# FISCAL ACCOUNTABILITY REPORT
# FISCAL YEARS 2016 – 2020

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

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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 2016 through 2020. This report describes our current fiscal situation based on the extension of current policies.

- A $122.4 million deficit is anticipated in the General Fund in FY 2016.
- The state faces significant fiscal challenges resulting from the continued slow economic recovery both nationally and regionally as well as efforts to address the historic deferral of long-term liabilities.
- Governor Malloy continues to be committed to ensuring the state lives within its means, and has called for a special session to implement deficit mitigation measures.

## 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 10, 2015.
- Consistent with the methodology utilized in previous reports, projections for FY 2018 through FY 2020 are based on a "current practices" approach to estimating current services. Accordingly, 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 operating results are projected when comparing these expenditure estimates to the November consensus revenue forecast:
    - In the fiscal year ending June 30, 2016, the Office of Policy and Management is currently projecting a General Fund deficit of $122.4 million.
    - For Fiscal Years 2017 through 2020, projected expenditures are anticipated to exceed forecast revenues by $508.1 million, $1,283.0 million, $1,231.8 million, and $1,428.3 million in the General Fund. Projected expenditures exceed the level allowable by the state's expenditure cap by $149.4 million in FY 2018, $169.2 million in FY 2019 and $19.8 million in FY 2020.
    - Statutory provisions and the state constitution require the Governor to present, and the Legislature to adopt, a budget that is both balanced and within levels allowed by the spending cap. The balance and cap projections in this report outline the challenges decision-makers face when developing future budgets.

## 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;
    - Reducing employee benefits and fully funding contributions to the state's pension systems;
    - Streamlining state government;
    - Undertaking a broad program of economic development; and
    - Reforming education.
- The performance of the economy in the years following the "Great Recession" has significantly impacted revenues and expenditures.
    - Recovery has been slow, but steady progress has been made.
    - Connecticut has had positive job growth for the past five consecutive fiscal years, from FY 2011 to FY 2015, and has regained 101,700 jobs from the bottom of the recession.
- National and international issues will continue to have an impact on economic conditions in Connecticut.
    - Federal policy makers must reach agreement on budget and policy issues.
    - Global economic uncertainty could translate into national and regional economic reactions.

# INTRODUCTION

This report has been prepared pursuant to Section 2-36b of the Connecticut General Statutes. It contains the estimated revenues for the three fiscal years next ensuing the 2015-2017 biennium and projected expenditures for the same period.

## FINANCIAL SUMMARY OF FUNDS
(in millions)

| | Estimated | Enacted[6] | Projected | | |
|---|---|---|---|---|---|
| General Fund | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
| Revenues[1] | $ 17,944.9 | $ 18,311.8 | $ 18,530.9 | $ 19,066.6 | $ 19,628.7 |
| Expenditures | 18,067.3 | 18,711.2 | 19,813.9 | 20,298.4 | 21,057.0 |
| Balance | $ (122.4) | $ (399.4) | $ (1,283.0) | $ (1,231.8) | $ (1,428.3) |
| GAAP Adjustment[7] | - | (108.7) | - | - | - |
| Revised Balance | $ (122.4) | $ (508.1) | $ (1,283.0) | $ (1,231.8) | $ (1,428.3) |
| Special Transportation Fund | | | | | |
| Revenues[1] | $ 1,423.5 | $ 1,547.9 | $ 1,683.8 | $ 1,735.6 | $ 1,774.9 |
| Expenditures | 1,416.1 | 1,496.1 | 1,574.2 | 1,676.4 | 1,766.1 |
| Balance | $ 7.4 | $ 51.8 | $ 109.6 | $ 59.2 | $ 8.8 |
| Other Funds[2] | | | | | |
| Revenues | $ 229.9 | $ 231.2 | $ 236.4 | $ 241.6 | $ 247.1 |
| Expenditures | 229.6 | 231.0 | 236.0 | 241.3 | 246.8 |
| Balance | $ 0.3 | $ 0.2 | $ 0.4 | $ 0.3 | $ 0.3 |
| Total All Appropriated Funds | | | | | |
| Revenues | $ 19,598.3 | $ 20,090.9 | $ 20,451.1 | $ 21,043.8 | $ 21,650.7 |
| Expenditures | 19,712.9 | 20,438.3 | 21,624.1 | 22,216.1 | 23,069.9 |
| Balance | $ (114.6) | $ (347.4) | $ (1,173.0) | $ (1,172.3) | $ (1,419.2) |
| GAAP Adjustment[7] | - | (108.7) | - | - | - |
| Revised Balance | $ (114.6) | $ (456.1) | $ (1,173.0) | $ (1,172.3) | $ (1,419.2) |

| | | | | | |
|---|---|---|---|---|---|
| Expenditure Cap Results[3] | | | | | |
| Total All Appropriated Funds | | $ 20,438.3 | $ 21,624.1 | $ 22,216.1 | $ 23,069.9 |
| Allowed Appropriations per Cap[4] | | 20,516.9 | 21,474.7 | 22,046.9 | 23,050.0 |
| Over/(Under) the Cap | | $ (78.6) | $ 149.4 | $ 169.2 | $ 19.8 |
| Revenues and the Expenditure Cap[5] | | | | | |
| Revenues - All Funds | | | $ 20,451.1 | $ 21,043.8 | $ 21,650.7 |
| Allowed Appropriations per Cap | | | 21,474.7 | 22,046.9 | 23,050.0 |
| Revenues Less Allowed Approps. | | | $ (1,023.6) | $ (1,003.1) | $ (1,399.3) |

(1) Revenues reflect the November 10, 2015 consensus revenue forecast.

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

(3) Expenditure cap is calculated based on a current practices, using a calendar year basis to calculate personal income growth and treating unfunded pension liabilities as an evidence of indebtedness for fiscal years 2018 through 2020.

(4) Allowed appropriations per cap in FY 2017 reflects updated calculations of grants to distressed municipalities and allowable growth rate based on forecast data from IHS. At enactment, the FY 2017 budget was $106.2 million under the cap.

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

(6) FY 2017 reflects enacted budget.

(7) Represents the FY 2014 increase in the unassigned negative General Fund balance (cumulative GAAP deficit) reported in accordance with C.G.S. 2-35(b).

# SECTION 1

## ESTIMATE OF STATE REVENUES, EXPENDITURES AND ENDING BALANCE

# ASSUMPTIONS

**ASSUMPTIONS USED TO DEVELOP EXPENDITURE ESTIMATES**

The Estimated FY 2016 column reflects current year appropriations adjusted for deficiencies projected in OPM’s October 19, 2015 letter to the Comptroller. The Enacted FY 2017 column represents the adopted budget for FY 2017 (Public Act 15-244 as amended by Public Act 15-5, June Special Session). The three out-year columns (FYs 2018, 2019, and 2020) represent the estimated cost of continuing existing programs and have been developed based on the Enacted FY 2017 amounts as adjusted for the following factors:

- Nondiscretionary increases, including caseload changes for entitlement programs, federal or state law mandates, court orders, and consent decree provisions.
- Operating costs of new buildings scheduled to open during the period.
- New programs authorized by the General Assembly to begin during the period.
- 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.

Personal Services, Workers’ Compensation and wage-related costs have been inflated by 3.75% per year in accordance with the latest actuarial assumptions for members of the State Employees Retirement System. OPM’s expenditure estimates assume that general inflationary increases will not be funded and that current caps on formula-based municipal aid will continue to be extended.

Other notable assumptions are listed below:

STATE COMPTROLLER - MISCELLANEOUS

- *Adjudicated Claims* - Reflects the additional funding needed through FY 2019 for the SEBAC vs. Rowland settlement.

STATE COMPTROLLER - FRINGE BENEFITS

- *Unemployment Compensation and Group Life Insurance* - Reflect adjustments to FY 2018 based on current actual experience.
- *State Employees Retirement Contributions* - Reflects rolling average increase of 6.53% per year.
- *Alternate Retirement System and Employer's Social Security Tax* - Reflect adjustments to FY 2018 based on current actual experience plus wage-related inflation.
- *Judges and Compensation Commissioners Retirement* - Reflects rolling average increase of 5.57% per year.
- *State Employee and Retiree Health Service Costs* - Reflect medical inflation plus the estimated excise tax ("Cadillac tax") payments calculated by the health plan consultants. FY 2018 represents a half year of taxes.
- *Other Post Employment Benefits* - Reflects the estimated matching state contribution commencing FY 2018 per the 2011 SEBAC Agreement.

OFFICE OF POLICY AND MANAGEMENT

- *Tax Relief for Elderly Renters* - Reflects a 5.6% increase in caseload for the Renters' Rebate Program, which is the average growth rate for the program over the past five fiscal years.

RESERVE FOR SALARY ADJUSTMENTS

- *Reserve for Salary Adjustments* - Reflects wage related inflation.

DEPARTMENT OF HOUSING

- *Other Expenses* - Removes one-time FY 2017 funding for information technology maintenance costs.
- *Congregate Facilities Operation Costs* - Reflects annualization for new congregate units which are anticipated to open in October 2016.
- *Rental Assistance Program* - Annualizes Rental Assistance Program vouchers for individuals transitioning from Money Follows the Person and for the continued commitment to public housing revitalization.

DEPARTMENT OF PUBLIC HEALTH

- *Immunization Services* - Reflects Personal Services inflation applied to salary and fringe benefits. Vaccine costs reflect anticipated changes in federal Centers for Disease Control and Prevention price schedule.

DEPARTMENT OF DEVELOPMENTAL SERVICES

- *Employment Opportunities and Day Services* - Reflects prior year annualization and caseload growth for age outs.
- *Community Residential Services* - Reflects prior year annualization and caseload growth for community placements, including age outs, Money Follows the Person and Messier-related placements.

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.
- *Managed Service System, General Assistance Managed Care, Young Adult Services, TBI Community Services, Jail Diversion, Prison Overcrowding and Home and Community Based Services* - Reflects wage-related inflation adjustments for the salary component of these accounts.
- *General Assistance Managed Care and Home and Community Based Services* - Reflects anticipated caseload growth and prior year annualization.

DEPARTMENT OF TRANSPORTATION

- *Congestion Mitigation and Air Quality Program* - Federal Highway Administration program funding covers 80% of a project for the first three years of operation. Estimate reflects the expiration of federal CMAQ funding for Ctfastrak in Bus Operations beginning in FY 2018, and for Truck Rental on CTfastrak and Outreach Marketing beginning in FY 2019.
- *Port Authority Funding Reduction* - FY 2019 represents the first fiscal year the Connecticut Port Authority will no longer require support from the Special Transportation Fund.

DEPARTMENT OF SOCIAL SERVICES

- *State-Funded Supplemental Nutrition Assistance Program, HUSKY B 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 caseload changes based on current trends, as well as annualization of adjustments.
- *Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled* - Reflects leap year payments in FY 2020.
- *HUSKY B Program* - Reflects the provision in the Affordable Care Act, which increases federal reimbursement for the Children's Health Insurance Program (CHIP) by 23 percentage points effective October 1, 2015 through September 30, 2019. For Connecticut, reimbursement is increased from 65% to 88% during this period.
- *Medicaid* - Reflects decrease in federal reimbursement for the Medicaid expansion population (HUSKY D) in accordance with the provisions of the Affordable Care Act (from 100% in FY 2016 to 95% in FY 2017, 94% in FY 2018, 93% in FY 2019 and 90% in FY 2020).
- *Medicaid* - Reflects annualization of costs related to the federal mandate requiring coverage of medically necessary services for children and youth with autism spectrum disorder.
- *Other Expenses* - Reflects annualization of information technology projects and other adjustments.

DEPARTMENT OF EDUCATION

- *Development of Mastery Exams, Longitudinal Data Systems, School Accountability, Sheff Settlement, Regional Vocational-Technical School System, Talent Development, Adult Education, and Interdistrict Cooperation* - Reflects wage inflation for the Personal Services components of these accounts.

UNIVERSITY OF CONNECTICUT HEALTH CENTER

- *Bioscience CT Initiative* - Based on the rollout of Bioscience CT, the costs are $11.9 million in FY 2018, $15.0 million in FY 2019, and $15.4 million in FY 2020.

TEACHERS' RETIREMENT BOARD

- *Retirement Contributions* - Reflects increased contributions beginning in FY 2018 related to lowering the assumed rate of return and other actuarial changes approved by the Board. Outyears reflect a 3.25% increase in contributions each year.
- *Retirees Health Service Cost* - Reflects the state share returning to one-third of the basic premium costs in FY 2018. Outyears reflect medical inflation and volume increases.
- *Municipal Retiree Health Insurance Costs* - Reflects the state share returning to one-third of the subsidy amount in FY 2018 and then flat volume.

DEPARTMENT OF CHILDREN AND FAMILIES

- *Board and Care for Children* - Reflects anticipated growth in the number of children in foster care and subsidized adoption/guardianship homes.

# SUMMARY OF APPROPRIATED FUND PROJECTIONS

(in millions)

| | FY 2016 Estimated | FY 2017 Enacted | FY 2018 Projected | FY 2019 Projected | FY 2020 Projected |
|---|---|---|---|---|---|
| **GENERAL FUND** | | | | | |
| DSS - Medicaid | $ 2,468.4 | $ 2,542.8 | $ 2,665.6 | $ 2,790.1 | $ 2,925.5 |
| STATEWIDE - Personal Services | 2,412.8 | 2,442.5 | 2,537.0 | 2,634.8 | 2,736.4 |
| SDE - Education Equalization Grants | 2,155.8 | 2,172.5 | 2,172.5 | 2,172.5 | 2,172.5 |
| OTT - Debt Service | 1,651.0 | 1,765.9 | 2,013.2 | 1,972.9 | 2,156.2 |
| OSC - State Employees Retirement Contributions | 1,096.8 | 1,124.7 | 1,198.1 | 1,276.3 | 1,359.6 |
| TRB - Retirement Contributions | 975.6 | 1,012.2 | 1,247.7 | 1,288.3 | 1,330.1 |
| OSC - Retired Employees Health Service Cost | 681.4 | 746.1 | 777.2 | 811.0 | 846.2 |
| OSC - State Employees Health Services Cost | 674.4 | 722.6 | 755.4 | 802.4 | 851.4 |
| STATEWIDE - Other Expenses | 513.6 | 520.5 | 526.4 | 524.1 | 524.1 |
| DDS - Community Residential Services | 483.9 | 502.6 | 521.5 | 547.3 | 573.1 |
| SDE - Magnet Schools | 328.4 | 325.0 | 325.0 | 325.0 | 325.0 |
| OSC - Employers Social Security Tax | 239.0 | 250.7 | 254.9 | 264.4 | 274.4 |
| DDS - Employment Opportunities and Day Services | 227.6 | 237.7 | 240.6 | 243.5 | 246.4 |
| UOC - Operating Expenses | 220.6 | 225.1 | 233.5 | 242.3 | 251.4 |
| SDE - Regional Vocational-Technical School System | 167.0 | 171.2 | 177.1 | 183.1 | 189.3 |
| BOR - Connecticut State University | 163.7 | 164.2 | 170.4 | 176.8 | 183.4 |
| BOR - Regional Community - Technical Colleges | 163.2 | 164.5 | 170.6 | 177.0 | 183.7 |
| OTT - UConn 2000 - Debt Service | 148.4 | 162.1 | 169.5 | 186.8 | 201.5 |
| SDE - Excess Cost - Student Based | 139.8 | 139.8 | 139.8 | 139.8 | 139.8 |
| OTT - Pension Obligation Bonds - Teachers' Retirement System | 132.7 | 119.6 | 140.2 | 118.4 | 118.4 |
| OPM - Reimb. to Towns for Loss of Taxes on Private Tax-Exempt Property | 125.4 | 125.4 | 125.4 | 125.4 | 125.4 |
| DCF - Board and Care for Children - Foster | 125.2 | 128.1 | 128.3 | 128.6 | 128.9 |
| UHC - Operating Expenses | 124.3 | 125.5 | 130.2 | 135.1 | 140.2 |
| OEC - Child Care Services-TANF/CCDBG | 120.9 | 122.1 | 122.1 | 122.1 | 122.1 |
| DSS - DMHAS – Disproportionate Share | 108.9 | 108.9 | 108.9 | 108.9 | 108.9 |
| DCF - Board and Care for Children - Residential | 107.8 | 107.1 | 105.9 | 105.9 | 105.9 |
| DSS - Temporary Assistance to Families - TANF | 99.4 | 98.9 | 93.9 | 93.8 | 93.8 |
| DCF - Board and Care for Children - Adoption | 94.6 | 95.9 | 98.9 | 100.9 | 102.9 |
| DOC - Inmate Medical Services | 91.7 | 92.9 | 92.9 | 92.9 | 92.9 |
| OPM - Reimbursement to Towns for Loss of Taxes on State Property | 83.6 | 83.6 | 83.6 | 83.6 | 83.6 |
| OEC - School Readiness | 83.4 | 83.4 | 83.4 | 83.4 | 83.4 |
| MHA - Young Adult Services | 80.2 | 86.0 | 87.1 | 88.2 | 89.4 |
| MHA - Grants for Mental Health Services | 72.3 | 73.8 | 73.8 | 73.8 | 73.8 |
| DOH - Housing/Homeless Services | 69.7 | 75.9 | 81.3 | 87.7 | 94.3 |
| MHA - Managed Service System | 62.6 | 62.7 | 63.0 | 63.2 | 63.5 |
| DSS - Aid to the Disabled | 61.1 | 61.5 | 61.2 | 61.2 | 61.4 |
| JUD - Alternative Incarceration Program | 56.5 | 56.5 | 56.5 | 56.5 | 56.5 |
| OSC - Nonfunctional - Change to Accruals | 44.8 | 22.4 | 22.4 | 22.4 | 22.4 |
| SDE - Priority School Districts | 43.7 | 44.8 | 44.8 | 44.8 | 44.8 |
| DSS - Connecticut Home Care Program | 43.4 | 40.6 | 43.5 | 44.8 | 46.2 |
| MHA - General Assistance Managed Care | 42.0 | 43.1 | 44.8 | 46.6 | 48.4 |
| DOC - Community Support Services | 41.4 | 41.4 | 41.4 | 41.4 | 41.4 |
| DCF - Community KidCare | 40.1 | 41.3 | 41.3 | 41.3 | 41.3 |
| DHE - Governor's Scholarship | 39.6 | 41.0 | 41.0 | 41.0 | 41.0 |
| SDE - OPEN Choice Program | 38.3 | 43.2 | 43.2 | 43.2 | 43.2 |
| DSS - Old Age Assistance | 37.9 | 38.3 | 38.2 | 38.3 | 38.5 |
| DOL - Workforce Investment Act | 32.1 | 32.1 | 32.1 | 32.1 | 32.1 |
| OEC - Birth to Three | 31.2 | 24.7 | 24.7 | 24.7 | 24.7 |
| DDS - Voluntary Services | 29.7 | 30.8 | 30.8 | 30.8 | 30.8 |
| JUD - Juvenile Alternative Incarceration | 28.4 | 28.4 | 28.4 | 28.4 | 28.4 |
| OPM - Tax Relief for Elderly Renters | 26.7 | 28.9 | 30.5 | 32.2 | 34.0 |
| DOC - Workers' Compensation Claims | 25.7 | 25.7 | 26.7 | 27.7 | 28.7 |
| OSC - Adjudicated Claims | 24.8 | 8.8 | 8.3 | 8.4 | 4.1 |
| DDS - Cooperative Placements Program | 24.5 | 24.5 | 24.5 | 24.5 | 24.5 |
| MHA - Discharge and Diversion Services | 24.4 | 27.3 | 27.3 | 27.3 | 27.3 |
| SDE - Transportation of School Children | 23.3 | 23.3 | 23.3 | 23.3 | 23.3 |
| MHA - Housing Supports and Services | 23.2 | 24.2 | 24.2 | 24.2 | 24.2 |
| DSS - State Administered General Assistance | 23.2 | 24.8 | 26.5 | 27.7 | 28.9 |

# SUMMARY OF APPROPRIATED FUND PROJECTIONS

(in millions)

| | FY 2016 Estimated | FY 2017 Enacted | FY 2018 Projected | FY 2019 Projected | FY 2020 Projected |
|---|---|---|---|---|---|
| PDS - Assigned Counsel - Criminal | 23.1 | 21.9 | 21.9 | 21.9 | 21.9 |
| MHA - Grants for Substance Abuse Services | 22.7 | 22.7 | 22.7 | 22.7 | 22.7 |
| OPM - Reserve for Salary Adjustments | 22.2 | 86.0 | 89.3 | 92.6 | 96.1 |
| SDE - Adult Education | 21.0 | 21.0 | 21.0 | 21.1 | 21.1 |
| OPM - Property Tax Relief Elderly Circuit Breaker | 20.5 | 20.5 | 20.5 | 20.5 | 20.5 |
| MHA - Home and Community Based Services | 19.6 | 25.9 | 29.4 | 33.5 | 39.1 |
| BOR - Transform CSCU | 19.4 | 22.1 | 22.1 | 22.1 | 22.1 |
| UOC - Next Generation Connecticut | 19.1 | 20.4 | 20.4 | 20.4 | 20.4 |
| OEC - Child Care Services | 18.7 | 19.1 | 19.1 | 19.1 | 19.1 |
| OSC - Judges and Compensation Commissioners Retirement | 18.3 | 19.2 | 20.2 | 21.4 | 22.5 |
| JUD - Youthful Offender Services | 18.2 | 18.2 | 18.2 | 18.2 | 18.2 |
| DOL - Jobs First Employment Services | 18.0 | 18.0 | 18.1 | 18.1 | 18.1 |
| DCF - Supportive Housing | 17.0 | 19.9 | 19.9 | 19.9 | 19.9 |
| DCF - Grants for Psychiatric Clinics for Children | 15.9 | 16.0 | 16.0 | 16.0 | 16.0 |
| SDE - Development of Mastery Exams Grades 4, 6 and 8 | 15.1 | 15.6 | 15.7 | 15.8 | 15.9 |
| DDS - Workers' Compensation Claims | 15.0 | 15.0 | 15.6 | 16.1 | 16.7 |
| TRB - Retirees Health Service Cost | 14.7 | 14.7 | 37.1 | 41.5 | 46.5 |
| DSS - Connecticut Children's Medical Center | 14.6 | 14.8 | 14.8 | 14.8 | 14.8 |
| DAS - IT Services | 14.3 | 14.5 | 14.5 | 14.5 | 14.5 |
| DAS - Insurance and Risk Operations | 13.7 | 14.0 | 14.0 | 14.0 | 14.0 |
| DAS - Rents and Moving | 13.1 | 11.4 | 11.4 | 11.4 | 11.4 |
| SDE - Commissioner’s Network | 12.8 | 12.8 | 12.8 | 12.8 | 12.8 |
| UHC - Bioscience | 12.5 | 12.0 | 11.9 | 15.0 | 15.4 |
| DCF - Juvenile Justice Outreach Services | 12.5 | 13.5 | 13.5 | 13.5 | 13.5 |
| SDE - Sheff Settlement | 11.9 | 12.2 | 12.3 | 12.3 | 12.4 |
| MHA - Workers' Compensation Claims | 11.8 | 11.8 | 12.2 | 12.7 | 13.2 |
| DPH - School Based Health Clinics | 11.7 | 11.9 | 11.9 | 11.9 | 11.9 |
| MHA - Professional Services | 11.5 | 11.5 | 11.5 | 11.5 | 11.5 |
| OEC - Children's Trust Fund | 11.2 | 11.2 | 11.2 | 11.2 | 11.2 |
| SDE - Vocational Agriculture | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 |
| OEC - Early Childhood Program | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 |
| DCF - Workers' Compensation Claims | 10.5 | 10.5 | 10.9 | 11.3 | 11.8 |
| MHA - Employment Opportunities | 10.4 | 10.4 | 10.4 | 10.4 | 10.4 |
| MHA - TBI Community Services | 10.4 | 10.4 | 10.5 | 10.5 | 10.5 |
| DCF - Substance Abuse Treatment | 10.1 | 10.4 | 10.4 | 10.4 | 10.4 |
| DEP - Environmental Quality | 10.0 | 10.1 | 10.4 | 10.7 | 10.9 |
| SDE - American School for the Deaf | 10.0 | 10.1 | 10.1 | 10.1 | 10.1 |
| ECD - Statewide Marketing | 9.5 | 9.5 | 9.5 | 9.5 | 9.5 |
| DCF - Child Abuse and Neglect Intervention | 9.4 | 9.8 | 9.8 | 9.8 | 9.8 |
| DCF - Individualized Family Supports | 9.4 | 9.4 | 8.3 | 8.3 | 8.3 |
| SDE - Talent Development | 9.3 | 9.3 | 9.3 | 9.4 | 9.4 |
| DEP - Environmental Conservation | 9.1 | 9.1 | 9.3 | 9.4 | 9.6 |
| DAS - Workers' Compensation Claims | 8.7 | 8.7 | 9.0 | 9.3 | 9.7 |
| OSC - Insurance - Group Life | 8.5 | 8.6 | 8.0 | 8.0 | 8.0 |
| MHA - Connecticut Mental Health Center | 8.4 | 8.5 | 8.5 | 8.5 | 8.5 |
| DCF - Differential Response System | 8.3 | 8.3 | 8.3 | 8.3 | 8.3 |
| SDE - Family Resource Centers | 8.2 | 8.2 | 8.2 | 8.2 | 8.2 |
| DCF - Community Based Prevention Programs | 8.0 | 8.1 | 8.1 | 8.1 | 8.1 |
| ECD - Capitol Region Development Authority | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 |
| DOH - Congregate Facilities Operation Costs | 7.8 | 8.1 | 8.1 | 8.1 | 8.1 |
| OSC - Unemployment Compensation | 7.3 | 6.4 | 6.0 | 6.0 | 6.0 |
| DEP - Emergency Spill Response | 7.3 | 7.3 | 7.6 | 7.8 | 8.1 |
| SDE - Interdistrict Cooperation | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 |
| OSC - Higher Ed Alternative Retirement System | 7.2 | 7.9 | 3.5 | 3.6 | 3.7 |
| DOC - Board of Pardons and Paroles | 7.1 | 7.2 | 7.5 | 7.7 | 8.0 |
| OPM - Private Providers | - | 8.5 | 8.5 | 8.5 | 8.5 |
| OSC - Other Post Employment Benefits | - | - | 132.6 | 132.6 | 132.6 |
| STATEWIDE - All Other | 368.1 | 367.2 | 370.4 | 372.9 | 382.4 |
| **GENERAL FUND - Gross** | **18,370.7** | **18,916.9** | **20,019.6** | **20,504.1** | **21,262.8** |

