjustment to respite services being provided by the Department of Developmental Services;
- Billing for inpatient care related to inmates of the Department of Correction to allow the state to receive federal reimbursement for services that are currently being supported at 100% state cost;
- A waiver that will allow the state to bill for certain rehabilitation services being provided by the Department of Mental Health and Addiction Services that are currently at 100% state cost;
- Anticipated rate adjustments for state operated services being provided by the Department of Mental Health and Addiction Services;
- ICF/MR certification of the medical unit at Southbury Training School; and
- Amending the comprehensive waiver operated by the Department of Developmental Services to allow for inclusion of continuous residential supports as a waiver service, thus qualifying those services for reimbursement.

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. This act includes a wide variety of health care provisions and requirements with deadlines for implementation over the next four years. Key points of the health care reform law:

- Requires most US 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; taxes employers who do not provide health care coverage for their employees.
- 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.

DEPARTMENT OF SOCIAL SERVICES

Medicaid Eligibility

Allows states the option of covering childless adults up to 133% FPL under a Medicaid state plan amendment beginning 4/1/10. Effective 1/1/14, states will be required to provide Medicaid coverage to parents, children age 6 and older, and all childless adults up to 133% FPL.
Impact: To reflect the extension of Medicaid benefits to individuals who would have otherwise been eligible for the State Administered General Assistance program, the enacted budget assumes a net revenue gain to the state of $53 million for the 15-month period ending 6/30/11. Program expenditures in both DSS and DMHAS have been higher than budgeted, however, due to significant caseload growth.

Maintenance of Effort (MOE)

Prohibits states from reducing eligibility standards, methodologies, or procedures for (1) adults on Medicaid until 12/31/13 or (2) children until 9/30/19 (both Medicaid and the Children's Health Insurance Program (CHIP)). Between 1/1/11 and 12/31/13, 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.
Impact: Reduces state's flexibility to make certain reductions.

Federal Payments for Newly Eligible Individuals

Provides federal Medicaid matching payments for the costs of services to newly eligible individuals at the following rates for non-expansion states such as Connecticut: 100% in 2014, 2015, and 2016; 95% in 2017; 94% in 2018; 93% in 2019; and 90% thereafter.
Impact: Gross costs are estimated to be in the range of $175 million to $270 million depending on the percent of individuals who enroll. These costs will be fully reimbursed thru 2016, after which federal reimbursement will be reduced each year, stabilizing at 90% in 2020. Because of how the state budgets, this will affect the state spending cap.

Definition of Medical Assistance
Redefines medical assistance to include not only payment for medical care and services, but also the care and services themselves.
Impact: Could increase litigation against states, particularly lawsuits claiming delays in the delivery of services due to access issues.

Legal Immigrants
Makes legal immigrants with income under 133% FPL, who are not eligible for Medicaid by virtue of the 5 year waiting period, eligible for the basic health program.
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. Would result in additional federal reimbursement after 2014.

Incentives for States to Provide Home & Community-Based Services (HCBS)
Creates financial incentives for states to shift 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.
Impact: Will result in enhanced federal reimbursement with potentially more individuals leaving skilled nursing facilities through the MFP program.

Medicaid Disproportionate Share Hospital (DSH) Payments
Reduces federal DSH payments by $500 million in FFY 2014, increasing to $4 billion in FFY 2020. Directs HHS to develop a methodology for reducing federal DSH allotments to all states in order to achieve the mandated reductions, imposing larger reductions to states with lower percentages of uninsured.
Impact: In FY 2010, the state will receive approximately $140 million in DSH. These provisions are expected to result in a minimum reduction of $5.7 million to $8.2 million, depending on whether Connecticut is under the DSH cap. By 2019, the state's DSH amount will be reduced by at least 50%. Because Connecticut is a "high DSH" state, the actual reduction is expected to be larger.

Tobacco Cessation
Requires states to provide coverage under Medicaid for tobacco cessation services for pregnant women.
Impact: Potential short term costs and long term savings.

Fraud, Waste and Abuse
Reduces waste, fraud, and abuse in public programs by strengthening efforts in this area.
Impact: Should help in the state's ongoing efforts.