# SUMMARY OF APPROPRIATED FUND PROJECTIONS

(in millions)

| | FY 2016 Estimated | FY 2017 Enacted | FY 2018 Projected | FY 2019 Projected | FY 2020 Projected |
|---|---|---|---|---|---|
| Unallocated Lapse | (93.1) | (94.5) | (94.5) | (94.5) | (94.5) |
| Unallocated Lapse - Legislative | (5.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Unallocated Lapse - Judicial | (7.4) | (7.4) | (7.4) | (7.4) | (7.4) |
| General Employee Lapse | (7.1) | (12.8) | (12.8) | (12.8) | (12.8) |
| General Lapse - Legislative | (0.0) | (0.0) | (0.0) | (0.0) | (0.0) |
| General Lapse - Judicial | (0.3) | (0.3) | (0.3) | (0.3) | (0.3) |
| General Lapse - Executive | (9.7) | (9.7) | (9.7) | (9.7) | (9.7) |
| Municipal Opp and Reg Efficiencies Prg | (20.0) | (20.0) | (20.0) | (20.0) | (20.0) |
| Overtime Savings | (10.5) | (10.5) | (10.5) | (10.5) | (10.5) |
| Statewide Hiring Reduction - Executive | (30.9) | (30.9) | (30.9) | (30.9) | (30.9) |
| Statewide Hiring Reduction - Judicial | (3.3) | (3.3) | (3.3) | (3.3) | (3.3) |
| Statewide Hiring Reduction - Legislative | (0.8) | (0.8) | (0.8) | (0.8) | (0.8) |
| Targeted Savings | (12.5) | (12.5) | (12.5) | (12.5) | (12.5) |
| September 2015 Rescission | (102.8) | - | - | - | - |
| **GENERAL FUND - Net** | **$ 18,067.3** | **$ 18,711.2** | **$ 19,813.9** | **$ 20,298.4** | **$ 21,057.0** |
| | | | | | |
| SPECIAL TRANSPORTATION FUND - Gross | $ 1,428.1 | $ 1,508.1 | $ 1,586.2 | $ 1,688.4 | $ 1,778.1 |
| Unallocated Lapse | (12.0) | (12.0) | (12.0) | (12.0) | (12.0) |
| **SPECIAL TRANSPORTATION FUND - Net** | **$ 1,416.1** | **$ 1,496.1** | **$ 1,574.2** | **$ 1,676.4** | **$ 1,766.1** |
| | | | | | |
| BANKING FUND | $ 29.6 | $ 29.9 | $ 30.9 | $ 32.0 | $ 33.1 |
| INSURANCE FUND | $ 79.9 | $ 81.4 | $ 83.7 | $ 86.2 | $ 88.7 |
| CONSUMER COUNSEL & PUBLIC UTILITY CONTROL FUND | $ 27.0 | $ 27.0 | $ 27.9 | $ 28.8 | $ 29.8 |
| WORKERS' COMPENSATION FUND | $ 27.3 | $ 27.0 | $ 27.7 | $ 28.5 | $ 29.3 |
| MASHANTUCKET PEQUOT AND MOHEGAN FUND | $ 61.8 | $ 61.8 | $ 61.8 | $ 61.8 | $ 61.8 |
| REGIONAL MARKET OPERATION FUND | $ 1.1 | $ 1.1 | $ 1.1 | $ 1.1 | $ 1.2 |
| CRIMINAL INJURIES COMPENSATION FUND | $ 2.9 | $ 2.9 | $ 2.9 | $ 2.9 | $ 2.9 |
| **TOTAL ALL FUNDS - NET** | **$ 19,712.9** | **$ 20,438.3** | **$ 21,624.1** | **$ 22,216.1** | **$ 23,069.9** |

# PROJECTED REVENUES

## Consensus Revenue Forecast - November 10, 2015

(In Millions)

**General Fund**

| Taxes | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|---|---|---|---|---|---|
| Personal Income Tax | $ 9,645.0 | $ 10,004.1 | $ 10,437.0 | $ 10,889.9 | $ 11,332.2 |
| Sales & Use Tax | 4,121.1 | 4,084.7 | 3,998.9 | 4,146.6 | 4,293.7 |
| Corporation Tax | 902.2 | 908.8 | 859.0 | 890.4 | 853.9 |
| Public Service Tax | 288.0 | 295.9 | 303.9 | 312.2 | 320.6 |
| Inheritance & Estate Tax | 193.4 | 174.6 | 180.1 | 186.1 | 192.4 |
| Insurance Companies Tax | 237.9 | 241.3 | 222.8 | 226.3 | 229.8 |
| Cigarettes Tax | 361.2 | 362.3 | 344.7 | 329.1 | 314.3 |
| Real Estate Conveyance Tax | 194.7 | 199.7 | 206.2 | 212.7 | 220.9 |
| Oil Companies Tax | - | - | - | - | - |
| Alcoholic Beverages Tax | 61.7 | 62.2 | 62.6 | 63.0 | 63.4 |
| Admissions & Dues Tax | 38.3 | 39.0 | 39.5 | 39.8 | 40.1 |
| Health Provider Tax | 673.2 | 680.2 | 683.0 | 685.3 | 687.6 |
| Miscellaneous Tax | 19.7 | 20.1 | 20.5 | 21.0 | 21.5 |
| Total Taxes | $ 16,736.4 | $ 17,072.9 | $ 17,358.2 | $ 18,002.4 | $ 18,570.4 |
| Less Refunds of Tax | (1,090.4) | (1,101.5) | (1,141.8) | (1,196.0) | (1,252.4) |
| Less Earned Income Tax Credit | (127.4) | (133.6) | (150.0) | (155.6) | (161.8) |
| Less R&D Credit Exchange | (8.1) | (8.5) | (8.8) | (9.2) | (9.6) |
| Total - Taxes Less Refunds | $ 15,510.5 | $ 15,829.3 | $ 16,057.6 | $ 16,641.6 | $ 17,146.6 |
| **Other Revenue** | | | | | |
| Transfers-Special Revenue | $ 327.4 | $ 351.0 | $ 372.1 | $ 380.9 | $ 389.9 |
| Indian Gaming Payments | 258.8 | 252.4 | 247.4 | 183.6 | 181.3 |
| Licenses, Permits, Fees | 308.5 | 290.8 | 313.1 | 293.4 | 317.3 |
| Sales of Commodities | 38.0 | 39.1 | 40.2 | 41.3 | 42.4 |
| Rents, Fines, Escheats | 126.0 | 128.0 | 130.1 | 132.1 | 134.1 |
| Investment Income | 1.2 | 3.4 | 5.5 | 6.6 | 7.5 |
| Miscellaneous | 171.3 | 173.4 | 175.6 | 179.2 | 182.9 |
| Less Refunds of Payments | (69.2) | (70.1) | (71.5) | (73.0) | (74.5) |
| Total - Other Revenue | $ 1,162.0 | $ 1,168.0 | $ 1,212.5 | $ 1,144.1 | $ 1,180.9 |
| **Other Sources** | | | | | |
| Federal Grants | $ 1,263.1 | $ 1,255.3 | $ 1,277.5 | $ 1,297.1 | $ 1,317.6 |
| Transfer From Tobacco Settlement | 106.6 | 104.5 | 89.7 | 90.2 | 90.0 |
| Transfers From (To) Other Funds | (97.3) | (45.3) | (106.4) | (106.4) | (106.4) |
| Total - Other Sources | $ 1,272.4 | $ 1,314.5 | $ 1,260.8 | $ 1,280.9 | $ 1,301.2 |
| **Total - General Fund Revenues** | $ 17,944.9 | $ 18,311.8 | $ 18,530.9 | $ 19,066.6 | $ 19,628.7 |

**Special Transportation Fund**

| Taxes | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|---|---|---|---|---|---|
| Motor Fuels Tax | $ 511.5 | $ 513.4 | $ 515.4 | $ 516.4 | $ 516.3 |
| Oil Companies Tax | 281.1 | 298.8 | 331.2 | 366.6 | 390.2 |
| Sales & Use Tax | 158.6 | 260.6 | 359.1 | 372.0 | 385.2 |
| Sales Tax - DMV | 84.0 | 85.0 | 85.9 | 86.9 | 88.0 |
| Total Taxes | $ 1,035.2 | $ 1,157.8 | $ 1,291.6 | $ 1,341.9 | $ 1,379.7 |
| Less Refunds of Taxes | (7.3) | (7.5) | (7.6) | (8.1) | (8.5) |
| Total - Taxes Less Refunds | $ 1,027.9 | $ 1,150.3 | $ 1,284.0 | $ 1,333.8 | $ 1,371.2 |
| **Other Sources** | | | | | |
| Motor Vehicle Receipts | $ 245.8 | $ 246.6 | $ 247.4 | $ 248.1 | $ 248.9 |
| Licenses, Permits, Fees | 140.2 | 140.7 | 141.2 | 141.8 | 142.3 |
| Interest Income | 7.7 | 8.5 | 9.5 | 10.4 | 11.2 |
| Federal Grants | 12.1 | 12.1 | 12.1 | 12.1 | 12.1 |
| Transfers From (To) Other Funds | (6.5) | (6.5) | (6.5) | (6.5) | (6.5) |
| Less Refunds of Payments | (3.7) | (3.8) | (3.9) | (4.1) | (4.3) |
| Total - Other Sources | $ 395.6 | $ 397.6 | $ 399.8 | $ 401.8 | $ 403.7 |
| **Total - STF Revenues** | $ 1,423.5 | $ 1,547.9 | $ 1,683.8 | $ 1,735.6 | $ 1,774.9 |

NOTE: The above schedule reflects the November 10, 2015 consensus revenue estimates per C.G.S. 2-36c.

# PROJECTED REVENUES

(In Millions)

| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|---|---|---|---|---|---|
| Mashantucket Pequot and Mohegan Fund Revenues | $ 61.8 | $ 61.8 | $ 61.8 | $ 61.8 | $ 61.8 |
| Regional Market Operating Fund Revenues | $ 1.1 | $ 1.1 | $ 1.1 | $ 1.2 | $ 1.2 |
| Banking Fund Revenues | $ 29.7 | $ 29.9 | $ 31.0 | $ 32.0 | $ 33.1 |
| Insurance Fund Revenues | $ 80.0 | $ 81.4 | $ 83.8 | $ 86.2 | $ 88.8 |
| Consumer Counsel & Public Utility Control Revenues | $ 27.0 | $ 27.0 | $ 27.9 | $ 28.9 | $ 29.8 |
| Workers' Compensation Fund Revenues | $ 27.4 | $ 27.0 | $ 27.8 | $ 28.5 | $ 29.4 |
| Criminal Injuries Fund Revenues | $ 2.9 | $ 3.0 | $ 3.0 | $ 3.0 | $ 3.0 |
| Total - Other Funds | $ 229.9 | $ 231.2 | $ 236.4 | $ 241.6 | $ 247.1 |
| **All Appropriated Funds Revenues** | $ 19,598.3 | $ 20,090.9 | $ 20,451.1 | $ 21,043.8 | $ 21,650.7 |

# ASSUMPTIONS USED TO DEVELOP REVENUE ESTIMATES

| | Fiscal 2016 | Fiscal 2017 | Fiscal 2018 | Fiscal 2019 | Fiscal 2020 |
|---|---|---|---|---|---|
| UNITED STATES | | | | | |
| Gross Domestic Product | 3.8% | 5.1% | 4.8% | 4.7% | 4.6% |
| Real Gross Domestic Product | 2.4% | 3.0% | 2.7% | 2.7% | 2.5% |
| G.D.P. Deflator | 1.4% | 2.0% | 2.1% | 1.9% | 2.0% |
| Unemployment Rate | 5.1% | 5.0% | 5.0% | 5.0% | 4.9% |
| New Vehicle Sales (M) | 17.8 | 18.0 | 18.2 | 17.9 | 17.5 |
| Consumer Price Index | 0.5% | 2.3% | 2.6% | 2.3% | 2.4% |
| CONNECTICUT | | | | | |
| Personal Income | 3.6% | 4.4% | 4.7% | 4.4% | 4.3% |
| Nonagricultural Employment | 1.6% | 0.9% | 0.6% | 0.4% | 0.4% |
| Housing Starts (T) | 5.2 | 6.4 | 7.3 | 7.9 | 8.5 |
| Unemployment Rate | 5.4% | 5.3% | 5.1% | 5.0% | 4.9% |

(M) denotes millions
(T) denotes thousands

# ECONOMIC GROWTH RATES FOR PROJECTED TAX REVENUES

(As Estimated by OPM Based Upon the November 10, 2015 Consensus Revenue Forecast)
(Percent Change)

## General Fund

| **Taxes** | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Personal Income Tax [1] | 3.3, 4.5 | 3.3, 4.8 | 4.0, 5.0 | 3.9, 5.0 | 3.4, 5.0 |
| Sales & Use Tax | 3.8 | 3.9 | 3.4 | 3.6 | 3.5 |
| Corporation Tax | -6.2 | 4.3 | 2.9 | 3.1 | 3.1 |
| Public Service Tax | 6.1 | 2.7 | 2.7 | 2.6 | 2.6 |
| Inheritance & Estate Tax | 11.7 | -7.7 | 3.2 | 3.3 | 3.4 |
| Insurance Companies Tax | 3.4 | 1.4 | 1.8 | 1.4 | 1.4 |
| Cigarettes Tax | -6.1 | -4.8 | -4.9 | -4.5 | -4.5 |
| Real Estate Conveyance Tax | 4.7 | 2.6 | 3.3 | 3.3 | 3.2 |
| Alcoholic Beverages Tax | -0.7 | 0.6 | 0.8 | 0.6 | 0.6 |
| Admissions & Dues Tax | 0.8 | 1.8 | 1.3 | 0.8 | 0.8 |
| Health Provider | -0.6 | 0.5 | 0.6 | 0.5 | 0.5 |

## Special Transportation Fund

| **Taxes** | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Motor Fuels Tax | 1.4 | 0.4 | 0.4 | 0.2 | 0.0 |
| Oil Companies Tax | -16.8 | 6.3 | 10.8 | 10.7 | 6.4 |
| Sales Tax - DMV | 0.1 | 1.2 | 1.1 | 1.2 | 1.3 |

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

# SECTION 2

## PROJECTED TAX CREDITS

# PROJECTED TAX CREDITS

Tax credit projections are based on data from the Department of Revenue Services. Personal income tax credits are projected using income year 2013 data. Corporation business tax credits are projected using income year 2010-2012 data. This is because 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 Department of Revenue Services which then must still capture information from the return. Appropriate growth rates are applied to base year data to derive an estimate for future fiscal years.

In addition, tax credit projections have been adjusted to account for policy changes through the 2015 legislative session. Business tax credits have been prorated to account for the 50.01% credit cap effective January 1, 2015.

## Projected Total Amounts of Tax Credits Claimed

(In Thousands)

| | Fiscal Year 2016 Proj. | Fiscal Year 2017 Proj. | Fiscal Year 2018 Proj. | Fiscal Year 2019 Proj. | Fiscal Year 2020 Proj. |
|---|---|---|---|---|---|
| **Personal Income Tax Credits** | | | | | |
| Property Tax | $ 165,000 | $ 121,000 | $ 125,000 | $ 130,000 | $ 135,000 |
| Earned Income Tax Credit | 127,400 | 133,600 | 150,000 | 155,600 | 161,800 |
| Connecticut Higher Education Trust (CHET) | 9,500 | 9,500 | 9,500 | 9,500 | 9,500 |
| Angel Investor | 3,000 | - | - | - | - |
| **Total Personal Income Tax** | $ 304,900 | $ 264,100 | $ 284,500 | $ 295,100 | $ 306,300 |
| **Business Tax Credits** | | | | | |
| Fixed Capital | 46,000 | 51,000 | 51,000 | 51,000 | 51,000 |
| Film Industry Production[1] | 24,000 | 26,000 | 38,000 | 39,000 | 40,000 |
| Film Industry Digital Animation[1] | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| Film Industry Infrastructure[1] | 13,500 | 14,000 | 21,500 | 22,000 | 22,500 |
| Electronic Data Processing[1] | 16,000 | 17,500 | 22,500 | 23,000 | 24,000 |
| Research and Experimental Expenditures | 11,500 | 13,500 | 14,000 | 14,500 | 15,000 |
| Research and Development Expenditures | 23,500 | 24,000 | 24,000 | 24,000 | 24,500 |
| Urban and Industrial Reinvestment | 43,200 | 44,200 | 45,200 | 46,200 | 47,200 |
| Housing Program Contribution[1] | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Historic Rehabilitation[1] | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |
| Human Capital | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 |
| Machinery and Equipment | 700 | 800 | 800 | 800 | 800 |
| All Other Credits[1] | 13,000 | 13,500 | 13,500 | 13,500 | 13,500 |
| **Total Business Tax Credits** | $ 221,900 | $ 235,000 | $ 261,000 | $ 264,500 | $ 269,000 |
| **Total Projected Amount Claimed** | $ 526,800 | $ 499,100 | $ 545,500 | $ 559,600 | $ 575,300 |

(1) Includes credits claimed under the Corporation Tax, Insurance Premiums Tax, Hospital Net Revenue Tax, the Public Service Companies Tax.

# SECTION 3

## SUMMARY OF ESTIMATED DEFICIENCIES

# SUMMARY OF ESTIMATED DEFICIENCIES
## (REASONS FOR DEFICIENCIES AND BASIS OF ASSUMPTIONS)

The Office of Policy and Management is projecting a potential $122.4 million General Fund deficit for Fiscal Year 2016. Of this amount, $8.5 million is due to agency deficiencies described below.

- <u>Office of the Chief Medical Examiner</u>. A total shortfall of $400,000 is estimated, consisting of $300,000 in Personal Services and $100,000 in Other Expenses due to an increased number of autopsies.

- <u>Office of Early Childhood</u>. A $6.5 million deficiency in the Birth to Three program is forecast due to caseload increases and increased utilization of more costly services.

- <u>Public Defender Services Commission</u>. A total shortfall of $1.6 million is projected. Of this $1.2 million is in the Assigned Counsel – Criminal account due to an increased number of habeas corpus petitions following passage of P.A. 12-115, which places time limitations on filing such petitions. The Expert Witnesses account will have a projected $0.4 million shortfall due both to P.A. 12-115 as well as a Connecticut Supreme Court decision requiring the agency to pay for reasonably necessary expert witnesses when requested by pro se indigent defendants in criminal cases.

# SECTION 4

## BUDGET RESERVE FUND

# 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) | | - | 6,372.6 | | 0.0 |
| 1990-91 | - | | - | 6,981.8 | | 0.0 |
| 1991-92 | - | | - | 7,317.7 | | 0.0 |
| 1992-93 | - | | - | 8,589.6 | | 0.0 |
| 1993-94 | - | | - | 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) | | - | 12,387.8 | | 0.0 |
| 2002-03 | - | | - | 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 | - | | 1,381.7 | 17,101.8 | | 8.1 |
| 2008-09 | - | (1) | 1,381.7 | 17,370.3 | | 8.0 |
| 2009-10 | (1,278.5) | (2) | 103.2 | 17,667.2 | | 0.6 |
| 2010-11 | (103.2) | (2) | 0.0 | 18,707.7 | | 0.0 |
| 2011-12 | 93.5 | (3) | 93.5 | 19,140.1 | | 0.5 |
| 2012-13 | 177.2 | | 270.7 | 17,188.7 | (4) | 1.6 |
| 2013-14 | 248.5 | (5) | 519.2 | 17,457.7 | | 3.0 |
| 2014-15 | (113.2) | | 406.0 | 18,161.6 | | 2.2 |

Note:

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

(2) 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.

(3) 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.

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

(5) Includes $190.8 million of FY 2013 surplus.

**Disposition of Future Surpluses**

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

| FY 2013 | Legislative Reference |
|---|---|
| Any surplus shall be used as follows: | |
| 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 as follows: | |
| 1. Budget Reserve Fund | C.G.S. 4-30a |

Note 1: 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.

Note 2: Section 164 of PA 15-244 amends C.G.S. 4-30a, effective July 1, 2019, to divert additional revenue to the BRF based on a formula. Unappropriated surplus will still be directed to the BRF.

# BUDGET RESERVE FUND

Reforms Enacted During the 2015 Legislative Session

Sections 164 to 169 of Public Act 15-244 included several reforms to the Budget Reserve Fund (BRF). The intent of these changes is to mitigate the revenue volatility which has led to budget uncertainty in recent years.

| | | | Section |
|---|---|---|---|
| 1. | Effective Date | • The effective date of the legislation is July 1, 2019. However, certain provisions will not take effect until FY 2021. | All |
| 2. | BRF Maximum | • Effective July 1, 2019, the cap on the Budget Reserve Fund is increased from 10% to 15% of the ensuing fiscal year General Fund appropriations. | 164 |
| 3. | Combined Revenue | • The bill requires that growth in "combined revenue" above a threshold be deposited to the Budget Reserve Fund beginning in FY 2021. This occurs when current year growth in combined revenue exceeds the ten year average growth in the ten year moving average of combined revenue. | 164 |
| | Definition | • "Combined Revenue" means tax revenue from estimated and final payments of the personal income tax and the corporation business tax. | 164 |
| | Threshold | • The threshold is a dollar amount that is derived by taking the ten year average of combined revenue and multiplying that average by the ten year average growth in the ten year moving average of combined revenue.<br>• The Comptroller is responsible for determining the threshold for deposits to the BRF. | 164, 166 |
| 4. | Temporary Holding Account | • Creates a Restricted Grants Fund as a temporary holding account of surplus funds in excess of the threshold within a fiscal year.<br>• Amounts above threshold level deposited to Restricted Grants Fund on 1/31 and 5/15.<br>• If forecasted combined revenue declines after 1/31, revenue within the restricted grants fund can be transferred back to the General Fund based upon a formula.<br>• If the consensus revenue estimate of 1/15 or 4/30 projects a deficit no transfers will be made to the Restricted Grants Fund.<br>• Amounts held in the Restricted Grants Fund are transferred to Budget Reserve Fund at close of fiscal year. | 164 |

| | | | |
|---|---|---|---|
| 5. | SERS Diversion | • The bill requires that a portion of deposits to the BRF be diverted to the State Employees Retirement Fund (SERF) beginning in FY 2021 according to the following schedule:<br>o If the BRF is more than 10% but less than 15% funded, 15% of the deposit shall be diverted to SERF.<br>o If the BRF is more than 5% but less 10% funded, 10% of the deposit shall be diverted to SERF.<br>o If the BRF is less than 5% funded, 5% of the deposit shall be diverted to SERF. | 164 |
| 6. | Amendments | • The bill requires that any bill which would reduce or eliminate a deposit to the BRF or Restricted Grants Fund be passed by a 3/5ths majority by the appropriations and finance committees. | 164 |
| 7. | Fiscal Notes | • The bill requires that, beginning in FY 2020, the fiscal note for any bill which has an impact on the personal income tax or the corporation tax shall identify any resulting impact on deposits to the BRF. | 169 |
| 8. | Tax Changes | • If tax changes are enacted that affect combined revenue by 1% or more OFA and OPM are responsible to determine the threshold. The growth should be adjusted for any policy changes. Adjustments shall be made for a period of ten fiscal years. If revisions in the January or April consensus estimate impact combined reporting in the current year, OFA and OPM may recalculate the threshold level and shall report such revisions along with consensus revenue. | 168 |
| 9. | Revenue Schedule | • Beginning in FY 2020, the revenue schedule in the state budget act shall separately itemize the two main components of the income tax: a) withholding; and, b) estimated and final payments. | 167 |
| 10. | Transfers Out | • Beginning in FY 2021, if April consensus projects a 2% decline in General Fund tax revenues from the current fiscal year to a subsequent fiscal year, the General Assembly may transfer funds from the BRF to the General Fund in each of the subsequent three fiscal years.<br>• If there is a deficit greater than 1% in a fiscal year, the bill allows the Governor to direct any money in the Restricted Grants Fund for deficit mitigation. | 164, 165 |
| 11. | Reporting | • Not later than December 15, 2024, and every five years thereafter, the bill requires OPM, OFA, and OSC to submit a report to the Finance committee and the Governor on the formula's impact on General Fund tax revenue volatility and recommend changes, as necessary, to the deposit formula or maximum cap balance. | 164 |

# SECTION 5

## PROJECTED BOND AUTHORIZATIONS, ALLOCATIONS AND ISSUANCES

# FIVE YEAR BOND PROJECTIONS

| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|---|---|---|---|---|---|
| **Bond Authorizations** | | | | | |
| General Obligation Bonds | $ 1,919,513,300 | $ 1,886,315,500 | $ 1,625,000,000 | $ 1,625,000,000 | $ 1,625,000,000 |
| Special Tax Obligation Bonds | | | | | |
| Base Transportation Program | 681,426,765 | 693,288,380 | 700,000,000 | 700,000,000 | 700,000,000 |
| Let's Go ! CT Program | 274,850,000 | 520,200,000 | 551,700,000 | 749,800,000 | 706,000,000 |
| Clean Water Fund Revenue Bonds | 58,000,000 | 180,000,000 | 200,000,000 | 200,000,000 | 200,000,000 |
| Bioscience Collaboration Program | 21,425,000 | 21,108,000 | 15,820,000 | 12,525,000 | 10,565,000 |
| Bioscience Innovation Fund | 15,000,000 | 25,000,000 | 25,000,000 | 25,000,000 | 25,000,000 |
| UCONN 21st Century | 312,100,000 | 266,400,000 | 269,500,000 | 251,000,000 | 269,000,000 |
| CSUS 2020 | 118,500,000 | 95,000,000 | 95,000,000 | 95,000,000 | - |
| **Total Bond Authorizations** | **$ 3,400,815,065** | **$ 3,687,311,880** | **$ 3,482,020,000** | **$ 3,658,325,000** | **$ 3,535,565,000** |
| **Bond Allocations** | | | | | |
| **General Obligation Bonds** | | | | | |
| School Construction Program | $ 700,000,000 | $ 650,000,000 | $ 650,000,000 | $ 650,000,000 | $ 650,000,000 |
| Urban Action Grants | 80,000,000 | 80,000,000 | 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 | 135,000,000 | 135,000,000 | 125,000,000 | 125,000,000 | 125,000,000 |
| Clean Water Grants | 165,000,000 | 150,000,000 | 150,000,000 | 150,000,000 | 150,000,000 |
| Manufacturing Assistance Act | 125,000,000 | 125,000,000 | 125,000,000 | 125,000,000 | 125,000,000 |
| Small Business Express Program | 50,000,000 | 50,000,000 | 30,000,000 | - | - |
| 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 | 60,000,000 | 60,000,000 | 60,000,000 | 60,000,000 | 60,000,000 |
| Town Aid Road Grants | 60,000,000 | 60,000,000 | 60,000,000 | 60,000,000 | 60,000,000 |
| State Office Building Renovation | 24,000,000 | - | 180,000,000 | - | - |
| Board of Regents | 150,000,000 | 145,000,000 | 100,000,000 | 100,000,000 | 100,000,000 |
| Board of Regents - CSCU2020 Program | 118,500,000 | 95,000,000 | 95,000,000 | 95,000,000 | - |
| Bioscience Collaboration Program | 21,425,000 | 21,108,000 | 15,820,000 | 12,525,000 | 10,565,000 |
| Bioscience Innovation Fund | 15,000,000 | 25,000,000 | 25,000,000 | 25,000,000 | 25,000,000 |
| Connecticut Innovations Recapitalization | 25,000,000 | 25,000,000 | - | - | - |
| All other GO projects/programs | 425,000,000 | 500,000,000 | 400,000,000 | 425,000,000 | 500,000,000 |
| UCONN Next Generation | 312,100,000 | 266,400,000 | 269,500,000 | 251,000,000 | 269,000,000 |
| **Total General Obligation Bonds** | $ 2,516,025,000 | $ 2,437,508,000 | $ 2,410,320,000 | $ 2,203,525,000 | $ 2,199,565,000 |
| **Special Tax Obligation Bonds** | 950,000,000 | 1,200,000,000 | 1,300,000,000 | 1,300,000,000 | 1,400,000,000 |
| **Clean Water Fund Revenue Bonds** | 200,000,000 | 200,000,000 | 200,000,000 | 200,000,000 | 200,000,000 |
| **Total Bond Allocations** | **$ 3,666,025,000** | **$ 3,837,508,000** | **$ 3,910,320,000** | **$ 3,703,525,000** | **$ 3,799,565,000** |

| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|---|---|---|---|---|---|
| **Bond Issuance** | | | | | |
| General Obligation Bonds | $ 2,000,000,000 | $ 2,000,000,000 | $ 2,000,000,000 | $ 2,000,000,000 | $ 2,000,000,000 |
| Special Tax Obligation Bonds | 700,000,000 | 800,000,000 | 900,000,000 | 900,000,000 | 900,000,000 |
| Clean Water Revenue Bonds | | 250,000,000 | | 250,000,000 | |
| UCONN Next Generation | 300,000,000 | 250,000,000 | 225,000,000 | 200,000,000 | 150,000,000 |
| **Total Bond Issuance** | **$ 3,000,000,000** | **$ 3,300,000,000** | **$ 3,125,000,000** | **$ 3,350,000,000** | **$ 3,050,000,000** |
| **Debt Service** | | | | | |
| General Fund | $ 1,937,570,413 | $ 2,053,088,166 | $ 2,328,335,702 | $ 2,283,598,055 | $ 2,481,556,913 |
| Transportation Fund | 501,950,536 | 562,993,251 | 620,395,175 | 685,243,015 | 752,111,357 |
| **Total Debt Service** | **$ 2,439,520,949** | **$ 2,616,081,417** | **$ 2,948,730,877** | **$ 2,968,841,070** | **$ 3,233,668,270** |
| **Debt Service as a Percentage of Budget** | | | | | |
| GO Debt Service as Percentage of General Fund | 10.7% | 11.0% | 11.8% | 11.3% | 11.8% |
| **Total Debt Service as a Percentage of Budget** | 12.5% | 12.9% | 13.8% | 13.5% | 14.2% |

**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 Next Generation authorizations in accordance with C.G.S. Section 10a-109g as amended.
CSCU 2020 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 C.G.S. Section 32-41dd.

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.

# STATUTORY GENERAL OBLIGATION BOND DEBT LIMIT

Section 3-21 of the General Statutes, as amended, provides that "No bonds, notes or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the State shall be authorized by the general assembly except such as shall not cause the aggregate amount of (1) the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the general assembly but which have not been issued and (2) the total amount of such indebtedness which has been issued and remains outstanding, to exceed one and six-tenths times the total general fund tax receipts of the State for the fiscal year in which any such authorization will become effective, as estimated for such fiscal year by the joint standing committee of the general assembly having cognizance of finance, revenue and bonding in accordance with section 2-35."

Tax Incremental Financings, Special Transportation, Bradley Airport, Clean Water Fund Revenue, Connecticut Unemployment Revenue Bonds, Economic Recovery Notes and Pension Obligation Bonds are excluded from the calculation. GAAP deficit bonds are included in the calculation.

In accordance with the General Statutes, the Treasurer computes the aggregate amount of indebtedness as of January 1, and July 1 each year and certifies the results of such computation to the Governor and the General Assembly. If the aggregate amount of indebtedness reaches 90% of the statutory debt limit, the Governor is required to review each bond act for which no bonds, notes or other evidences of indebtedness have been issued, and recommend to the General Assembly priorities for repealing authorizations for remaining projects.

The estimated debt-incurring margins as of July 1 of each fiscal year are as follows:

| | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|---|---|---|---|---|
| | | | | |
| Revenues 11/10/2015 Consensus | $15,829,300,000 | $16,057,600,000 | $16,641,600,000 | $17,146,600,000 |
| Multiplier | 1.6 | 1.6 | 1.6 | 1.6 |
| 100% Limit | 25,326,880,000 | 25,692,160,000 | 26,626,560,000 | 27,434,560,000 |
| Bonds Subject to Limit | $22,675,916,632 | $23,448,496,644 | $24,074,391,075 | $24,526,239,604 |
| Debt Incurring Margin | $ 2,650,963,368 | $ 2,243,663,356 | $ 2,552,168,925 | $ 2,908,320,396 |
| | | | | |
| Percentage of Limit | 89.53% | 91.27% | 90.41% | 89.40% |
| | | | | |
| Margin to 90% Limit | $118,275,368 | $(325,552,644) | $(110,487,075) | $164,864,396 |

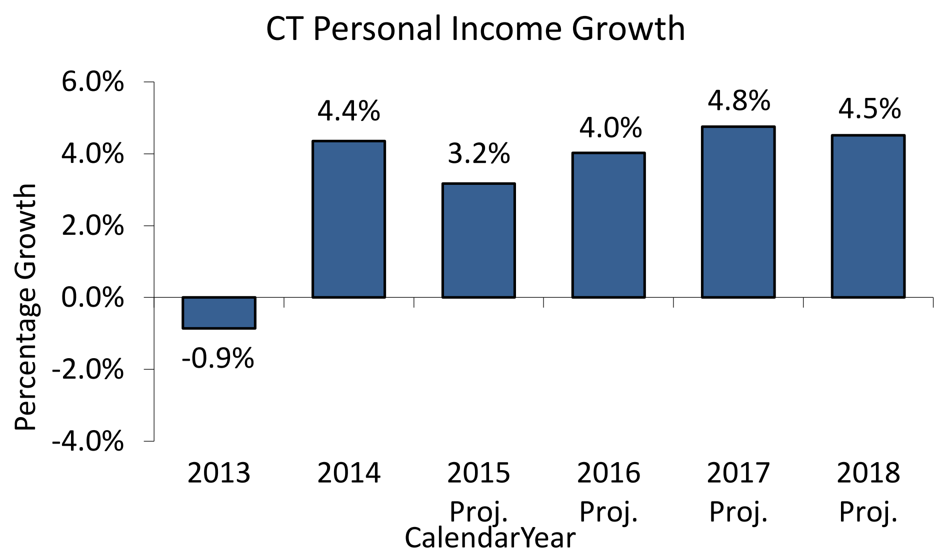
The estimates assume that no midterm adjustments are made to existing bond authorizations that are effective or will be come effective for FY 2017. The estimates for FY 2018 through FY 2020 assume that all existing bond authorizations continue and that $1.625 billion of new bond authorizations are enacted each year.

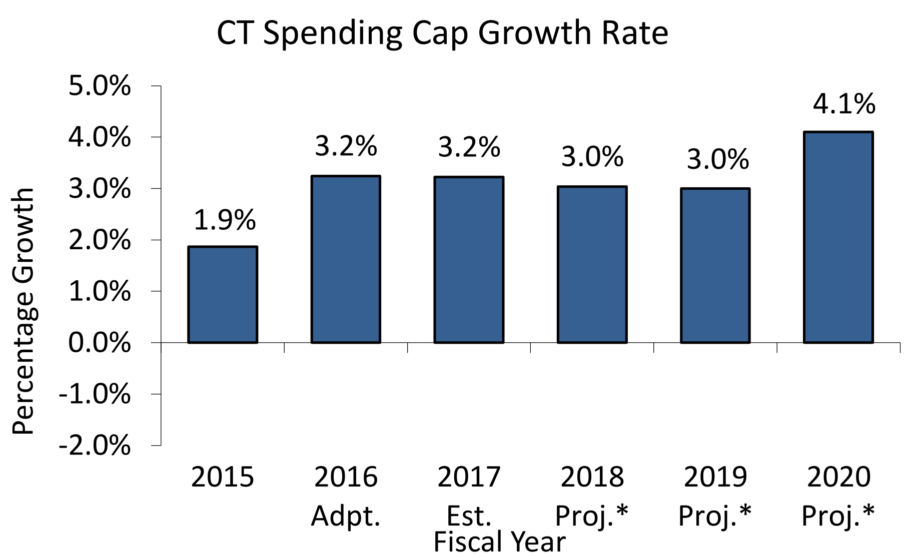
In order the remain uder the 90% limit, new bond authorizations for FY 2018 would need to be reduced by approximately $600 million.

# SECTION 6

## REVENUE AND EXPENDITURE TRENDS, MAJOR COST DRIVERS

# EXPENDITURE CAP



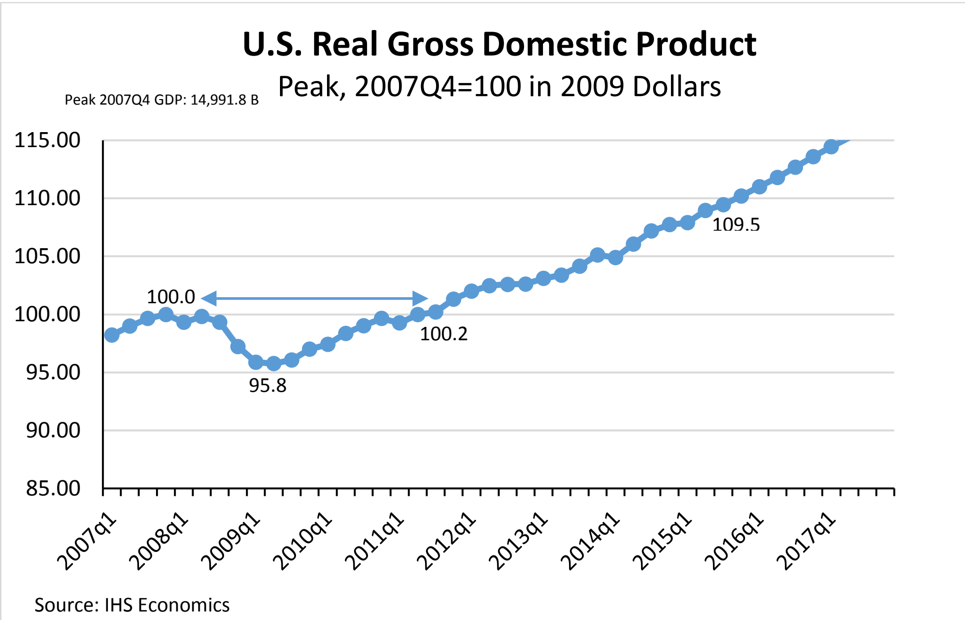




**Calculated on a calendar year basis*

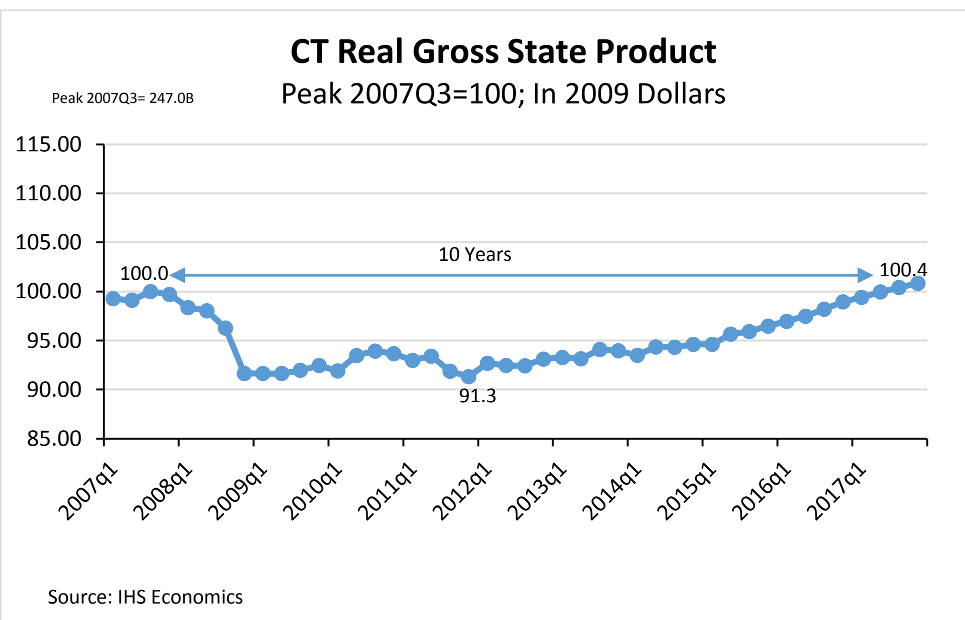
- At adoption, the budget for the biennium was below the cap by $23.0 million in FY 2016 and $106.2 million below the cap in FY 2017. Based on revisions to forecast personal income data from IHS and distressed municipalities data, the FY 2017 budget is $78.6 million below the cap.
- Both revenues and the expenditure cap have been limiting factors in recent years.
- Average personal income growth over a five year period serves as the cap's proxy for the economy's ability to pay for government services.
- The "Great Recession" resulted in the lowest allowable expenditure cap growth rates since its inception.

# SLOWER ECONOMIC RECOVERY

## CONNECTICUT'S SLOW ECONOMIC REBOUND AND LOWER ECONOMIC PROJECTIONS




- From peak to trough, U.S. economic output fell by 4.2%.
- It took 3.75 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 September 2015, U.S. GDP was 9.5% above its 2007 peak on a real basis.

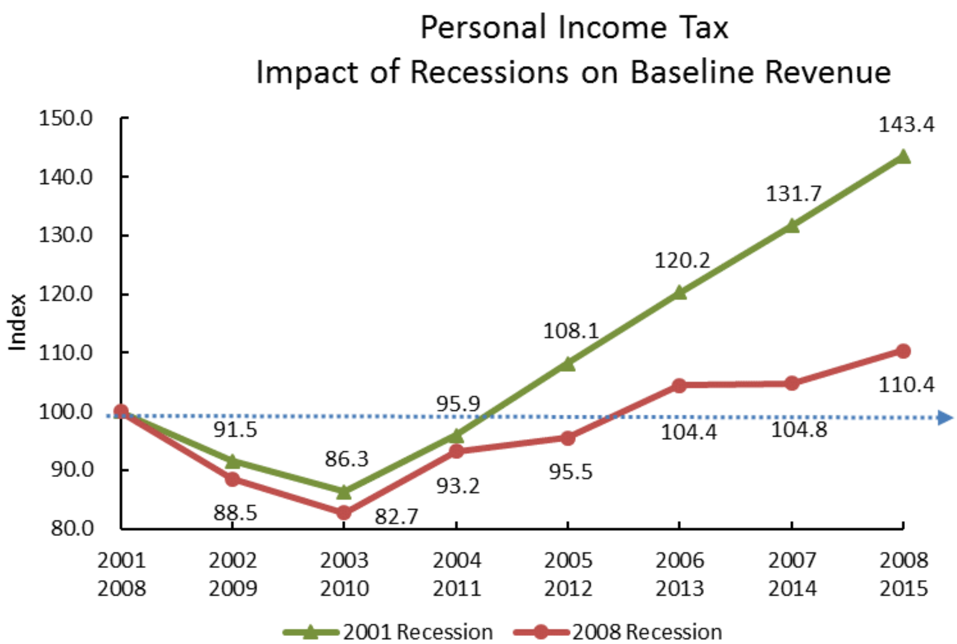



- From peak to trough, Connecticut economic output fell by 8.7%.
- It will take an estimated 10 years for the Connecticut economy to regain its pre-recession level of output on a real basis.

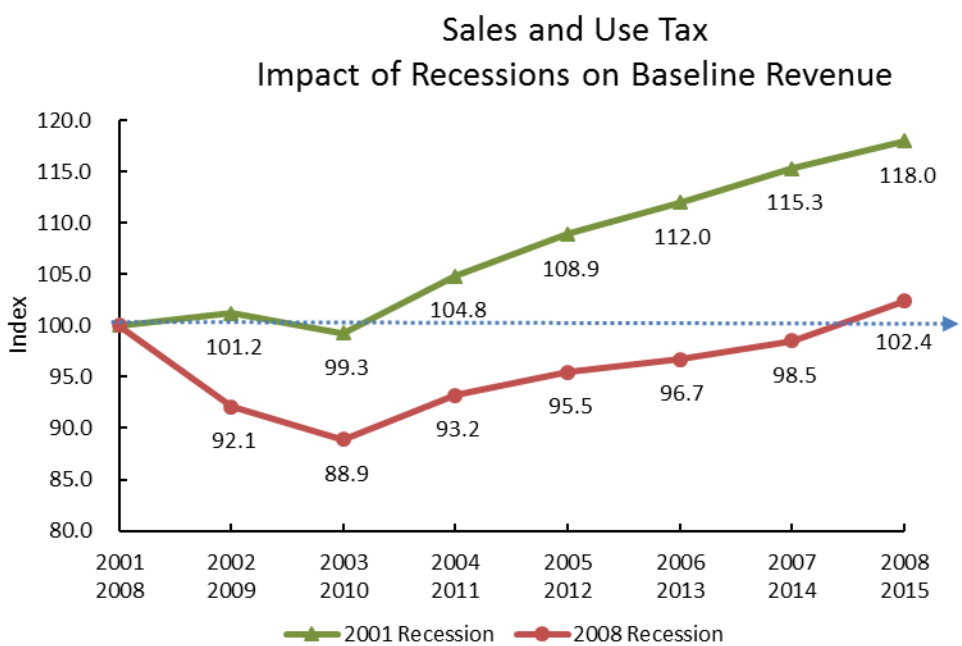
# SLOWER ECONOMIC RECOVERY

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 exceeded their pre-recession peak for the last three fiscal years.
- Removing the impact of tax changes, revenue is 10.4% above pre-recession levels.
- If this recovery had been similar to the 2003 recovery, income tax revenue would have been $2.5 billion higher in FY 2015.

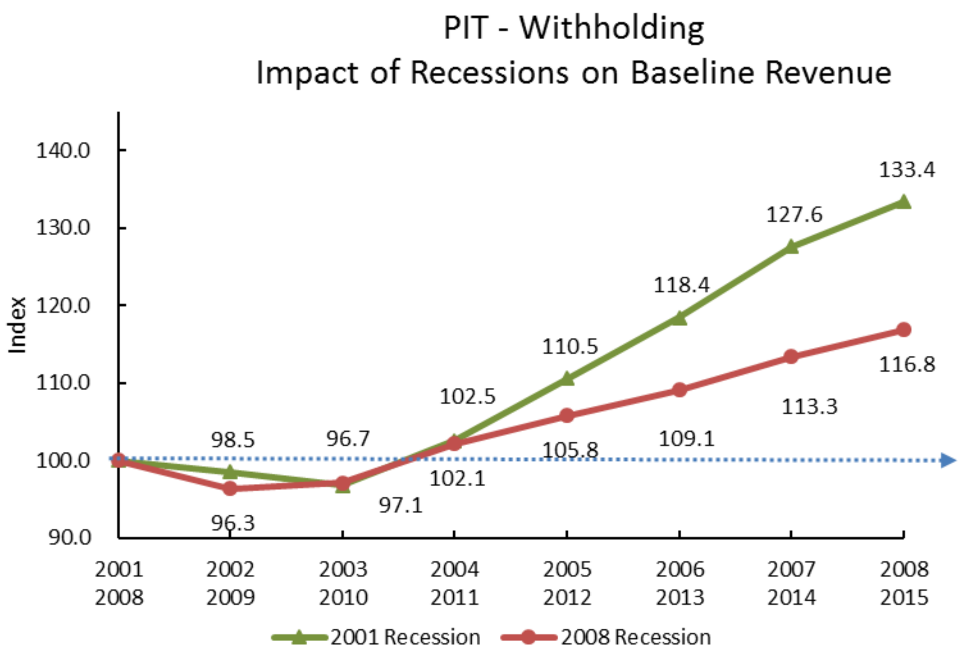



- This past fiscal year, for the first time since the recovery began, sales tax revenues exceeded their pre-recession peak.
- Had the sales tax recovered at the same pace as in 2003, revenues would have been $560 million higher in FY 2015.