STATE OF CONNECTICUT EMPLOYEE HEALTH PLAN

Early Retiree Reinsurance Program (ERRP)
The ERRP provides financial relief for employers, unions and state and local governments to help them maintain coverage for early retirees age 55 and older who are not yet eligible for Medicare, and their spouses, surviving spouses, and dependents. The amount of reimbursement to the employer is 80% of medical claims costs for health benefits between $15,000 and $90,000. The Affordable Care Act provides $5 billion in financial assistance.
Impact: The state's application to participate in the ERRP has been approved by the U.S. Department of Health and Human Services. The program ends on January 1, 2014.

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 unreasonable rates for group and individual plans.

UNEMPLOYMENT COMPENSATION FUND

The recent high unemployment rates in Connecticut will have an effect on Connecticut businesses for the next several years.

- Unemployment Compensation is funded by taxes on employers' payroll.
- The Unemployment Compensation Fund is insolvent as of October 2009.
- To continue making unemployment payments, CT has been borrowing from the federal government.
- The ARRA provides interest free borrowing through calendar year 2010, however, states with loans outstanding beginning in 2011 will be subject to interest on these loans.
- If these loans are not repaid by January 1, 2011, the federal government will raise the Federal Unemployment Insurance tax on employers beginning in January 2012.
- Current projections* which are based on existing statutory provisions (both state and federal), indicate the need for continued borrowing until at least CY 2012 and final repayment of the loans will likely occur in CY 2014.

Projected Federal Loan Repayment Schedule *

Calendar Year	Amount Borrowed	Repaid by State UI Taxes	Repaid by Increased Federal UI Taxes
2009	$180,000,000	$0	$0
2010	$520,000,000	$0	$0
2011	$160,000,000	$0	$0
2012	$90,000,000	$330,000,000	$30,000,000
2013	$0	$440,000,000	$60,000,000
2014	$0	$0	$90,000,000
Totals	$950,000,000	$770,000,000	$180,000,000

*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.

FY2012 AND FY2013 BIENNIAL BUDGET CHALLENGES

- Pace of economic recovery
  - Joblessness trends
    - Impact on unemployment (UI) trust fund
    - Impact on social service spending
  - Revenue growth
- Scope and scale of government spending
- Federal mandates/policy changes
  - Expiration of federal tax cuts
  - Health care reform
- Long term unfunded liabilities
  - Pensions
  - Health care
- Structural holes
  - Budget Reserve Fund exhausted
  - Federal stimulus funds end in FY 2011
  - Securitization in FY 2011
- One-time expenditure requirements in FY 2012
  - 27th payroll
  - Leap year
- Increasing expenditure requests
  - Health care worker contracts expiring – nursing homes – spring 2011
  - Pension revaluations
  - Debt service
    - FY 2009 Economic Recovery Notes (ERNs)
    - UConn, CSU, school construction, Pension Obligation Bonds
  - Sunset of biennial caps on major education grants, like Adult Education and Transportation
  - Medicaid
  - Private Providers
- Special Transportation Fund
  - Increasing expenditures
  - Construction cost escalation
  - Metro North increasingly shifting costs to Connecticut
  - Unknown federal commitments

SECTION 7

ANALYSIS OF POSSIBLE USES OF SURPLUS FUNDS

ANALYSIS OF POSSIBLE USES OF SURPLUS FUNDS

Current projections indicate that, in the near term, a surplus is unlikely to occur.

Article XXVIII of the Amendments to the State Constitution requires that any unappropriated surplus for the fiscal year shall be used to fund a budget reserve fund (BRF), to reduce bonded indebtedness or for any other purpose authorized by at least three-fifths of each house of the General Assembly. Furthermore, Sec. 4-30a of the Connecticut General Statutes provides that no further transfers to the BRF shall be made when the balance of the fund equals 10% of the net General Fund appropriations for the year in progress, and directs the Treasurer to transfer additional surplus to the State Employees Retirement Fund, in an amount not exceeding 5% of the unfunded past service liability.