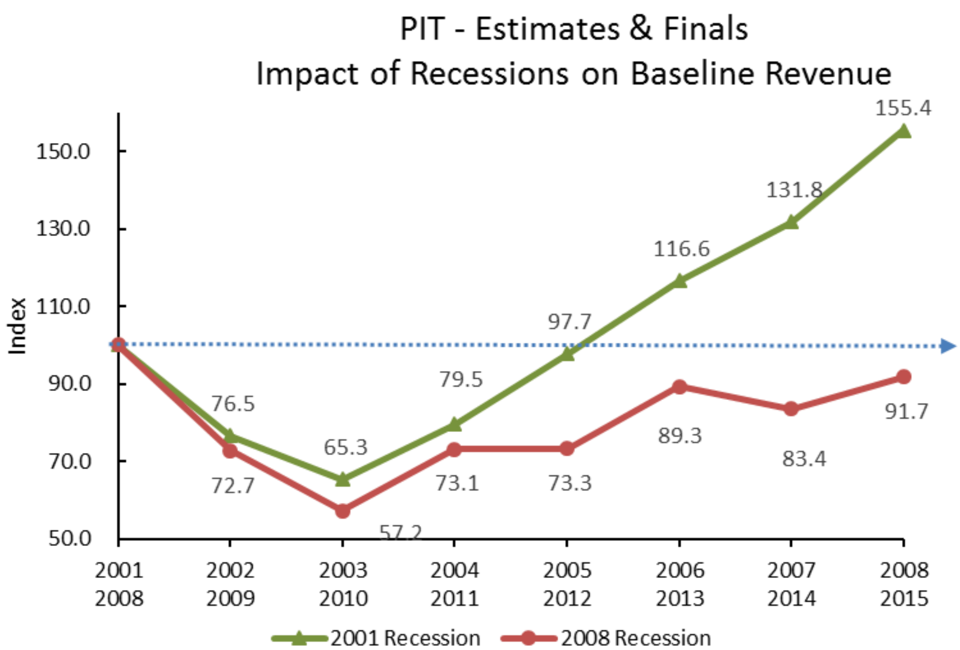
# SLOWER ECONOMIC RECOVERY

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.



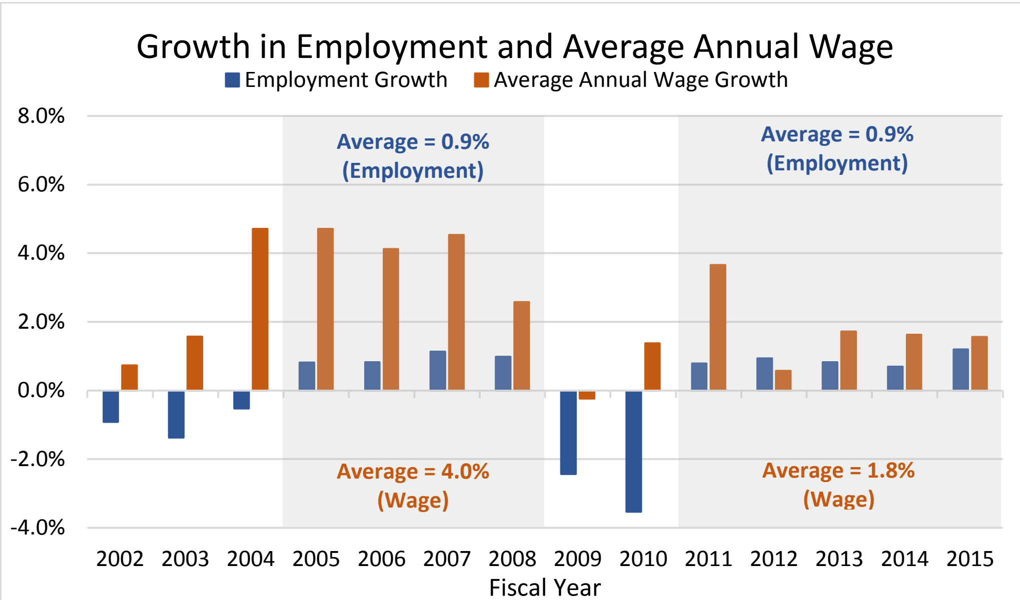

- Though the withholding component of Personal Income Tax has exceeded its pre-recession peak since FY 2011, revenue collections remain over 16 percentage points below the prior recovery at the same point in time.
- If this recovery had been similar to the 2003 recovery, withholding tax revenue would have been about $625 million higher in FY 2015.




- Five years into the recovery, revenues from Estimates & Finals remain below their pre-recession peak.
- Estimates & Finals are 64 percentage points below the prior recovery at the same point in time.
- Had Estimates & Finals recovered at the same pace as in 2003, revenues would have been about $1.9 billion higher in FY 2015.

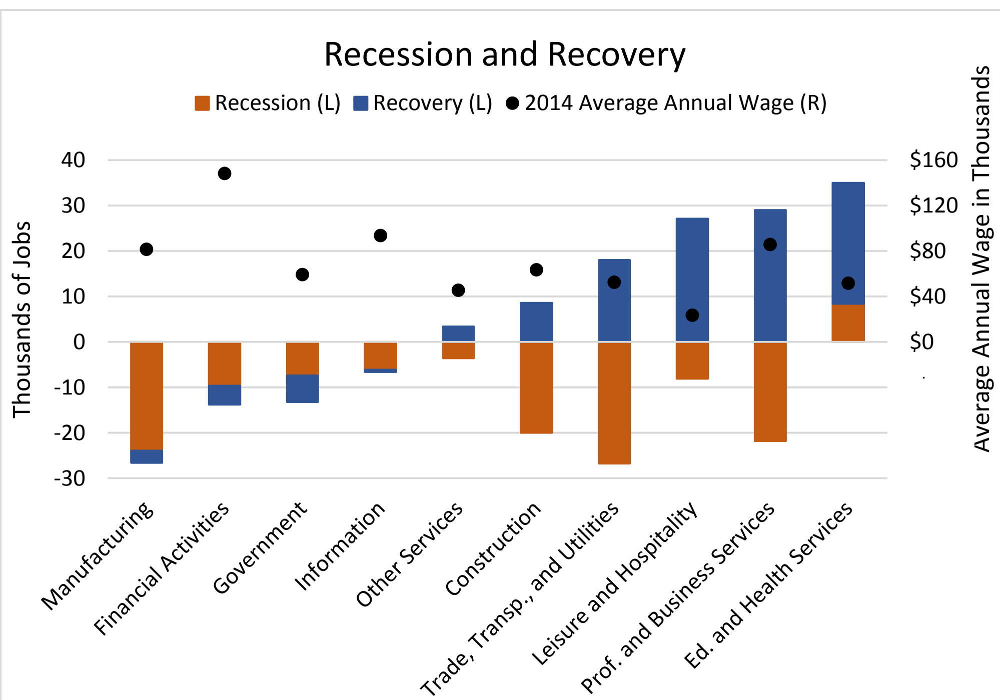
# EMPLOYMENT AND WAGES

## STRONG RECENT EMPLOYMENT RECOVERY BUT WEAK WAGE GROWTH




Source: IHS. Average Annual Wage is not adjusted for inflation.

- Connecticut's average employment growth is the same pre- and post-recession.
- However, average annual wage growth has slowed dramatically post-recession from 4.0% to 1.8%.
- In fiscal year 2015, employment grew 1.2% while the average annual wage grew 1.6%.

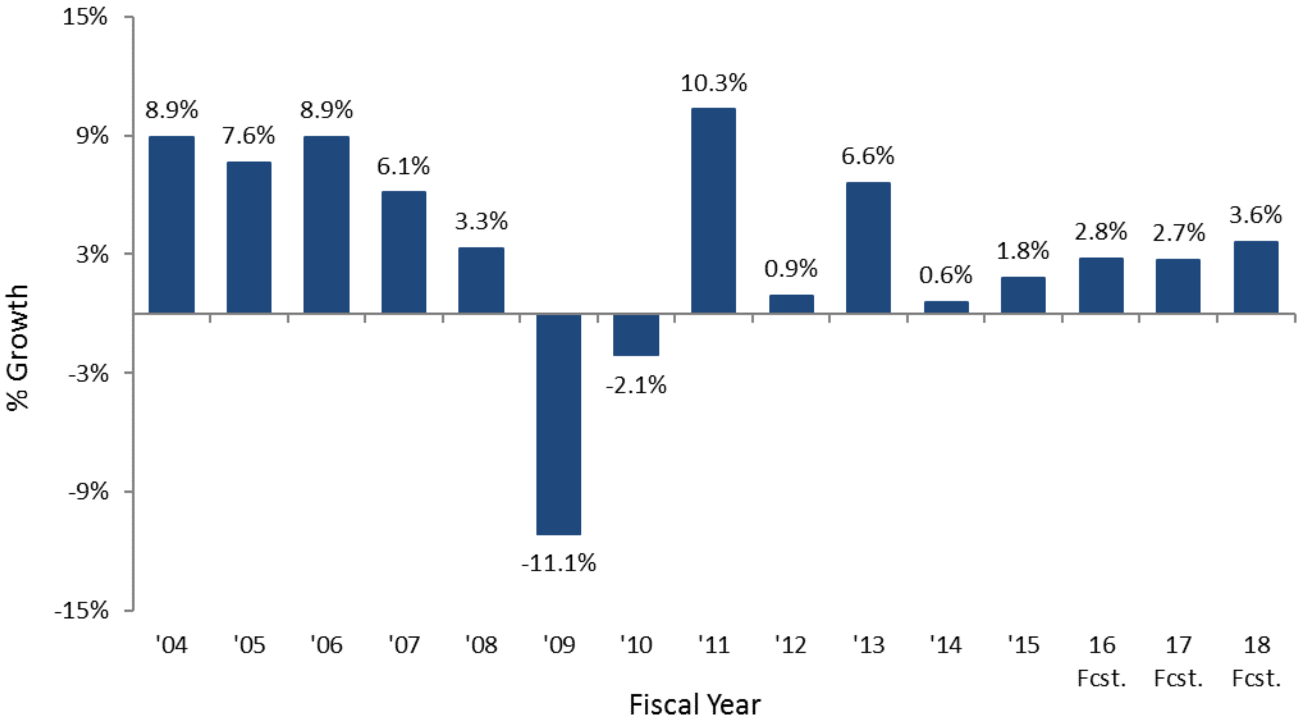



Source: IHS, Bureau of Labor Statistics

- As of September 2015, Connecticut has recovered 83.6% of jobs lost during the recession.
- However, three out of the four highest wage industries have continued to lose employment since the recovery began: Financial Activities, Manufacturing, and Information.
- Three out of the four lowest wage industries have gained the most in employment since the recovery began: Leisure and Hospitality, Ed. and Health Services, and Trade, Transportation and Utilities.

# REVENUE TRENDS AND PROJECTIONS

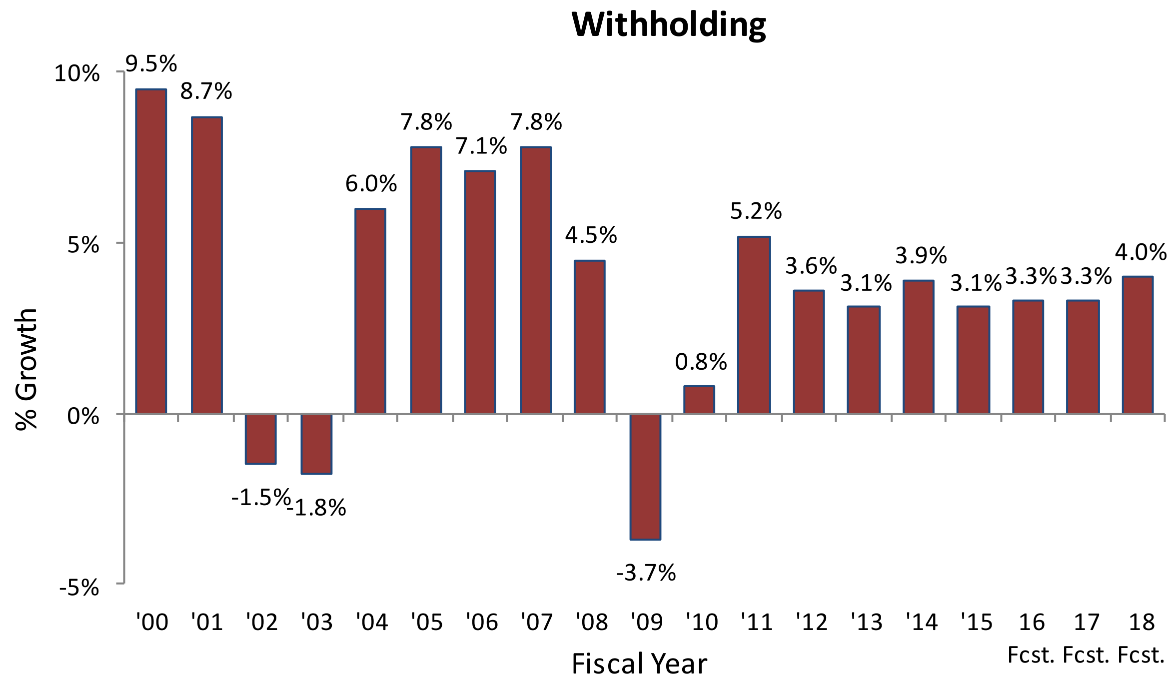
ECONOMIC GROWTH RATES OF THE GENERAL FUND

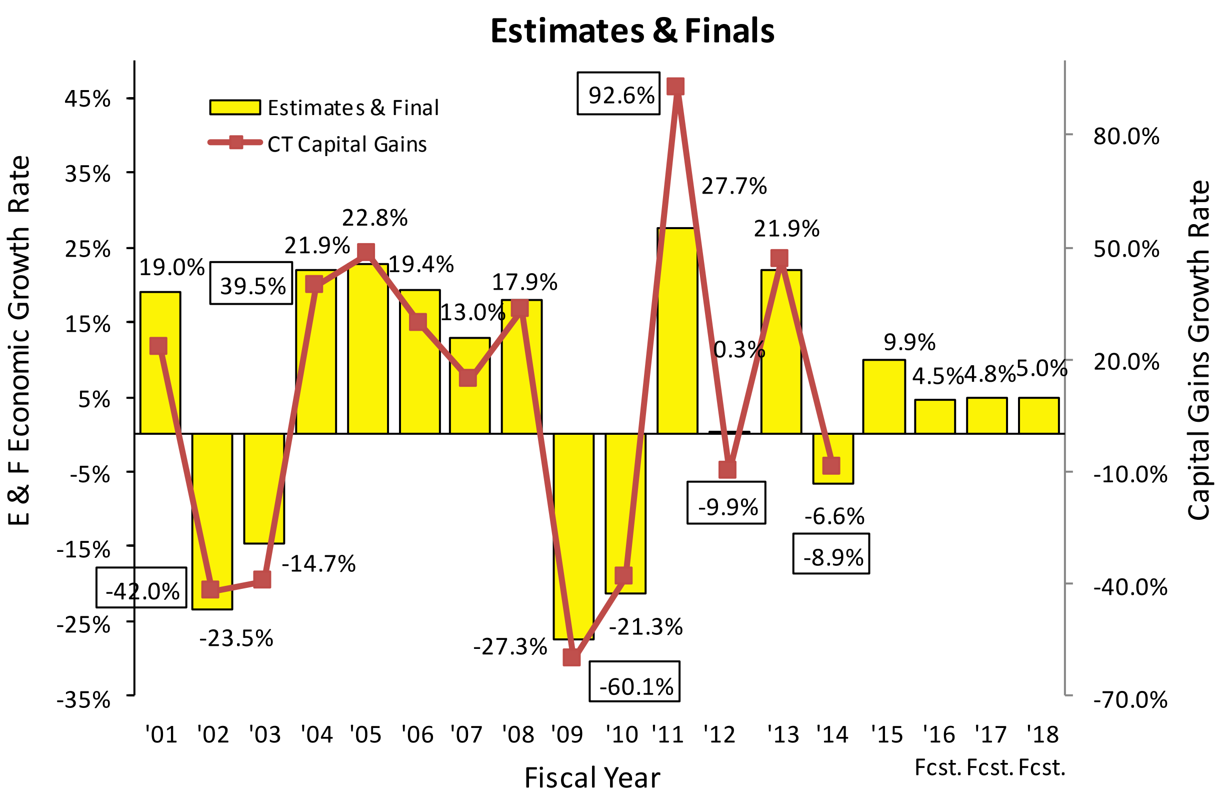



- The onset of the recession led to two years of decline in FY 2009 and FY 2010.
- Federal stimulus, rebounding equity markets, and the expectation that the Bush-era tax cuts were going to expire at the end of 2010 led to a 10.3% jump in FY 2011 followed by an anemic 0.9% increase in FY 2012.
- Similar to the pattern exhibited in FY 2011 and FY 2012, the partial expiration of the Bush-era tax cuts at the end of 2012 led to a 6.6% increase in FY 2013 followed by weak 0.6% growth in FY 2014.
- In the out-years, the latest consensus revenue forecast anticipates a weaker recovery than was exhibited after the 2002 recession.

# REVENUE TRENDS AND PROJECTIONS

ECONOMIC GROWTH RATES FOR PERSONAL INCOME TAX




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 | $5,428 | 42% | 20% | |
| 1997 | $8,368 | 54% | 31% | |
| 1998 | $9,763 | 17% | 27% | |
| 1999 | $11,792 | 21% | 20% | |
| 2000 | $14,547 | 23% | -10% | |
| 2001 | $8,435 | -42% | -13% | |
| 2002 | $5,130 | -39% | -23% | |
| 2003 | $7,158 | 40% | 26% | |
| 2004 | $10,626 | 48% | 9% | |
| 2005 | $13,765 | 30% | 3% | |
| 2006 | $15,783 | 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 | $13,142 | 46% | 12% | |
| 2013* | $11,977 | -9% | 30% | |
| 2014 | Data not yet available | | 11% | |
| 2015 | Data not yet available | | -1% | 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.
- Changes in federal tax policy have also created volatility.

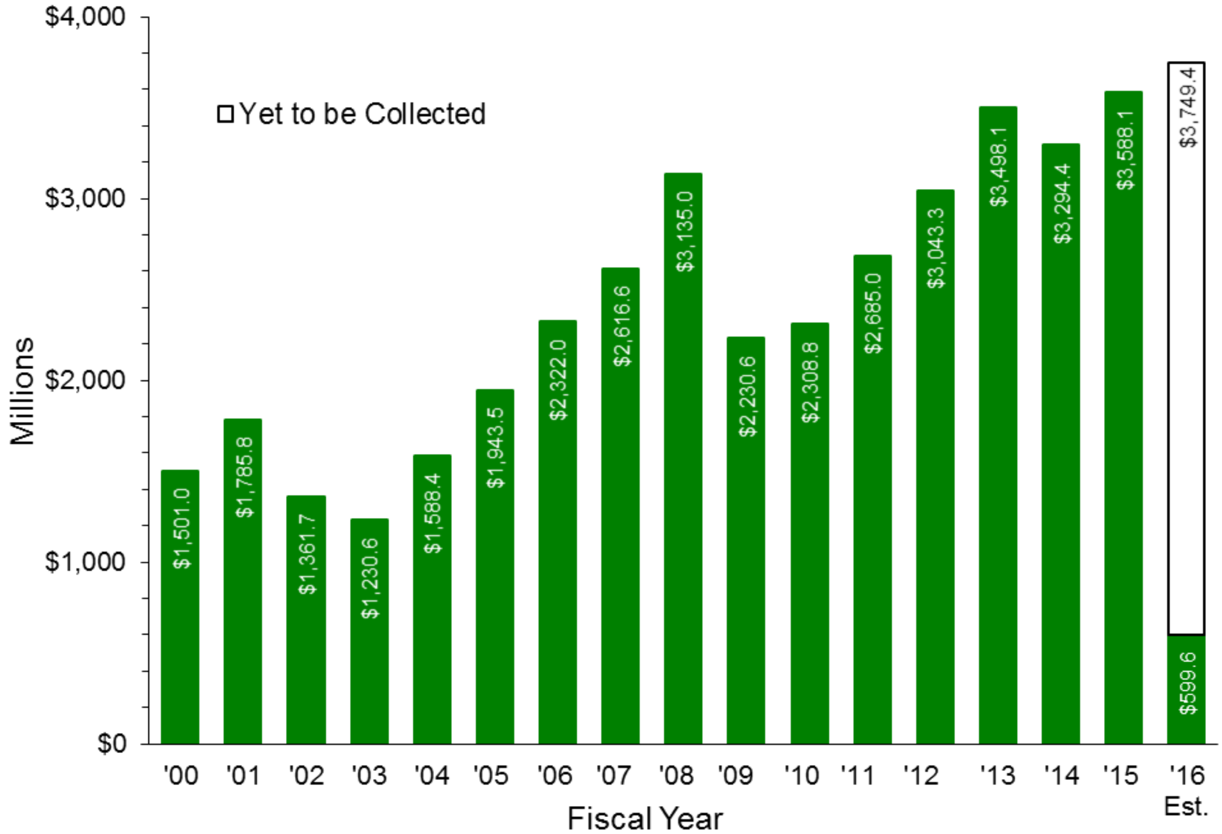
Sources: Department of Revenue Services through 1995 and Internal Revenue Service 1996 and thereafter.

YTD through 11/12/2015.

*Decrease in capital gains of 9%, despite 30% increase in S&P 500 index, due to investor behavior arising from the expiration of certain federal tax cuts in 2012.

# REVENUE VOLATILITY

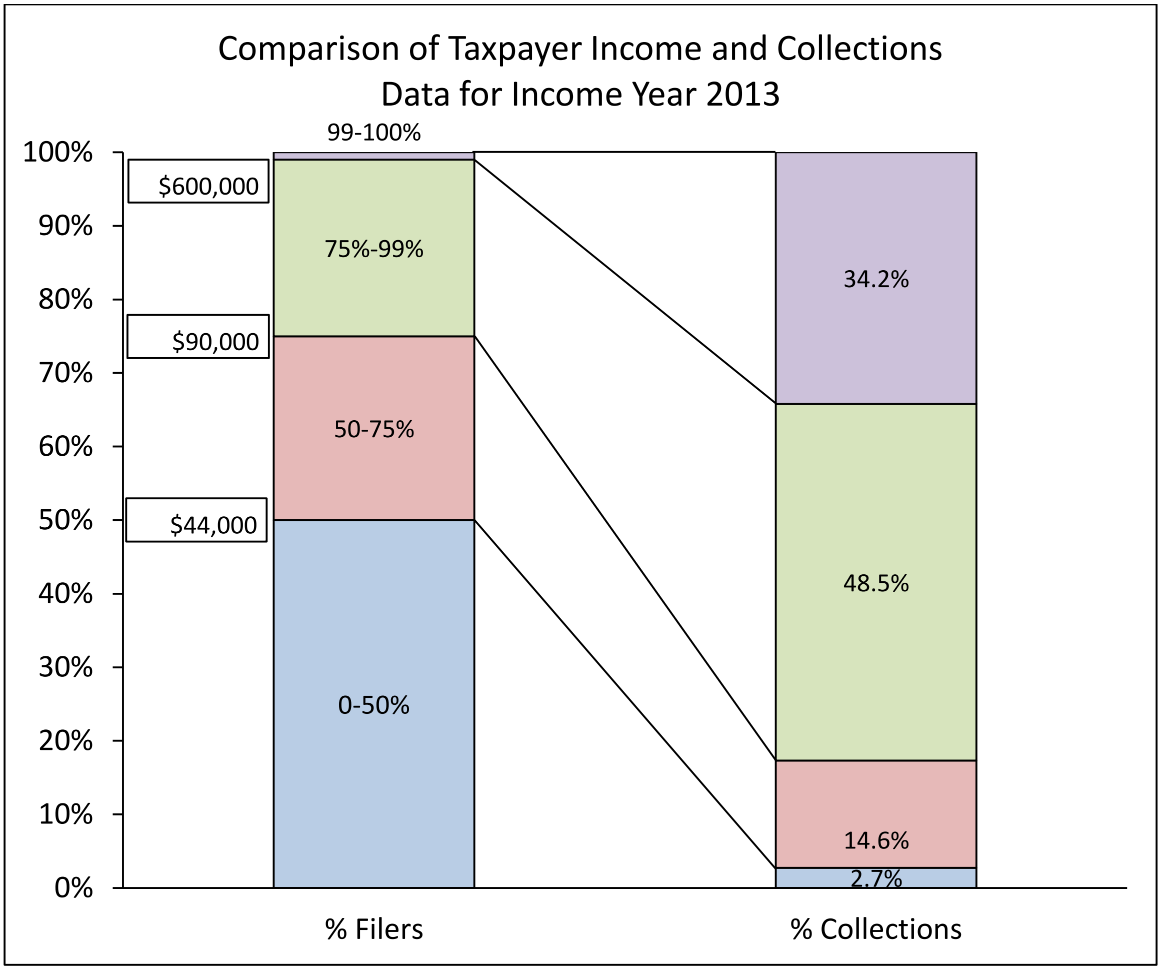
ESTIMATES AND FINALS PERSONAL INCOME TAX COLLECTIONS




- The volatile estimates and finals (E&F) component of the income tax typically represents one-third of total income tax collections.
- In FY 2002, E&F fell by $424.1 million. In FY 2003, E&F fell by an additional $131.1 million for a total of $555.2 million, or 31% from the 2001 peak.
- In FY 2009 alone, E&F fell by $904.4 million. Excluding the impact of the tax increase on millionaires, E&F fell an additional $475.4 million in FY 2010, for a total two-year decline 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%. Similarly, almost all of the 13.3% growth in FY 2012 was due to the tax increase enacted during the 2011 legislative session.
- The 14.9% growth in FY 2013 followed by a decline of 5.8% in FY 14 was due to taxpayer behavior, likely as a result of tax planning strategies in response to federal income tax rates increasing on January 1, 2013.
- Over 40% of E&F collections are received in April when final tax returns are filed. As a result, volatility tends to be concentrated at the end of the fiscal year.

# PERSONAL INCOME TAX

## Taxpayer Income and Collections

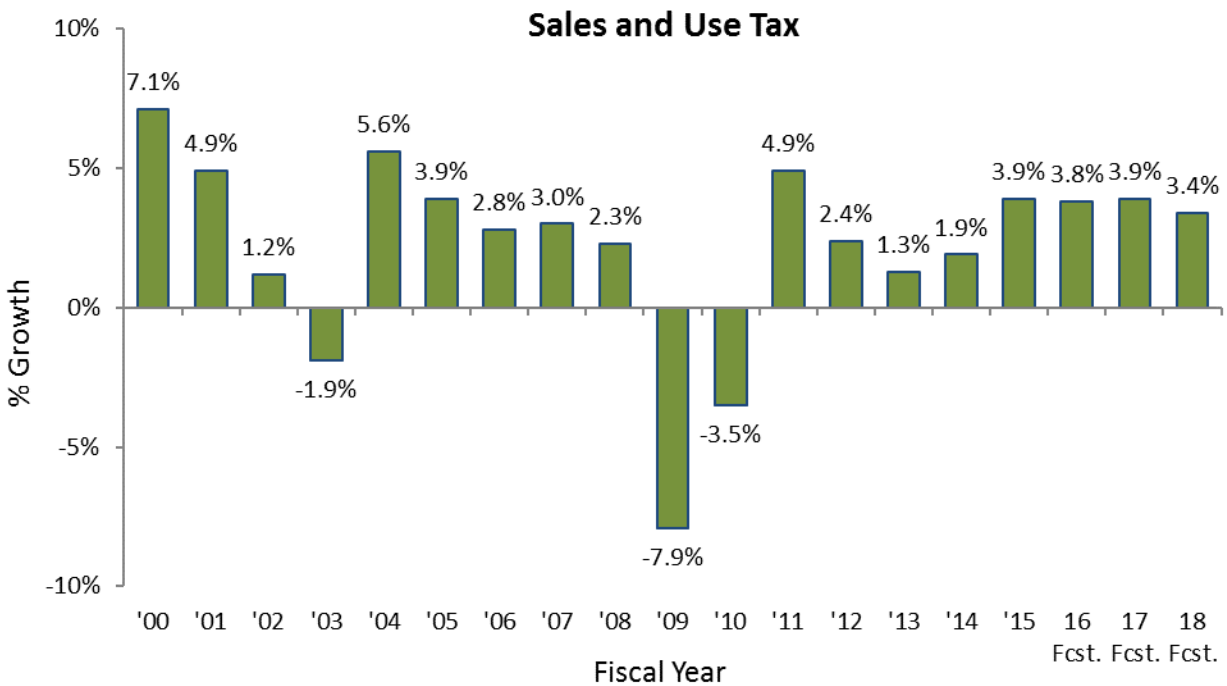



*Source: Department of Revenue Services – Resident Returns Only. Approximately 1.6 million returns.*

- Connecticut relies on the Personal Income Tax for 51% of General Fund revenues.
- Connecticut has a progressive income tax rate structure.
- Connecticut residents derive a large proportion of their income from the stock market in the form of capital gains, dividends, and bonus income. Capital gains can represent in excess of 15% of collections for this tax source.
- Fluctuations in the stock market are greater than typical fluctuations in wages and salaries and therefore have a larger effect on personal income tax volatility.

# REVENUE TRENDS AND PROJECTIONS

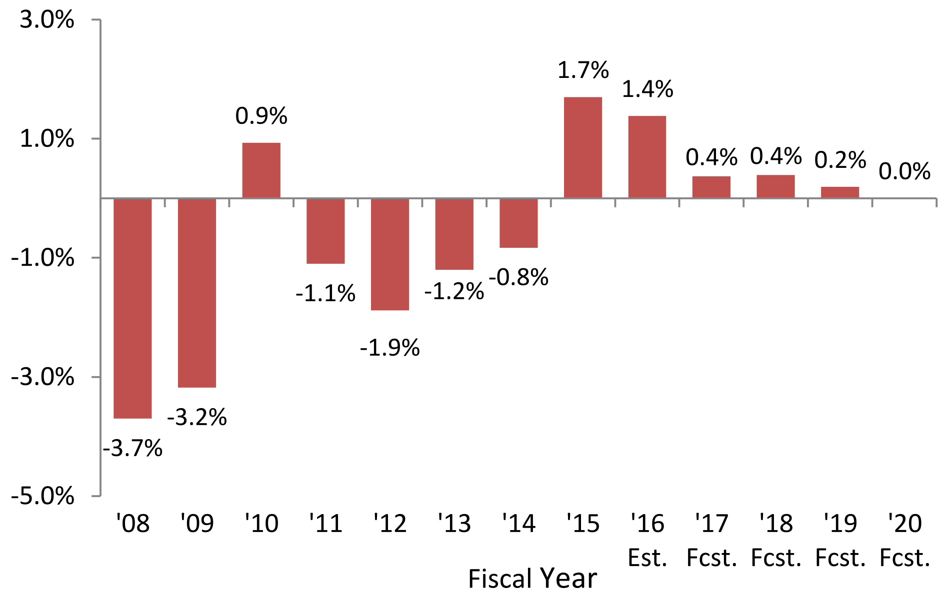
## ECONOMIC GROWTH RATES FOR SALES AND USE TAX




- The sales tax dropped in two consecutive years, FY 2009 and 2010, due to chaos in the financial markets and the worst economic downturn since WWII.
- Collections in late FY 2011 improved markedly as employment and personal income increased.
- Weak economic growth and the expiration of the payroll tax cut, effective January 2013, led to only 1.3% growth in FY 2013.
- Growth in the sales and use tax reached 3.9% in FY 2015, and projected to hold steady over the biennium.
- A 1.0% increase in the sales and use tax growth rate results in a revenue gain of more than $40 million.

# 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 bills 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 2014, the cumulative decline in Motor Fuels tax revenue is 11.6%.

- In FY 2015, Motor Fuels tax revenue equaled 38.0% of the total revenue of the Special Transportation Fund, down from 55.4% in FY 2003. Declining growth in motor fuels revenue over the last decade has led to an increasing reliance on other revenue sources to support the fund, including transfers from the General Fund.

- FY 2015 marks the first year in a reversal of a near decade-long reduction in the growth of motor fuels tax revenues. This change has been fueled by sharp declines in the price of oil, which in turn has led to increased consumption of motor fuels. Current estimates predict that this trend will continue over the next several years.

- The current positive growth trend is not indicative of a long term growth in motor fuels tax. Long term trends in motor fuels tax growth are still expected to be negative as more fuel efficient vehicles come onto the market to meet rising federal fuel economy standards and from consumer behavior changes as prices begin to normalize.

# LET'S GO CT! – TRANSPORTATION EXPANSION

Let's Go CT! is a long-term plan to update and improve Connecticut's transportation system by:

- Creating a more comprehensive intermodal system;
- Reducing congestion on roadways;
- Enhancing quality of life with more livable, walkable, bikeable communities;
- Partnering with communities to advance mixed use Transit-Oriented Development (TOD);
- Fostering economic growth by enabling people and products to move more freely throughout the state.

Over 50% of the state's transportation infrastructure was built before 1962. Significant improvements will need to be made in order to ensure Connecticut's economic growth in the future. Let's Go CT! targets investment to the highest priority transportation infrastructure projects throughout Connecticut. Some of the major projects include, but are not limited to:

- I-84 Viaduct through Hartford;
- I-95 Stamford to Bridgeport expansion;
- I-84 "Mixmaster" through the City of Waterbury;
- Completion of the New Haven/Hartford/Springfield rail line (includes new trains);
- An expansion of bus service.

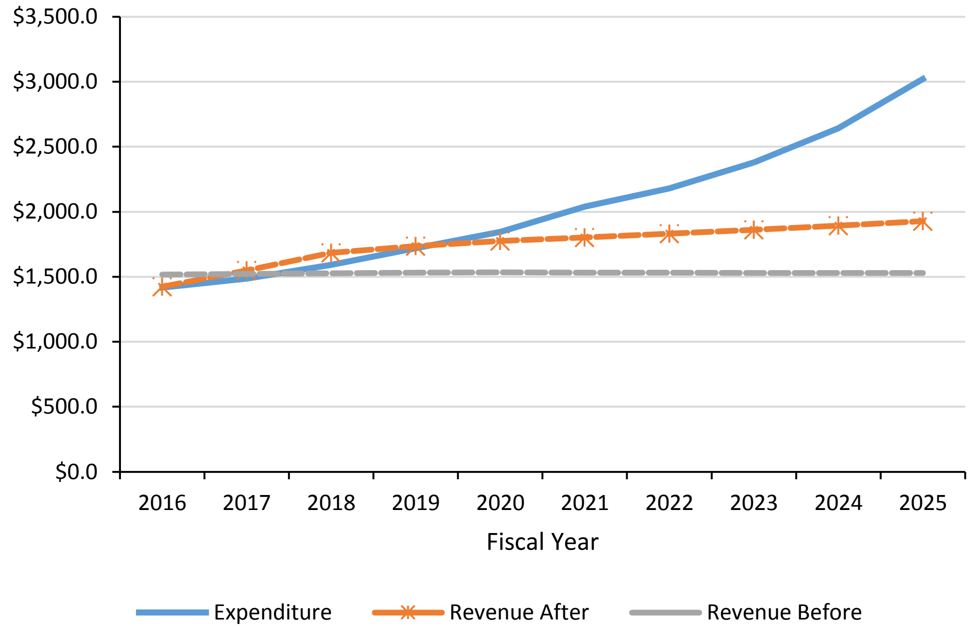
# DEDICATION OF SALES TAX TO THE SPECIAL TRANSPORTATION FUND

The 2015 legislative session took the first major step to fund the overhaul of the state of Connecticut's transportation infrastructure by dedicating a portion of sales tax to the Special Transportation Fund. A schedule of rates and the revenue impact can be seen in the table below.

| Fiscal Year Ending June 30 | Rate | Forecasted Sales Tax ($ In Millions) |
|---|---|---|
| 2016 | 0.3% | $158.6 |
| 2017 | 0.3% and 0.4% | 260.6 |
| 2018 | 0.5% | 359.1 |
| 2019 | 0.5% | 372.0 |
| 2020 | 0.5% | 385.2 |

Although significant steps have already been taken to address the state's transportation needs, much more needs to be done to ensure the long term viability of all the state's transit systems. The following table shows the long term outlook of the Special Transportation Fund.

**Long Term Outlook of the Special Transportation Fund**
Comparison of Revenue Before & After the 2015 Legislative Session
(in Millions)




Note:

- Expenditures reflect the infrastructure renewal ramp-up under the Let's Go CT! program.
- Revenue After reflects the November 10, 2015 consensus revenue estimates for the Special Transportation Fund and revenue changes incorporated in Public Act 15-244.
- Revenue Before reflects the November 10, 2015 consensus revenue estimates for the Special Transportation Fund but excludes revenue changes from Public Act 15-244.

# TRANSPORTATION FINANCE PANEL

The Governor's Transportation Finance Panel is a group of experts in transportation, finance, and economic development charged with examining funding options and developing recommendations that will make Governor Malloy's 30-year, $100 billion vision to modernize Connecticut's transportation infrastructure a reality. This panel will develop revenue and finance options that will fund this vision in a cost-effective way in order to improve the transportation system for the state. It is anticipated that the Transportation Finance Panel will release its final report in December of 2015.

# GENERAL FUND COST DRIVERS

## ESTIMATED GROWTH IN GENERAL FUND EXPENDITURES, FY 2016 THROUGH FY 2020

| | Estimated Expenditures (in millions) | | | | | Cumulative Growth Rate - vs. FY 2016 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
| Active & Ret. Healthcare, incl. OPEB | $ 1,355.8 | $ 1,468.7 | $ 1,665.2 | $ 1,746.0 | $ 1,830.3 | 8.3% | 22.8% | 28.8% | 35.0% |
| Debt Service | 1,937.6 | 2,053.1 | 2,328.3 | 2,283.6 | 2,481.6 | 6.0% | 20.2% | 17.9% | 28.1% |
| Personal Services, incl. RSA | 2,435.0 | 2,528.5 | 2,626.3 | 2,727.4 | 2,832.4 | 3.8% | 7.9% | 12.0% | 16.3% |
| Teachers' Retirement System | 975.6 | 1,012.2 | 1,247.7 | 1,288.3 | 1,330.1 | 3.7% | 27.9% | 32.1% | 36.3% |
| Medicaid | 2,468.4 | 2,542.8 | 2,665.6 | 2,790.1 | 2,925.5 | 3.0% | 8.0% | 13.0% | 18.5% |
| State Employees' Retirement System | 1,096.8 | 1,124.7 | 1,198.1 | 1,276.3 | 1,359.6 | 2.5% | 9.2% | 16.4% | 24.0% |
| Higher Education | 740.4 | 751.4 | 777.4 | 807.6 | 836.1 | 1.5% | 5.0% | 9.1% | 12.9% |
| Other Expenses | 513.6 | 520.5 | 526.4 | 524.1 | 524.1 | 1.4% | 2.5% | 2.1% | 2.1% |
| All Other | 6,544.1 | 6,709.4 | 6,778.9 | 6,855.0 | 6,937.4 | 2.5% | 3.6% | 4.8% | 6.0% |
| Total General Fund | $ 18,067.3 | $ 18,711.2 | $ 19,813.9 | $ 20,298.4 | $ 21,057.0 | 3.6% | 9.7% | 12.3% | 16.5% |

- Significant cost drivers underlying current services growth in the General Fund include healthcare costs for active and retired State employees, debt service expenditures, Medicaid expenditures, and pension costs.
- Healthcare for active and retired State employees increases significantly beginning in FY 2018, when the State begins matching employee contributions into the Other Post-Employment Benefits Trust Fund. Those additional contributions are estimated at $132.6 million per year.
- Anticipated contributions to the Teachers' Retirement Fund increase significantly in FY 2018 as a result of the adoption of more conservative actuarial assumptions that are anticipated to cost an additional $180 million beginning in FY 2018.
- Fiscal Year 2018 debt service costs are anticipated to grow by approximately $275 million over the level in the enacted FY 2017 budget, primarily as a result of increased issuances.

# LONG-TERM OBLIGATIONS

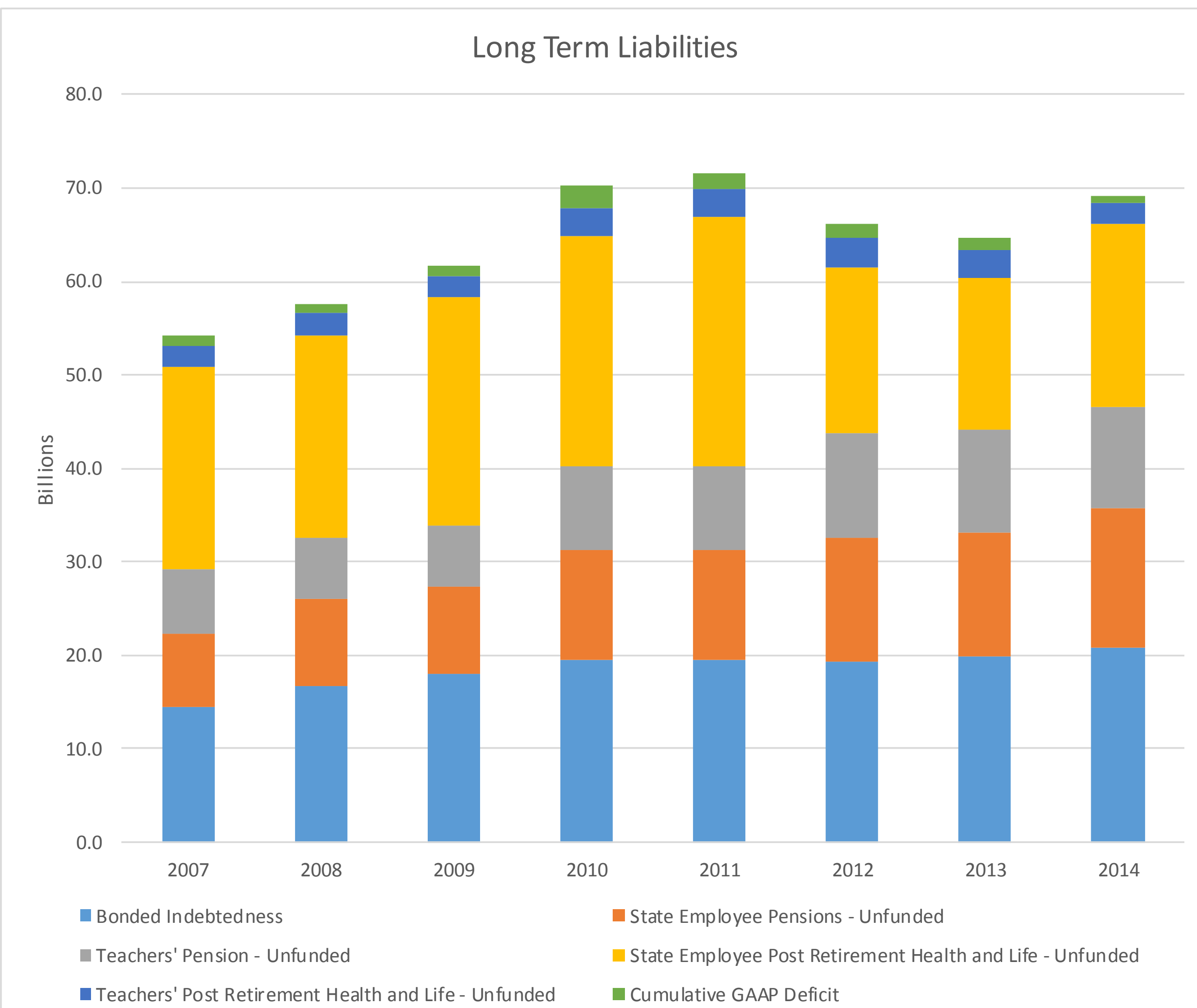
- The state's long-term obligations total $70.7 billion, up 4.7% from last year's reported amount of $67.5 billion.

- This equates to approximately $19,657 per capita, up $916 from last year's reported amount of $18,741.

<u>LONG-TERM OBLIGATIONS</u>

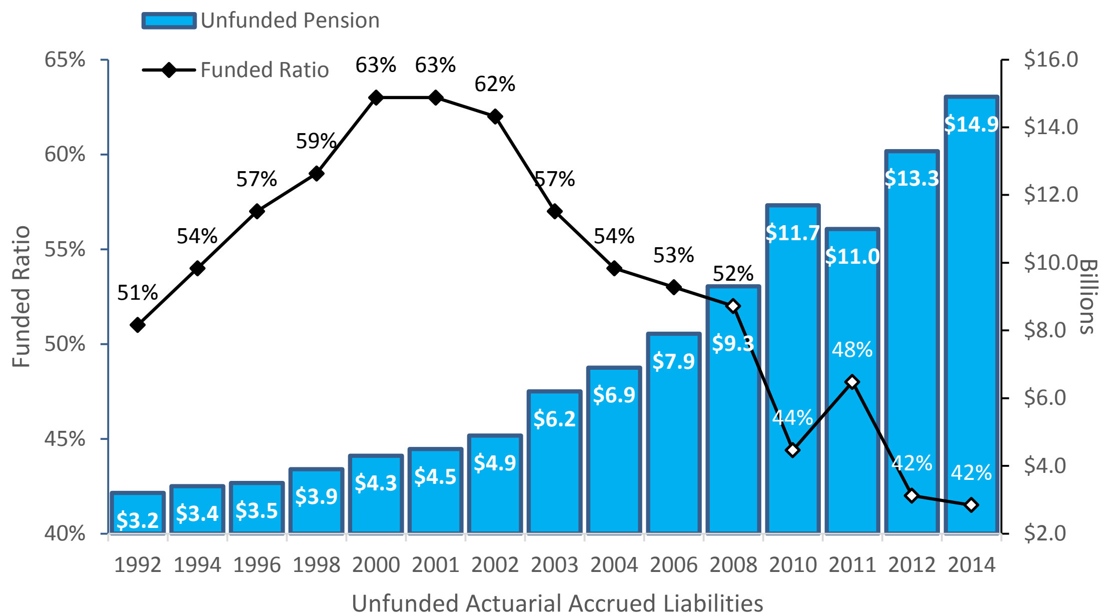
(In Billions)

| | |
|---|---|
| Bonded Indebtedness - As of 7/31/15 | $ 22.4 |
| State Employee Pensions - Unfunded as of 6/30/14 | 14.9 |
| Teachers' Pension - Unfunded as of 6/30/14 | 10.8 |
| State Employee Post Retirement Health and Life - Unfunded as of 6/30/2013 | 19.5 |
| Teachers' Post Retirement Health and Life - Unfunded as of 6/30/2014 | 2.4 |
| Cumulative GAAP Deficit - As of 6/30/14 | 0.7 |
| Total | $ 70.7 |



# 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 2014 total $14.9 billion.
- This obligation represents roughly $4,100 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 | $1,058 | 100% |
| 2013-14 | $1,269 | $1,269 | 100% |
| 2014-15 | $1,379 | $1,372 | 99% |
| 2015-16 est. | $1,514 | $1,514 | 100% |
| 2016-17 est. | $1,569 | $1,569 | 100% |
| 2017-18 est. | $1,663 | $1,663 | 100% |
| 2018-19 est. | $1,763 | $1,763 | 100% |

* In Millions

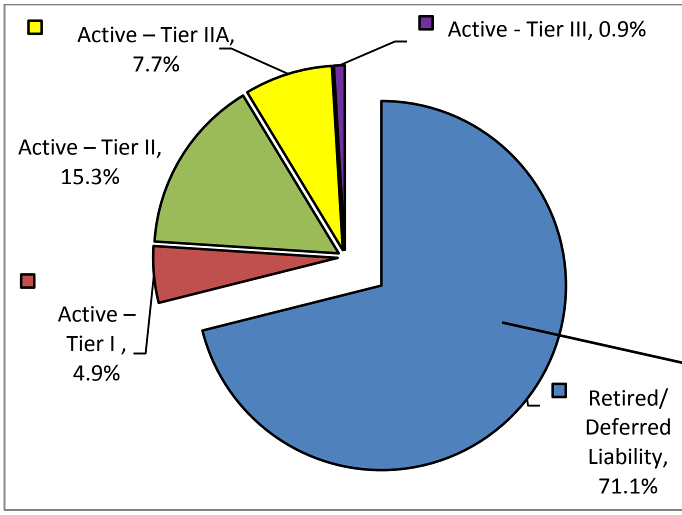
State Employee Retirement Fund Rate of Return = 8%

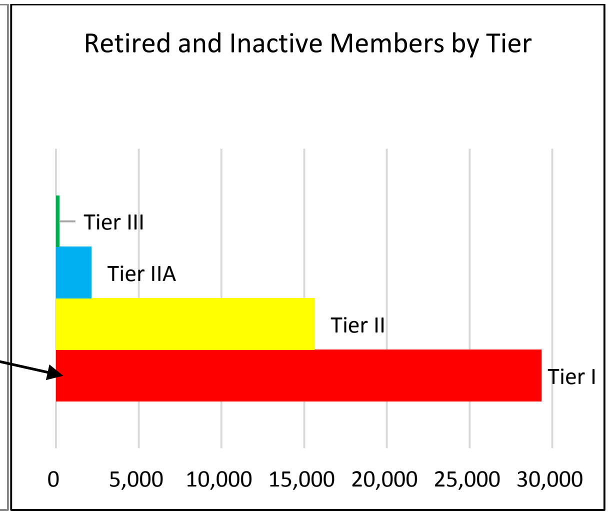
| Fiscal Year | Rate of Return Market Value Basis |
|---|---|
| 2001-02 | -6.6% |
| 2002-03 | 1.9% |
| 2003-04 | 15.2% |
| 2004-05 | 10.5% |
| 2005-06 | 11.0% |
| 2006-07 | 17.1% |
| 2007-08 | -4.8% |
| 2008-09 | -18.3% |
| 2009-10 | 12.9% |
| 2010-11 | 21.2% |
| 2011-12 | -0.9% |
| 2012-13 | 11.9% |
| 2013-14 | 15.6% |
| 2014-15 | 2.8% |

SERS utilizes 5 year smoothing.