During the 2009 legislative session, the General Assembly passed Public Act 09-3 of the June Special Session (as amended by P.A. 10-179) that modified the disposition of any future surplus for fiscal years 2011 through 2017. Should the state experience a surplus during those fiscal years, any such surplus shall first be applied to:

1. Redeem any of the outstanding Economic Recovery Notes that were issued to finance the FY2009 deficit of $947.6 million, and then
2. Redeem any of the outstanding Economic Recovery Revenue Bonds (a.k.a. Securitization) that were issued to balance the FY2011 budget. This issuance has yet to be completed, but is expected to total $646.6 million.

Therefore, the first $1.6 billion of any future surplus funds have already been committed.

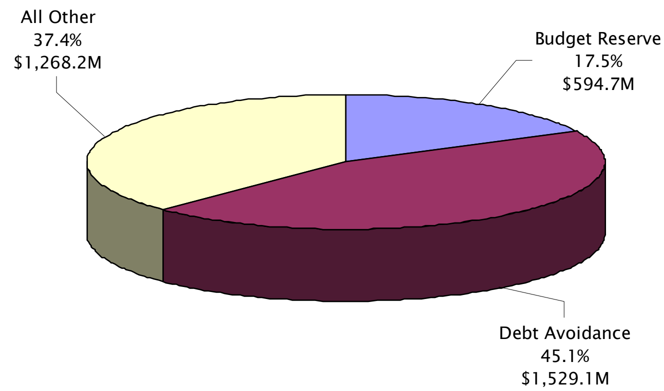
Furthermore, per the state's agreement with the State Employees Bargaining Agent Coalition dated April 21, 2009, the state is required to contribute $14.5 million toward the Other Post Employment Benefits account in the first fiscal year in which there is a budget surplus projected on January 1st.

Other possible uses of surplus funds upon meeting the 10% balance requirement of the BRF include:

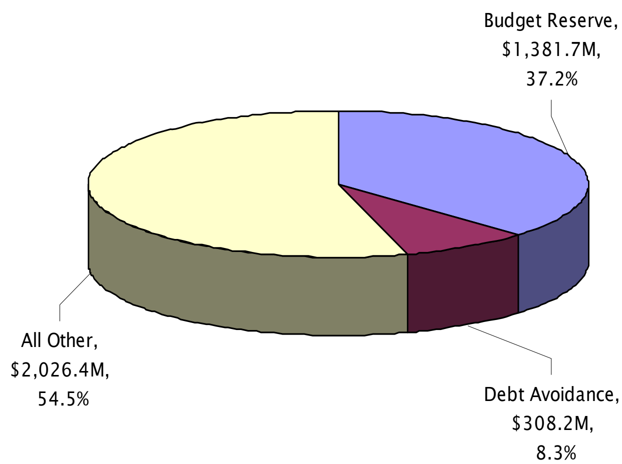
- Reducing bonded indebtedness;
- Reducing the unfunded liability in the State Employees Retirement Fund;
- Reducing the unfunded liability in the Teachers Retirement Fund;
- Actuarially fund the unfunded liability for Other Post Employment Benefits; and
- Provide funds for Higher Education Matching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

LOST OPPORTUNITY

USE OF SURPLUS FY1992 to FY2003 - $3,392.0M



USE OF SURPLUS FY2004 TO FY2008 - $3,716.3M



- During the last recession in FY 2002 and FY 2003 the Budget Reserve Fund was insufficient to tide the state over during the economic downturn.
- Between 2004 and 2008 the state registered surpluses of $3.7 billion, yet less than half was set aside in the Budget Reserve Fund or used to avoid debt.
- Had the entire $ 3.7 billion been set aside in the Budget Reserve Fund instead of being used for other programs, the following could have been avoided:
    - FY 2009 Deficit Financing of $947 million
    - FY 2011 Securitization of $647 million

AND the budget reserve fund would still have a balance of $424.0 million at the end of FY 2011 instead of zero.

- Had the FY 2009 and FY 2011 debt issuance been avoided, the state's citizens would have saved $300 million in annual debt service.
- Going into FY 2012 with a budget reserve fund balance and less debt would have reduced the estimated FY 2012 current services budget gap by 18.8%.