- SERS contributions were deferred by $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 were eliminated.
- Through FY 2008, the assumed rate of return was 8.5%. In FY 2009 it was lowered from 8.5% to 8.25%.
- Starting in FY 2014, the assumed rate of return was lowered from 8.25% to 8%.

# SERS – COMPONENTS OF PENSION LIABILITY




| Based on 6/30/14 Valuation ($ in Thousands) | | |
|---|---|---|
| | | |
| Retired/Deferred Liability | $18,129,796 | 71.1% |
| Active – Tier I Hazardous | 49,210 | 0.2% |
| Active – Tier IB | 1,173,883 | 4.6% |
| Active – Tier IC | 37,752 | 0.1% |
| Active – Tier II Hazardous | 1,188,011 | 4.7% |
| Active – Tier II Others | 2,715,216 | 10.6% |
| Active – Tier IIA Hazardous | 912,872 | 3.6% |
| Active – Tier IIA Others | 1,057,034 | 4.1% |
| Active - Tier III Hazardous | 9,672 | 0.0% |
| Active - Tier III Hybrid | 204,950 | 0.8% |
| Active - Tier III Others | 27,213 | 0.1% |
| Total Accrued Liability | $25,505,609 | |
| Actuarial Value of Assets | 10,584,795 | |
| Unfunded Accrued Liability | $14,920,814 | |
| | | |
| Normal cost | $287,225 | |
| Amortization of UAL | $1,281,917 | |
| FY 2017 Actuarially Determined Employer Contribution (ADEC) | $1,569,142 | |

- $25.5 billion total liability.
- $14.9 billion unfunded liability.
- Most of the unfunded liability is related to already-retired employees.
- Tier I accounts for over 62% of the current retirees.
- 81.7% of the actuarially determined employer contribution is for the unfunded actuarial accrued liability.

# STATE EMPLOYEES RETIREMENT SYSTEM
## STEPS TOWARD ADDRESSING LIABILITY

The state is committed to a sustainable and affordable retirement system for State employees. Progress has been made towards this goal with the following recent steps:

1) The 2011 SEBAC agreement made the following changes:
   a) The maximum salary that can be considered part of an employee's pension benefit is now consistent with the maximum amount outlined in the Internal Revenue Code.
   b) The minimum cost of living adjustment (COLA) was reduced to 2% for employees retiring on or after October 2, 2011.
   c) The early retirement reduction factor was doubled to 6% for employees retiring on or after October 2, 2011.
   d) The age for normal retirement eligibility was increased by three years for all non-hazard duty employees who retire after July 1, 2022. If employees wanted to be "grandfathered" and maintain the existing normal retirement age, they had to pay the actuarial pension cost of maintaining that normal retirement age.
   e) A new Tier III was created for all employees hired on or after July 1, 2011. The ages for normal and early retirement are at the increased level. In addition, hazard duty eligibility was increased from 20 years of service regardless of age to age 50 and 20 years of service or 25 years of service regardless of age. The benefit calculation for this tier will use the average of the five highest paid years of services versus the three highest.

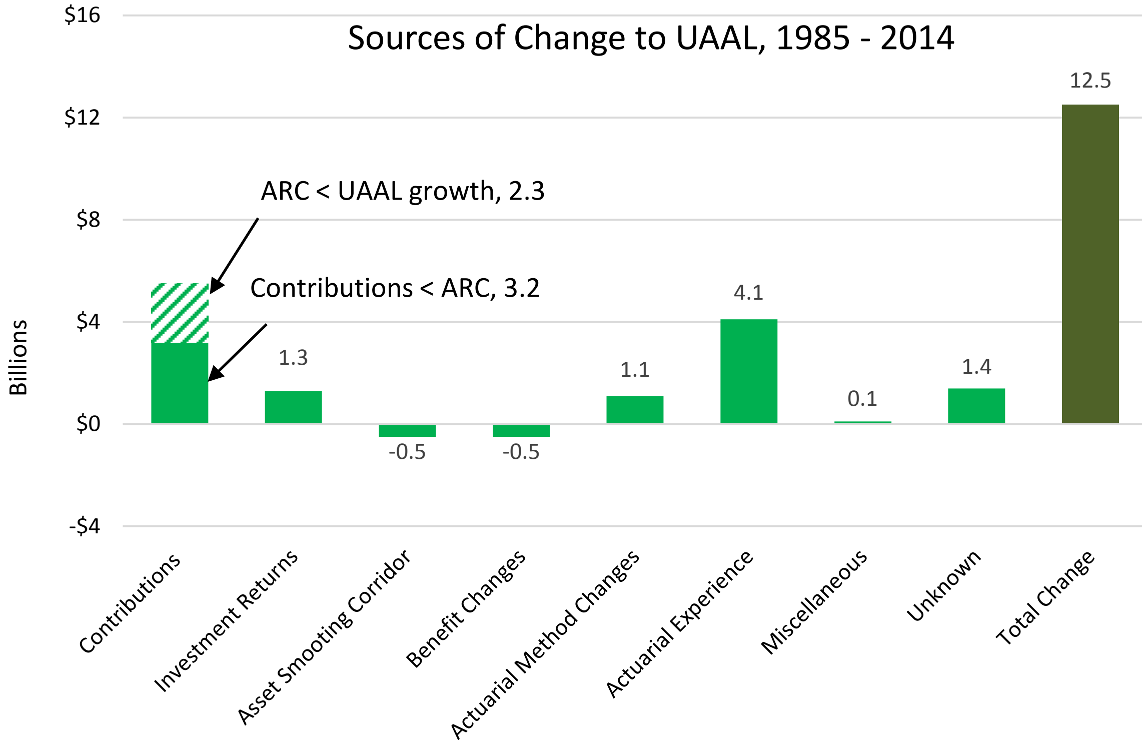
2) In 2012 more conservative actuarial assumptions were adopted which included the lowering of the assumed rate of investment return from 8.25% to 8%.

3) The state increased its required contributions to the pension system by eliminating the SEBAC IV and V adjustments that significantly lowered the state's payment causing the unfunded liability to increase each year.

4) In 2015 the Office of Policy and Management engaged the Center for Retirement Research at Boston College to assess both the State Employees Retirement System (SERS) and the Teachers' Retirement system (TRS).

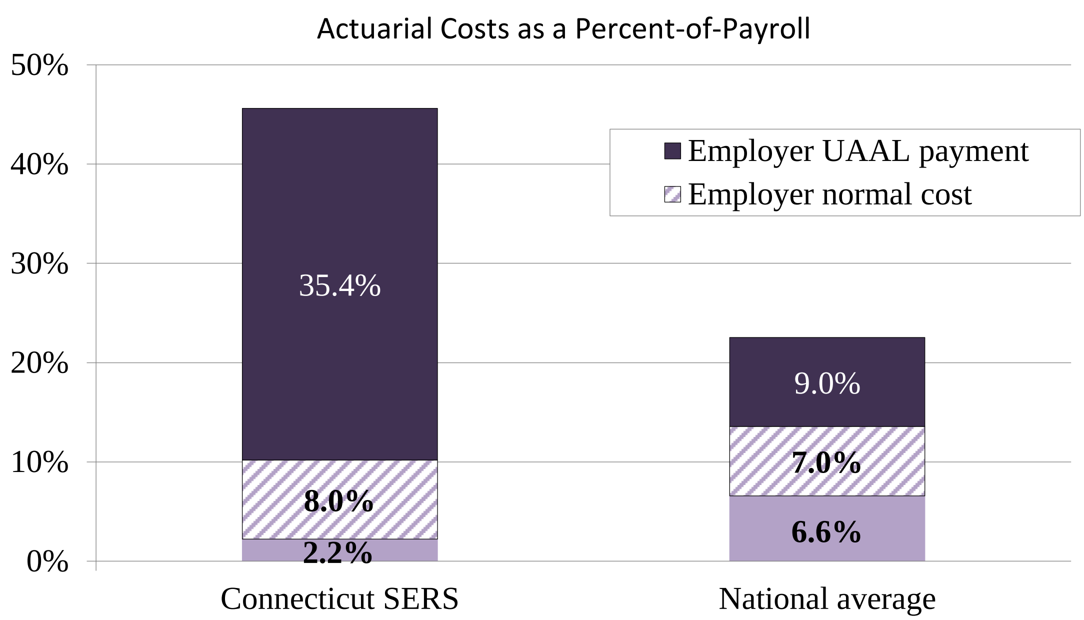
The report from the Center for Retirement Research (CRR) identified inadequate contributions, low investment returns and poor actuarial experience as major causes driving the growth in unfunded actuarial accrued liabilities (UAAL) for SERS, not exorbitant benefits.

Of the three factors, investment returns are the most difficult to control. Actuarial experience is generally difficult to control but one aspect of this factor is controllable, ad-hoc ERIPs. Retirement incentive programs directly impact retirement patterns and can cause dramatic deviations from existing actuarial assumptions. These programs may save money in the short term but the graph above illustrates the long term costs to the pension system. The third factor, making the full pension contributions, is controllable. As mentioned previously, the state has made progress by eliminating the SEBAC IV and V adjustments which resulted in the state contributing less than the actual amount required.



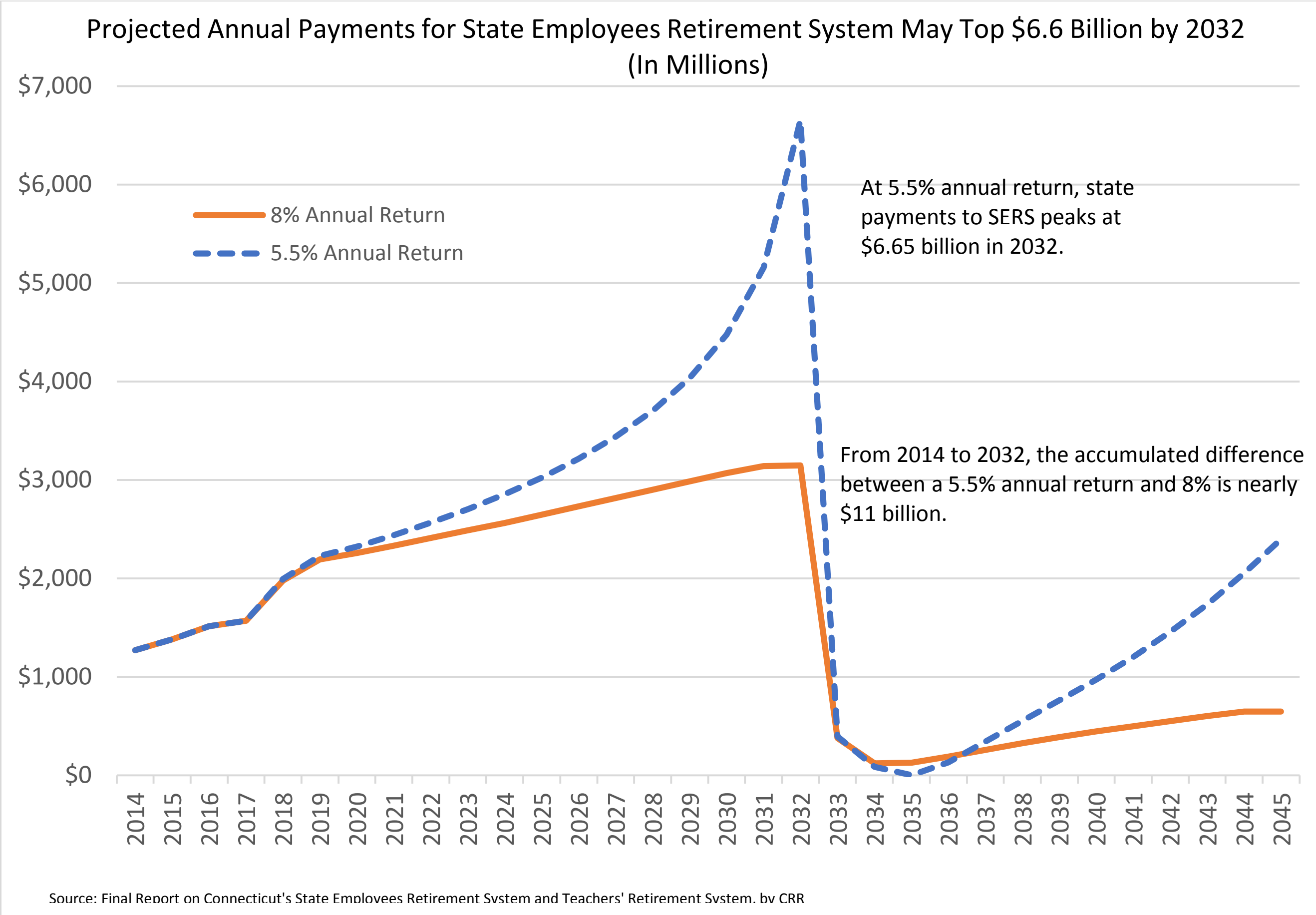

Source: Final Report on Connecticut's State Employees Retirement System and Teachers' Retirement System, by CRR

The main driver of contributions to SERS is the unfunded liability. The CRR report compared the breakdown of the SERS normal cost and amortization payments of the accrued liability to the national average for similar plans.




Source: Final Report on Connecticut's State Employees Retirement System and Teachers' Retirement System, by CRR

The report identified that maintaining the current pension methods may be too costly fort the state, especially if the state continues to fall short of the 8% assumed investment rate as it has the past 15 years. If the actual investment earnings continue at the 5.5% level experienced since the turn of the century, the actuarially determined employer contribution could exceed $6 billion at the end of the amortization period.




The CRR identified several alternatives to the current funding methods to avoid the payment spike at the end of the amortization period:

- Switch from the current level percent of payroll amortization method to a level dollar method. The level percent of payroll method back loads payments. Switching to the level dollar method should cause the contributions by be more level throughout the remaining amortization period thus easing the strain on the state budget in the upcoming years.

- Combine the level dollar method with a 15-year open amortization of the UAAL.

- Relax the 2032 full funding date when the plan is 80% funded.

- Reduce the assumed rate of return.

The state is currently assessing a plan to split the SERS into two funds, one a pay-as-you-go plan for Tier I retirees and one an actuarially funded plan for Tiers II, IIA and III. Tier I accounts for over 56% of the accrued liability.

After separating the Tier I retirees the SERS fund would be sustainable at a 95% funded level. This funded level far exceeds the current benchmark of an 80% funding level for pension plans.

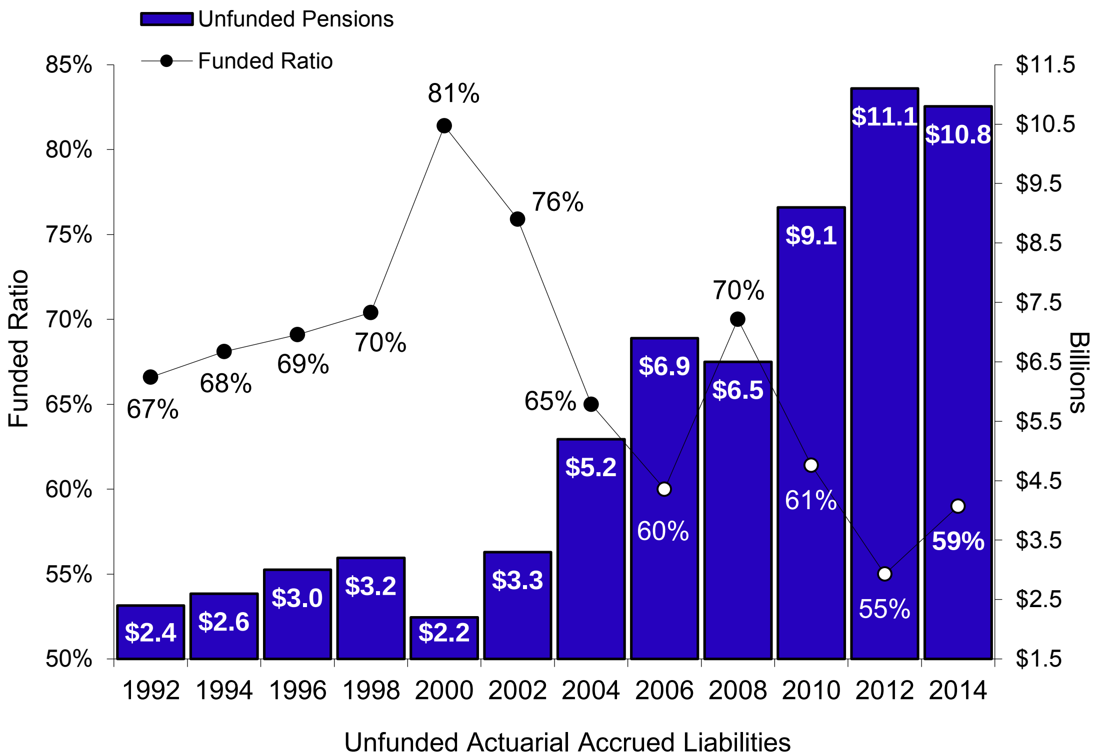
## Summary of SERS Members by Tier

| Tier | Active Members (2014) | Retired and Inactive Members (2014) | Total Members | Normal Cost (millions) | Accrued Liability (billions) | Tier Eligibility |
|---|---|---|---|---|---|---|
| I | 2,281 | 29,327 | 31,608 | $27.6 | $14.4 | All State Employees, Elected officials and their Appointees hired prior to July 1, 1984. Those employees hired between July 1, 1982 and January 1, 1984 could elect to move to Tier II. |
| II | 15,094 | 15,629 | 30,723 | $129.3 | $9.5 | All State Employees, Elected officials and their Appointees hired on or after July 1, 1984. |
| IIA | 23,718 | 2,122 | 25,840 | $104.7 | $2.5 | All State Employees, Elected officials and their Appointees hired on or after July 1, 1997. |
| III | 8,883 | 192 | 9,075 | $17.3 | ($0.9) | All State Employees, Elected officials and their Appointees hired on or after July 1, 2011. |
| Total | 49,976 | 47,270 | 97,246 | $278.9 | $25.5 | |

The state is also committed to a sustainable and affordable Teachers' Retirement System (TRS). The second part of the CRR report looked at the TRS pension and made similar recommendations. The Teachers' Retirement Board has recently acted to make the pension system more sustainable by voting at the November 4, 2015 meeting to lower the assumed rate of investment return from 8.5% to 8.0%. By lowering the rate the Board is reducing the risks to Connecticut taxpayers while assuring the pensions of public school teachers. The impact on the pension contributions will begin in FY 2018. In addition, the Board has authorized the pension actuaries to research additional methods to make the system more sustainable. The actuaries will report their finding to the Board at the February 2016 board meeting.

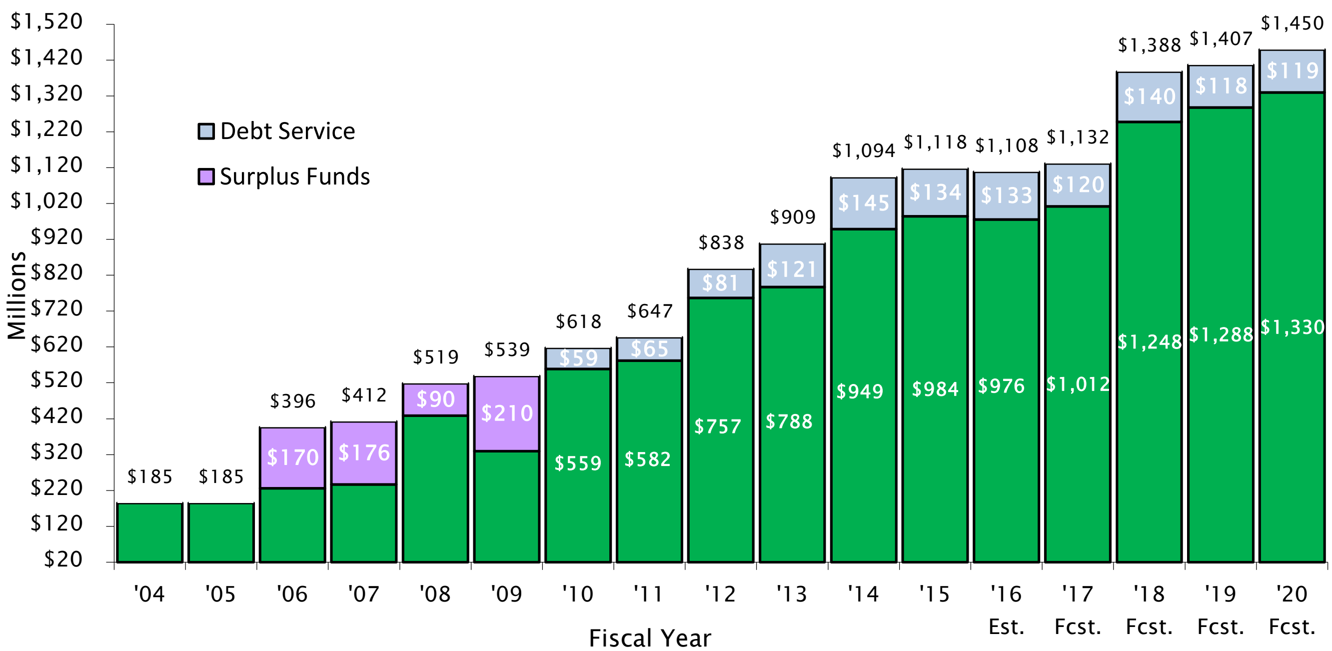
# PENSION OBLIGATIONS - TRS

## CONNECTICUT TEACHERS' RETIREMENT SYSTEM AS OF 6/30




- The State's obligations at the end of FY 2014 total $10.8 billion.
- Appropriations in FY 2006, FY 2007, FY 2008 and FY 2009 were supplemented by the use of surplus funds.
- The 2014 increase in the funded ratio is primarily attributable to the decrease in the unfunded liability of $325 million and the 15.7% rate of return on investments.

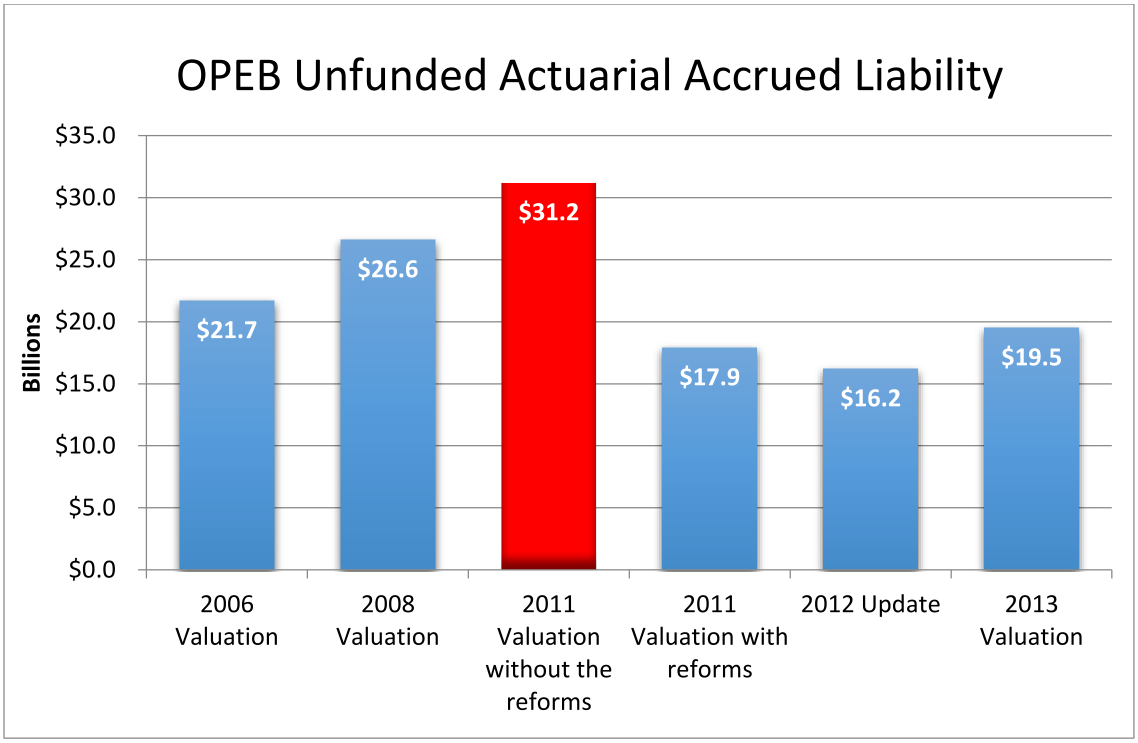
## TEACHERS' RETIREMENT SYSTEM CONTRIBUTIONS *




- 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.
- FY 2018 and beyond reflect the estimated impact of lowering the assumed rate of investment return to 8% from 8.5%.

# OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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. Segal Consulting currently performs the OPEB actuarial valuation in accordance with GASB Statements 43 and 45 for the State of Connecticut. The next OPEB valuation is due in 2016.




The first two OPEB valuations clearly showed a significant, and increasing, Unfunded Actuarial Accrued Liability (UAAL). In 2009, the state initiated negotiations with the State Employees Bargaining Agent Coalition (SEBAC) in an effort to obtain benefit and wage concessions. 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.

In 2011, the state initiated another round of benefit and wage concessions with SEBAC. The 2011 SEBAC Agreement incorporated a number of additional reforms. All employees, not just new employees, contribute a percent of their salary to fund retiree health and will continue to contribute for ten years or until retirement, whichever is sooner. For those employees who previously were not contributing, the contribution percentages are 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 (represented by the red bar in the chart). The SEBAC reforms resulted in the OPEB unfunded liability decreasing $13.3 billion to $17.9 billion.

For 2012, the state requested an update to the OPEB valuation. The update confirmed a second year of significant reductions in the state's unfunded liability 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. The updated actuarial report reflected those reforms plus the following:

- a reduction in health care cost trends,
- a new prescription drug contract effective 07/01/2013 expected to reduce drug costs by 11%, and
- a conversion of the Medicare-age prescription drug program to an Employer Group Waiver Program.

The SEBAC reforms combined with the three items above reduced the OPEB liability by $15.0 billion.

After two years of significant declines, the OPEB UAAL rose to $19.5 billion as of June 30, 2013. The 2013 valuation, received in February of 2014, indicated that the unfunded plan obligation had been expected to increase the UAAL to $17.9 billion due to normal plan operations. The difference between the actual ($19.5 billion) and expected ($17.9 billion) UAAL were mainly due to valuation assumption changes that increased the actuarial accrued liability. The actuary stated this was the result of 1) an increase in obligations due to the valuation-year per capita health costs and raising the future trend on such cost, and 2) an increase due to updating the demographic assumptions based on the latest experience study completed by the pension actuary.

The OPEB trust fund contained $150.0 million in net assets as of June 30, 2014, up from $143.8 million in assets as of June 30, 2013. The fund contained only $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.
- $45.5 million – FY 2014.
- $93.3 million – FY 2015.

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.

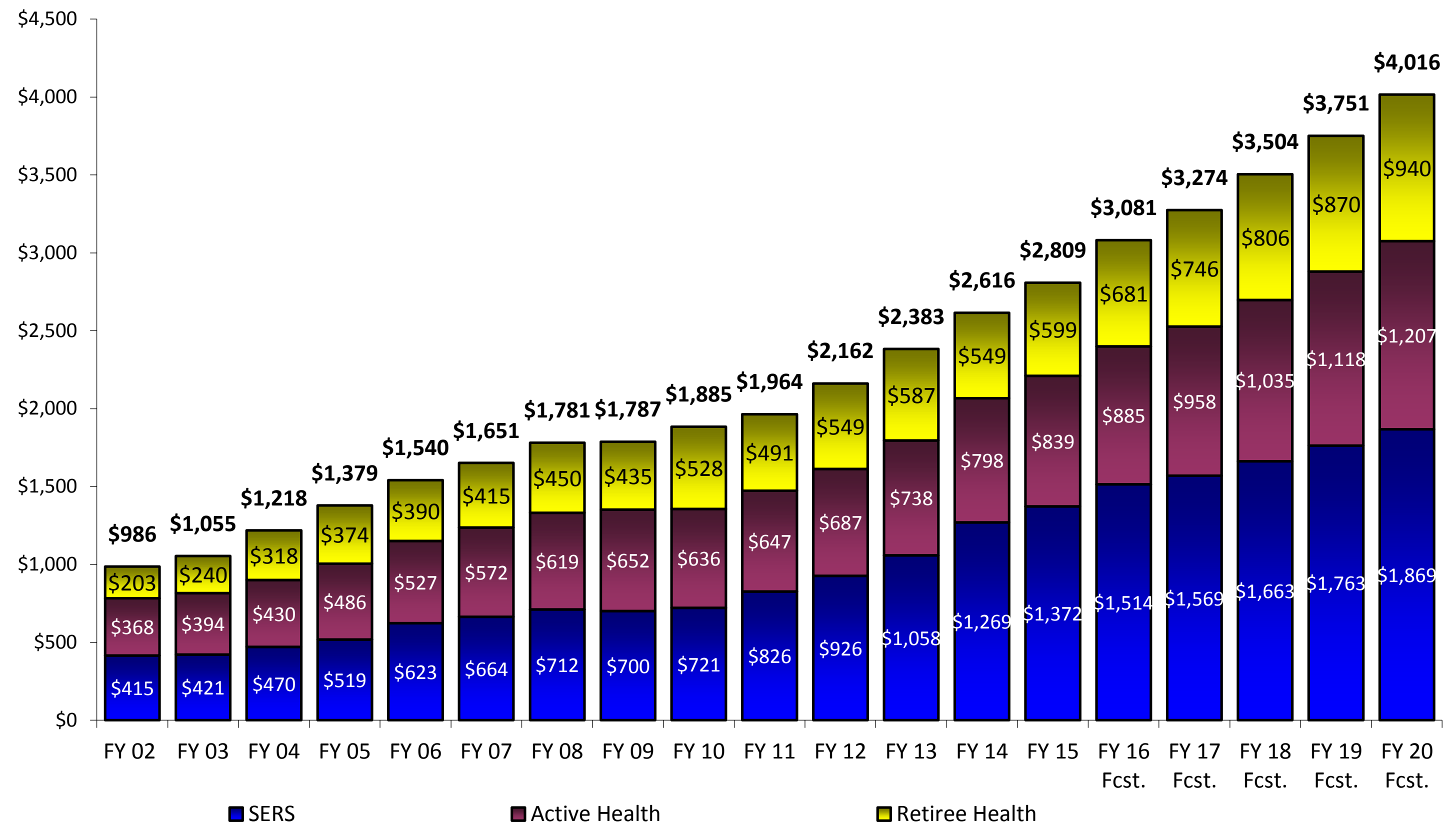
Other Post-Employment Benefits
Summary of Contributions

| Fiscal Year | Employee Contributions | State Contributions | Total Contributions |
|---|---|---|---|
| 2007-08 | - | $10.0 | $10.0 |
| 2008-09 | - | - | - |
| 2009-10 | $1.4 | - | $1.4 |
| 2010-11 | $21.6 | $14.5 | $36.1 |
| 2011-12 | $25.0 | - | $25.0 |
| 2012-13 | $27.5 | - | $27.5 |
| 2013-14 | $45.5 | - | $45.5 |
| 2014-15 | $93.3 | - | $93.3 |
| 2015-16 est. | $125.0 | - | $125.0 |
| 2016-17 est. | $128.7 | - | $128.7 |
| 2017-18 est. | $132.6 | $132.6 | $265.2 |
| **Total** | **$ 600.6** | **$ 157.1** | **$757.7** |

Excludes investment earnings
* In Millions

# STATE EMPLOYEES PENSION & HEALTH

ALL FUNDS – As of 6/30
(In Millions)




**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.

- Pension contributions during the current biennium (FYs 2016 and 2017) are expected to be 16% higher than the prior biennium (FYs 2014 and 2015). The rate of increase has slowed dramatically from the 33% increase experienced in the prior biennium (FYs 2014 -2015 over FYs 2012 - 2013).

- Health insurance costs for active employees during the current biennium (FYs 2016 and 2017) are expected to be 12% higher than the prior biennium (FYs 2014 and 2015). This increase is mainly driven by the increase in pharmacy trends.

- Health insurance costs for retirees during the current biennium (FYs 2016 and 2017) are estimated to be 24% higher than the prior biennium. The increase is mainly due to the increase in pharmacy trends and the expected increase in the number or retirees.

# DEBT BURDEN

## State and Local Debt Comparison Among the 50 States in 2013

Ranked by State and Local Debt As a % of Personal Income (PI)- 2013

| Rank | State | Debt/PI |
|---|---|---|
| 1 | New York | 32.8% |
| 2 | Kentucky | 26.3% |
| 3 | Alaska | 25.4% |
| 4 | Rhode Island | 25.3% |
| 5 | Massachusetts | 25.1% |
| 6 | South Carolina | 25.0% |
| 7 | Illinois | 24.8% |
| 8 | Nevada | 24.5% |
| 9 | Washington | 23.3% |
| 10 | Hawaii | 22.9% |
| 11 | Texas | 22.8% |
| **24** | **Connecticut** | **19.4%** |
| | UNITED STATES | 21.0% |

Ranked by Per Capita State and Local Debt-2013

| Rank | State | Amount ($) |
|---|---|---|
| 1 | New York | 17,576 |
| 2 | Massachusetts | 14,206 |
| 3 | Alaska | 13,051 |
| 4 | **Connecticut** | **12,053** |
| 5 | Rhode Island | 11,684 |
| 6 | Illinois | 11,537 |
| 7 | New Jersey | 11,325 |
| 8 | Washington | 11,065 |
| 9 | California | 10,923 |
| 10 | Pennsylvania | 10,189 |
| 11 | Hawaii | 10,142 |
| 12 | Colorado | 10,070 |
| | UNITED STATES | $ 9,317 |

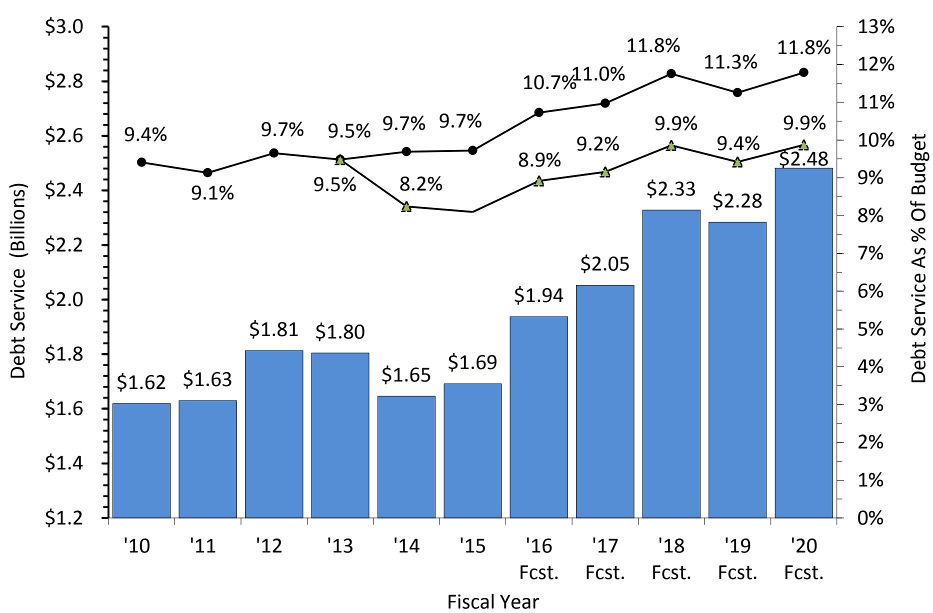
Source: U.S. Department of Commerce, Census & BEA

- Connecticut ranks 24th in the nation in 2013 for debt outstanding as a percentage of personal income.
- Connecticut's state and local debt burden in 2013 equals $12,053 per person.
- Based on 2013 data, Connecticut would rank 3rd per capita in the nation and 5th on a personal income basis based on state debt.

# IMPACT OF DEBT EXPENSES

## GENERAL FUND DEBT SERVICE EXPENDITURES

**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 (FYs 2014-20) adds back the net budgeting of Medicaid expenditures. Debt service remains at less than 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 | Negative | Stable | 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 in outlook from negative to stable by Fitch in August 2015.

## NUMBER OF STATES RATED

| Rating | Moody's | S&P | Fitch | Kroll |
|---|---|---|---|---|
| Better than CT | 34 | 21 | 26 | 1 |
| Equal to CT | 2 | 12 | 6 | 1 |
| Lower than CT | 2 | 5 | 4 | 1 |
| Total* | 38 | 38 | 36 | 3 |

* 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, New Jersey, New York and Wisconsin.

## NEIGHBORING STATES' RATINGS

| State | Moody's | S&P | Fitch | Kroll |
|---|---|---|---|---|
| Vermont | Aaa | AA+ | AAA | |
| Massachusetts | Aa1 | AA+ | AA+ | |
| New York | Aa1 | AA+ | AA+ | AA+ |
| New Hampshire | Aa1 | AA | AA+ | |
| Maine | Aa2 | AA | AA | |
| Rhode Island | Aa2 | AA | AA | |
| **Connecticut** | **Aa3** | **AA** | **AA** | **AA** |
| New Jersey | A2 | A | A | A |

## IMPORTANCE OF BOND RATINGS

- The rating process informs investors about risk
- The rating process shows how Connecticut compares 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
- Commitment to eliminate GAAP negative fund balance
- 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
- Modest rainy day fund balance due to the state's slow recovery from the recession
- Debt ratios are among the highest in the nation
- Pension systems have low funding ratios

What could make the state rating improve

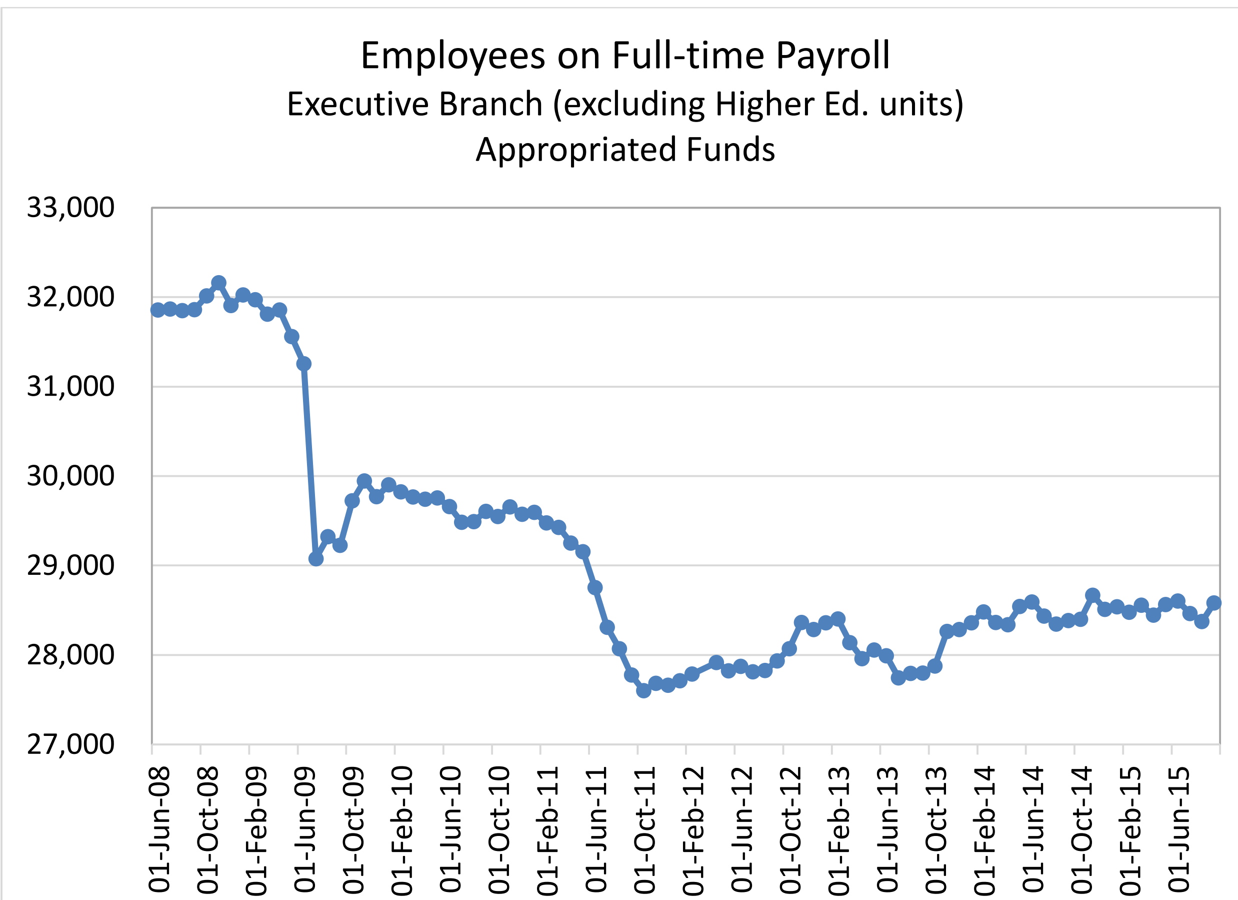
- Achievement and maintenance of high GAAP-basis combined available reserve levels
- Established trend of structural budget balance
- Evidence of stronger economic performance
- Reduced debt ratios
- Significantly improving the funding of pension and post-retirement liabilities

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

- Since FY 2011, the number of budgeted state agencies has been reduced by 27%, from 81 to 59, through consolidations and mergers.
- LEAN is now a routine tool used by state employees to improve turnaround times, reduce red tape and create efficiencies.
- The state has invested more than $107 million in IT infrastructure, improving service delivery and customer interaction.
- The state workforce has undergone substantial attrition without resorting to any costly retirement incentive plans. Based on payroll data, full-time Executive Branch employment (not including the constituent units of higher education) has fallen since December 2010 from approximately 29,600 employees to approximately 28,600 – a reduction of approximately 3.4%. Excluding higher education, full-time Executive Branch employment now stands more than 10% below the level during calendar year 2008.



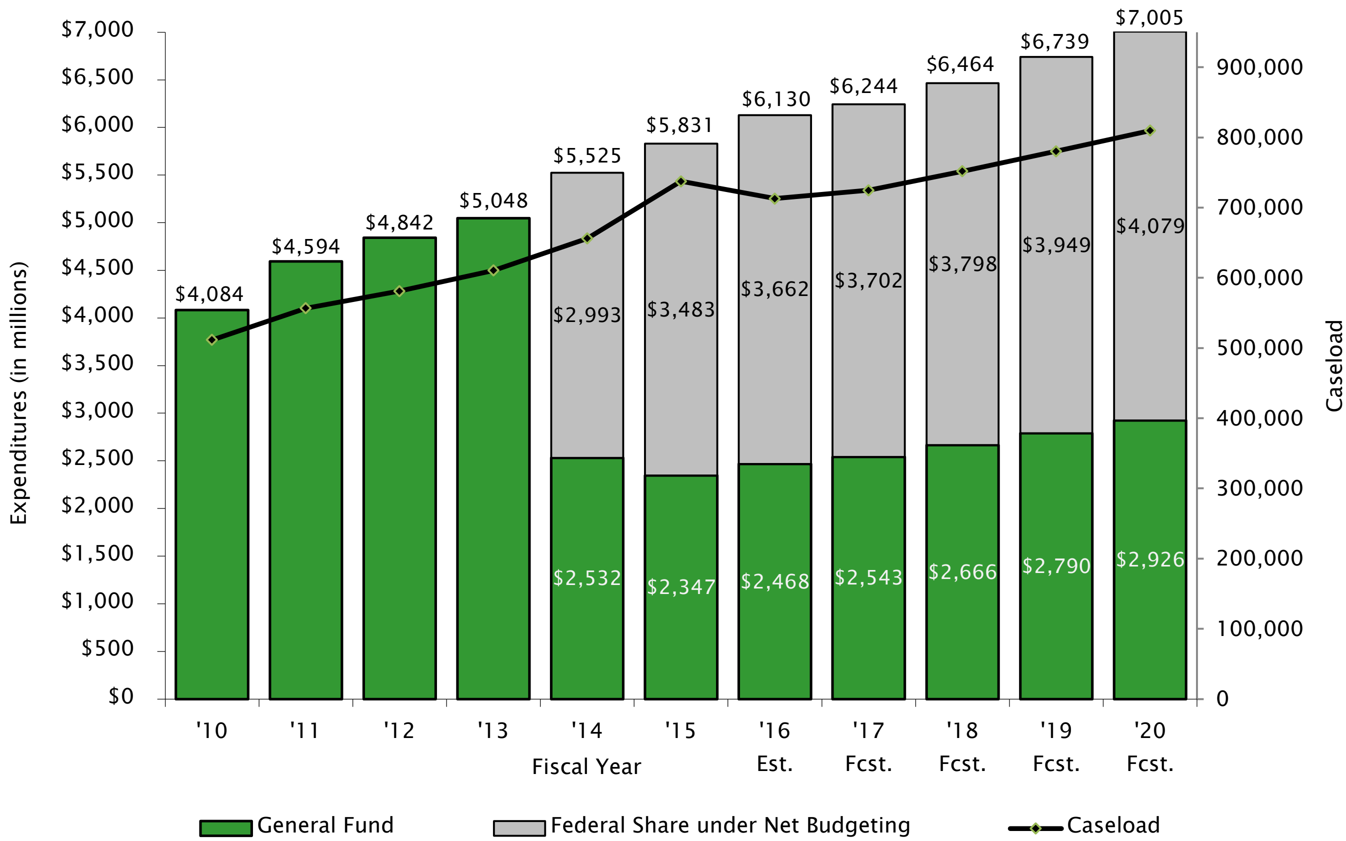
# FULL TIME WORKFORCE

As of September 2015

| | Bargaining Unit | Full Time Employees | | Full Time Payroll (All Funds) | Expiration Date |
|---|---|---|---|---|---|
| | ***All Contracts Settled*** | | | | |
| 1. | State Police (NP-1) | 1,096 | $ | 83,901,436 | 6/30/2018 |
| 2. | Service/Maintenance (NP-2) | 3,798 | | 196,259,945 | 6/30/2016 |
| 3. | Administrative Clerical (NP-3) | 3,451 | | 190,836,895 | 6/30/2016 |
| 4. | Correctional Officers (NP-4) | 4,584 | | 255,295,561 | 6/30/2016 |
| 5. | Protective Services (NP-5) | 822 | | 53,091,812 | 6/30/2016 |
| 6. | Health NonProfessional (NP-6) | 3,000 | | 172,068,885 | 6/30/2016 |
| 7. | Health Professional (P-1) | 3,098 | | 262,904,006 | 6/30/2016 |
| 8. | Social and Human Services(P-2) | 4,019 | | 290,770,423 | 6/30/2016 |
| 9. | Education A (P-3A) | 247 | | 26,037,078 | 6/30/2016 |
| 10. | Education B (P-3B) | 628 | | 48,481,180 | 6/30/2016 |
| 11. | Engineer, Scien, Tech (P-4) | 2,522 | | 223,279,311 | 6/30/2016 |
| 12. | Admin and Residual (P-5) | 2,978 | | 250,508,768 | 6/30/2016 |
| 13. | St Vocation Federation Teacher | 1,174 | | 96,231,939 | 6/30/2016 |
| 14. | Amercan Fed of School Admin | 51 | | 6,718,297 | 6/30/2016 |
| 15. | Comm College Faculty - AFT | 169 | | 13,296,450 | 6/30/2016 |
| 16. | State University Faculty | 1,440 | | 130,224,909 | 6/30/2016 |
| 17. | State University Non-Fac Prof | 795 | | 66,886,035 | 6/30/2016 |
| 18. | Comm College Faculty CCCC | 656 | | 51,916,609 | 6/30/2016 |
| 19. | UConn - Faculty | 1,960 | | 161,983,928 | 6/30/2016 |
| 20. | UConn - Non-Faculty | 1,712 | | 103,396,100 | 6/30/2016 |
| 21. | UCHC - Faculty | 304 | | 54,905,884 | 6/30/2016 |
| 22. | UConn - Law School Faculty | 45 | | 6,035,998 | 6/30/2016 |
| 23. | Judicial - Judges | 200 | | 33,514,068 | 6/30/2016 |
| 24. | Judicial - Professional | 1,285 | | 116,059,983 | 6/30/2016 |
| 25. | Judicial - Non-Professional | 1,336 | | 82,115,219 | 6/30/2016 |
| 26. | Judicial - Law Clerks | 64 | | 3,705,250 | 6/30/2016 |
| 27. | UCHC Univ Hlth Professionals | 1,510 | | 83,464,626 | 6/30/2016 |
| 28. | Comm College Admin - CCCC | 693 | | 52,600,062 | 6/30/2016 |
| 29. | Conn Assoc Prosecutors | 241 | | 28,530,928 | 6/30/2016 |
| 30. | Comm College Admin - AFSCME | 88 | | 7,032,192 | 6/30/2016 |
| 31. | Criminal Justice Residual | 126 | | 7,245,754 | 6/30/2016 |
| 32. | Higher Ed - Professional Emp | 23 | | 1,829,716 | 6/30/2016 |
| 33. | Bd State Acad Awards Prof | 68 | | 4,855,057 | 6/30/2016 |
| 34. | Judicial - Judicial Marshals | 693 | | 34,792,477 | 6/30/2016 |
| 35. | Correctional Supervisor (NP-8) | 490 | | 38,880,290 | 6/30/2016 |
| 36. | State Police Lts & Captains (NP-9) | 37 | | 4,656,952 | 6/30/2016 |
| 37. | DPDS Public Defenders | 195 | | 22,056,023 | 6/30/2016 |
| 38. | DPDS Chief Public Defenders | 21 | | 3,296,915 | 6/30/2016 |
| 39. | Criminal Justice Inspectors | 76 | | 6,842,389 | 6/30/2016 |
| 40. | Comm College AFT Couns/Lib | 14 | | 1,280,461 | 6/30/2016 |
| 41. | Judicial - Supvr Jud Marshals | 63 | | 4,511,333 | 6/30/2016 |
| | Total Covered by Collective Bargaining | 45,772 | $ | 3,282,301,145 | |
| | | | | | |
| | ***Not Covered by Collective Bargaining*** | | | | |
| | Auditors of Public Accounts | 113 | $ | 10,682,913 | |
| | Other Employees | 5,450 | | 522,665,634 | |
| | Total Not Covered by Collective Bargaining | 5,563 | $ | 533,348,547 | |

Note: As of 9/30/2015. Payroll amounts include regluar wages for full-time employees excluding overtime, shift differentials, premiums, etc. Those not covered by collective bargaining include employees of the Legislative Branch, elected and appointed officials and managerial and confidential employees.

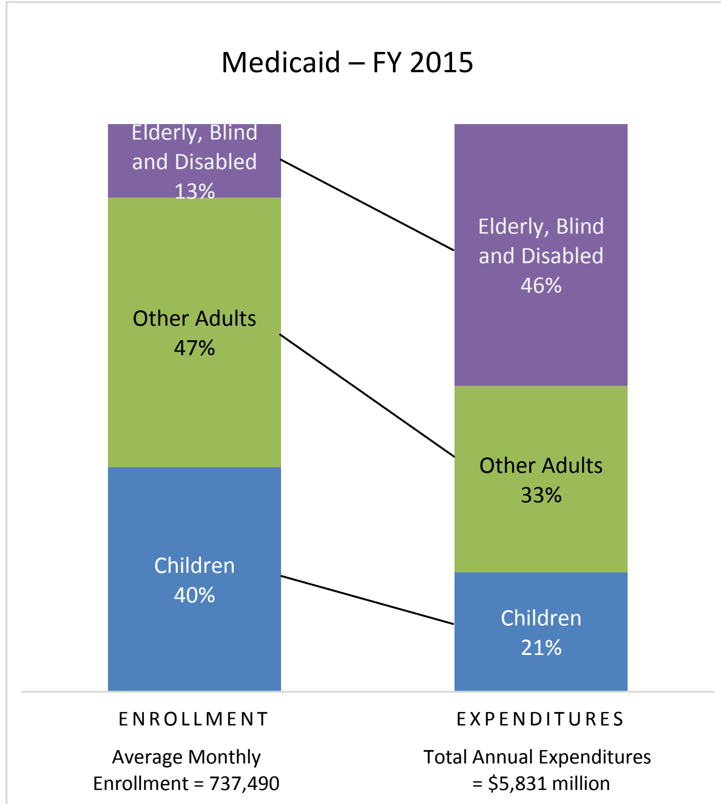
# MEDICAID EXPENDITURE TRENDS



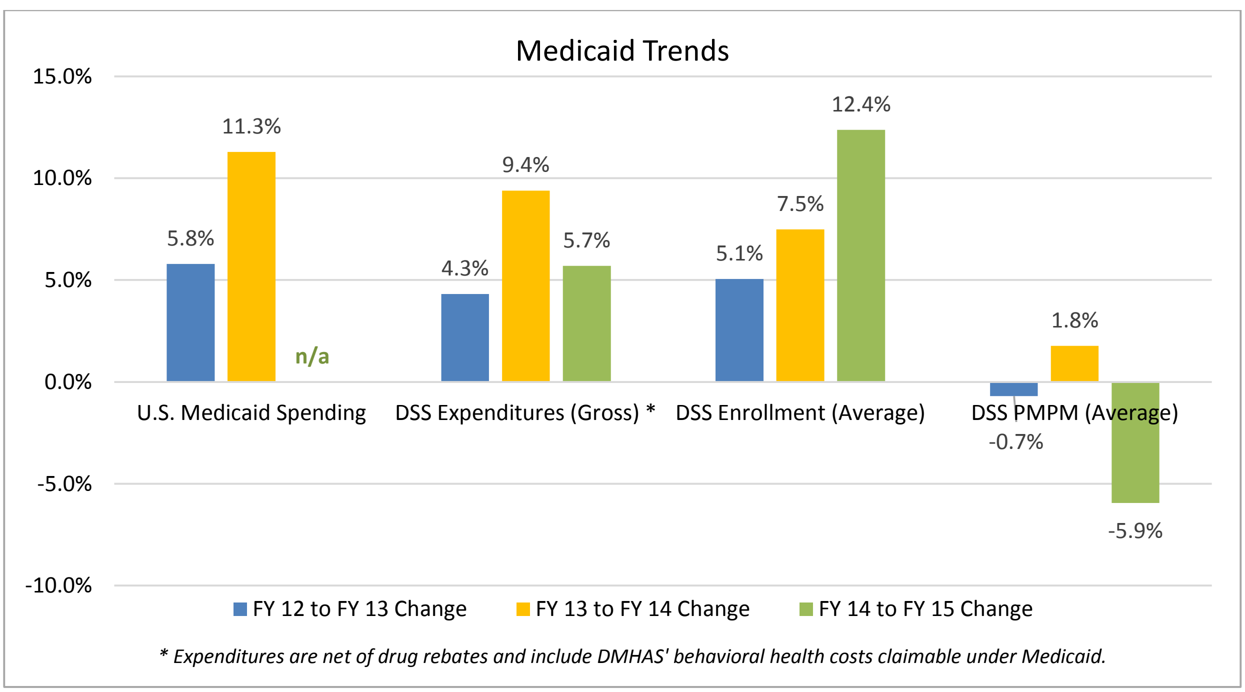

Note: Medicaid expenditures have been adjusted to include expenditures under the former State Administered General Assistance (SAGA) medical assistance program, as well as behavioral health services under the General Assistance Managed Care account in DMHAS which now qualify for Medicaid reimbursement.

- Beginning with the budget adopted in 2013, the Medicaid account in the Department of Social Services was "net appropriated." A total of $2,768.7 million was removed from both budgeted revenues and appropriations to accomplish this transition in FY 2014.
- Medicaid growth has been affected by caseload growth, increases in utilization and limited rate increases.
- The Medicaid expansion for low-income adults, which was approved by the federal government in June 2010, has resulted in significant increases in caseload and program costs. Expenditures for this program, now known as HUSKY D, increased from $228.7 million in FY 2010 to $769.0 million in FY 2013. The state further expanded Medicaid coverage for low-income adults by increasing income eligibility to 138% of the federal poverty level beginning January 1, 2014, resulting in significant additional growth. Over the last two fiscal years, HUSKY D expenditures have increased from $916.6 million in FY 2014 to $1,240.9 million in FY 2015. Under the Affordable Care Act, these costs are 100% reimbursed by the federal government beginning January 1, 2014 through 2016, after which the federal reimbursement will be phased down to 90% in 2020. Due to the expansion, the HUSKY D caseload has grown from 46,156 in June 2010 to 99,103 in December 2013 to 180,401 in October 2015.
- 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.

- The Department of Social Services is employing diverse strategies to achieve improved health outcomes and cost efficiencies in the Medicaid program. Strategies include:
    - use of an administrative services organization (ASO) platform to promote efficient, cost-effective and consumer/provider responsive Medicaid medical, behavioral health, dental and non-emergency medical transportation services;
    - use of data analytics to improve care;
    - activities in support of improving access to preventative primary care;
    - efforts to support integration of medical, behavioral health, and long-term services and supports;
    - initiatives designed to "re-balance" spending on long-term services and supports; and
    - efforts to promote the use of health information technology.




- In contrast to almost all other Medicaid programs across the nation, Connecticut Medicaid is not using any managed care arrangements and is structured as a managed, fee-for-service program. It is one of the very few Medicaid programs whose expenditures on a per member, per month (PMPM) basis have been relatively steady, and in fact there was a sizeable drop in the PMPM in FY 2015.



# FEDERAL BUDGET AND POLICY ISSUES

A number of significant federal budget and policy issues must be dealt with over the next year, creating uncertainty for state policymakers as well as for the budgeting process.

- A federal budget has not yet been adopted for federal fiscal year 2016, which began October 1, 2015, leaving government operations funded via a continuing resolution through December 11, 2015. A budget deal signed by the President on November 2, 2015, paves the way for a two-year agreement on spending.
- Although the threat of a government shutdown in December is lessened with this deal, extensive work must be completed to keep the government open past December 11. Appropriators have only a few weeks to negotiate detailed spending and policy bills before the current continuing resolution expires.
- Considerable policy and budgetary differences remain to be resolved on a longer-term funding measure, and political disagreements could affect achievement of the required appropriations measures.

# EFFORTS TO PRESERVE OR MAXIMIZE FEDERAL REVENUE

Federal revenue maximization efforts continue to be 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 the normal increases in federal Medicaid revenue that result 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 being explored or under development include:

- Implementation of a Health Home model to provide better coordination of behavioral and physical health care across the departments of Mental Health and Addiction Services, Children and Families, and Social Services for individuals with serious and persistent mental illness under;
- Exploring ways to maximize federal reimbursement for services being provided by the Court Support Services Division of the Judicial Department;
- Developing a waiver that will allow Medicaid reimbursement for certain behavioral/rehabilitation services being provided by the Department of Mental Health and Addiction Services that are currently at 100% state cost;
- Exploring changes in Medicaid payments to John Dempsey Hospital which could maximize revenue;
- Completing implementation of the autism mandate under Medicaid through changes in the School Based Child Health program in order to maximize Medicaid reimbursement for autism services provided by school districts;
- Exploring changes in the School Based Child Health program that could permit Medicaid reimbursement for “free care” being provided by school districts; and
- Exploring potential enhanced federal reimbursement for utilization management services being provided by the administrative services organizations.

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.

# STATE AID TO OR ON BEHALF OF LOCAL GOVERNMENTS

(in Millions)

| GRANT | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|---|---|---|---|---|---|---|
| State Owned PILOT | $ 83.6 | $ 71.4 | $ 83.6 | $ 83.6 | $ 83.6 | $ 83.6 |
| College & Hospital PILOT | 125.4 | 122.9 | 125.4 | 125.4 | 125.4 | 125.4 |
| Mashantucket Pequot & Mohegan Grant | 61.8 | 61.8 | 61.8 | 61.8 | 61.8 | 61.8 |
| Town Aid Road Grant | 60.0 | 60.0 | 60.0 | 60.0 | 60.0 | 60.0 |
| LoCIP | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 |
| Regional Performance Incentive Grants | 9.0 | 9.3 | - | 10.7 | 10.9 | 11.1 |
| STEAP | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| Grants for Municipal Aid Projects | 56.4 | 60.0 | 60.0 | 60.0 | 60.0 | 60.0 |
| MRSA* | - | - | 224.0 | 335.5 | 267.3 | 381.6 |
| Municipal Aid Adjustment | 3.6 | - | - | - | - | - |
| Miscellaneous General Government Grants | 41.8 | 38.2 | 40.3 | 40.7 | 40.9 | 41.2 |
| **Subtotal - General Government** | **$ 491.6** | **$ 473.6** | **$ 705.2** | **$ 827.8** | **$ 760.0** | **$ 874.8** |
| | | | | | | |
| Public School Transportation | $ 24.9 | $ 23.3 | $ 23.3 | $ 23.3 | $ 23.3 | $ 23.3 |
| Non-Public School Transportation | 3.6 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Adult Education | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| Education Cost Sharing* | 2,035.1 | 2,062.3 | 2,069.7 | 2,059.7 | 2,059.7 | 2,059.7 |
| Magnet Schools | 293.8 | 328.0 | 324.5 | 324.5 | 324.5 | 324.5 |
| Special Education - Student Based | 139.8 | 139.8 | 139.8 | 139.8 | 139.8 | 139.8 |
| Local School Construction | 600.0 | 700.0 | 650.0 | 650.0 | 650.0 | 650.0 |
| Miscellaneous Education Grants | 182.8 | 184.1 | 190.5 | 190.5 | 190.5 | 190.5 |
| **Subtotal - Education** | **$ 3,300.0** | **$ 3,461.0** | **$ 3,421.3** | **$ 3,411.3** | **$ 3,411.3** | **$ 3,411.3** |
| | | | | | | |
| Teachers' Retirement Contributions, Retiree Health Service Cost & Debt Service | $ 1,136.9 | $ 1,128.5 | $ 1,151.9 | $ 1,431.5 | $ 1,454.7 | $ 1,501.6 |
| **Subtotal - Teachers' Retirement** | **$ 1,136.9** | **$ 1,128.5** | **$ 1,151.9** | **$ 1,431.5** | **$ 1,454.7** | **$ 1,501.6** |
| | | | | | | |
| Less: General Fund Lapse Savings - Municipal Opportunities and Regional Efficiencies | $ - | $ (5.2) | $ (20.0) | $ (20.0) | $ (20.0) | $ (20.0) |
| **Total - Aid to Municipalities** | **$ 4,928.5** | **$ 5,057.9** | **$ 5,258.4** | **$ 5,650.6** | **$ 5,606.0** | **$ 5,767.7** |

Notes:

* The Education Cost Sharing Grant is being supplemented by $10 million in FY 2016 and FY 2017 from the Municipal Revenue Sharing Account (MRSA). ECS does not include the portion of the appropriation that is attributable to charter schools.

# PROPERTY TAX REFORM ENACTED DURING THE 2015 LEGISLATIVE SESSION

Sections 183 to 215 of PA 15-244, and Sections 483 and 494 of PA 15-05 (JSS), include reforms to Connecticut's property tax structure:

Sections

1. Revenue
   - The bill diverts a portion of the Sales and Use Tax to the MRSA account:
     - From 1/1/2016 to 4/30/2017: 0.30% of sales;
     - From 5/1/2017 to 6/30/2017: 0.40% of sales;
     - From 7/1/2017 and thereafter: 0.50% of sales.
   - Money deposited into the MRSA account are to be dispersed in order according with items #2 through #9 below:

   Sections: 74, 133, 207 of PA 15-244

2. Education Cost Sharing
   - Disperses money from MRSA for the purposes of Education Cost Sharing (ECS) Grants as follows:
     - For FY 2016: $10.0 million;
     - For FY 2017: $10.0 million.

   Sections: 494(b)(1) of PA 15-05 JSS

3. Select PILOT Payments & Tiered PILOT Payments
   - Municipalities will receive PILOT payments based on a tiered formula based on the percentage of tax-exempt property in towns having a mill rate of twenty-five mills or more as follows:

   | Tier | Municipalities | College and Hospital Property | State-Owned Property |
   |---|---|---|---|
   | 1 | Top 10 | 42% | 32% |
   | 2 | Next 25 | 37% | 28% |
   | 3 | All Others | 32% | 24% |

   - In the event that grants payable to municipalities for state-owned and college and hospital property exceeds appropriations, the amount payable to each municipality shall be reduced proportionately.
   - FY 2017 Select PILOT Payment of $46.0 million.

   Sections: 182, 494(b)(2) of PA 15-05 JSS

4. Minimum Reimbursement Rate
   - Percentage of property tax payable to a municipality or district for state-owned or college and hospital property shall not be lower than the percentage paid for FY 2015.

   Sections: 183 of PA 15-244

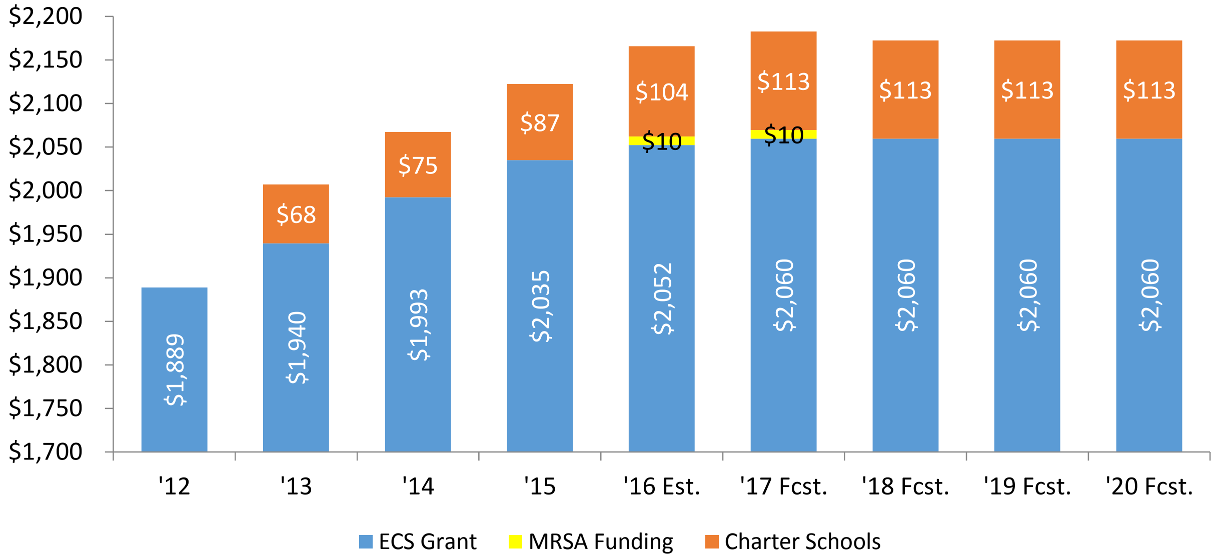
5. Motor Vehicle Mill Rate
   - PA 15-244 caps the mill rate municipalities and districts may levy on motor vehicles as follows:
     - For the October 1, 2015 assessment year, 32.00 mills,
     - For the October 1, 2016 assessment year and thereafter, 29.36 mills.

   Sections: 194 (b)(3) of PA 15-05 JSS

| | | | |
|---|---|---|---|
| 6. | Motor Vehicle Property Tax Grants | • The bill makes payments from MRSA to compensate towns for lost revenue from the motor vehicle mill rate (MVMR) as follows<br>o For FY 2017, the difference between the amount levied on motor vehicles for the assessment year commencing October 1, 2013 and the amount such levy would have been at 32.00 mills. FY 2017 payments estimated at $65.9 million.<br>o For FY 2018 and thereafter, the difference between the amount levied on motor vehicles for the assessment year commencing October 1, 2013 and the amount such levy would have been at 29.36 mills. FY 2018 payments estimated at $92.1 million. | 194 (b)(3) of PA 15-05 JSS |
| 7. | Regional Spending Grants | • Money shall be distributed by the Secretary of OPM to Regional councils of governments (COGs) on a per capita basis as follows:<br>o For FY 2017, $3 million;<br>o For FY 2018 and each fiscal year thereafter, $7 million. | 494(b)(5) of PA 15-05 JSS |
| 8. | MRSA Formula Grants | • For FY 2017 and FY 2018 $109.2 million is provided.<br>• Beginning in FY 2019, moneys remaining in MRSA shall be distributed as follows:<br>o Municipalities with mill rates above 25 shall receive the greater of a per capita or pro rata distribution;<br>o Municipalities with mill rates below 25 shall receive the lesser of a per capita or pro rata distribution. | 494(b)(4), 494(d), 494(b)(6), 494(f) of PA 15-05 JSS |
| 9. | Spending Penalty | • Beginning in FY 2018, OPM must reduce the grant defined in 8 above for those municipalities whose spending grows by the greater of:<br>o 2.5%; or,<br>o Inflation.<br>• Grants shall be reduced by $0.50 for each $1.00 above the allowable growth. | 494(h) of PA 15-05 JSS |
| 10. | Revenue Sharing | • Members of regional COGs may elect to enter into a regional property tax base revenue sharing system:<br>o COG members must unanimously vote to participate in such a sharing system.<br>o Municipalities participating in a sharing system shall tax commercial and industrial property at the "municipal commercial industrial mill rate," calculated using both the municipal and regional mill rate so as to control for extraordinarily high mill rates in certain municipalities.<br>o Such municipalities may elect to share up to 20% of the increase in commercial and industrial property tax revenue relative to the assessment year October 1, 2013.<br>o COGs shall elect a member to serve as auditor to collect and distribute shared revenue under this system. | 211-215 of PA 15-244 |
| 11. | Reporting | The Secretary of OPM shall report to the Finance committee on or before January 1, 2016 regarding these sections and make recommendations. | 210 of PA 15-244 |

# 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.
- Beginning in FY 2013, charter school grants are appropriated under the ECS grant.
- The Education Cost Sharing Grant is being supplemented by $10 million in FY 2016 and FY 2017 from the Municipal Revenue Sharing Account (MRSA).

# 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. High unemployment rates experienced in the state during the "Great Recession" strained this fund and the impact will continue to have an effect on Connecticut businesses for the next several years.

- As of September 2015, the Connecticut seasonally adjusted unemployment rate was estimated at 5.2%, the lowest rate since November 2008.
- The maximum weekly benefit rate is $598 for new claims effective October 4, 2015. Connecticut also pays $15 per dependent child up to a maximum of $75.
- As a result of a structural imbalance between tax revenues and benefit payouts that were influenced by the economic downturn, Connecticut's trust fund became insolvent in mid-October of 2009.
- 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 was collected. UI benefit payouts continued to exceed revenues in 2011 and 2012. In 2013 revenues kept pace with benefit payouts and are expected to slightly outpace benefit payouts in 2014. This trend is expected to continue in 2015 and 2016.
- 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 the loan within two years, the federal government increased federal unemployment taxes on employers by increasing the existing FUTA tax in 0.3% increments annually, beginning with calendar year 2011. In addition, states with loans outstanding for five years are subject to an additional increase (Benefit Cost Rate add-on, or BCR). In 2015 the BCR for Connecticut is 0.6%. As a result, for calendar year 2015, Connecticut employers will have a FUTA tax rate of 2.1%, in addition to the standard 0.6% tax rate. The increases are applied to the state's loan principal until fully repaid.
- Current projections, which are based on existing statutory provisions (both state and federal), indicate the need for continued borrowing into calendar year 2016, however, it is anticipated that final repayment of the loan may occur as early as June 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 | $343,000,000 | $0 | $0 |
| 2011 | $287,000,000 | $100,000,000 | $0 |
| 2012 | $123,000,000 | $173,000,000 | $27,000,000 |
| 2013 | $154,000,000 | $154,000,000 | $54,000,000 |
| 2014 | $ 93,000,000 | $145,000,000 | $81,000,000 |
| 2015 | $ 60,000,000* | $210,000,000* | $153,000,000* |
| 2016 | $ 75,000,000* | $ 29,000,000* | $189,000,000* |
| **Totals** | **$1,315,000,000*** | **$811,000,000*** | **$504,000,000*** |

*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 for cash flow purposes only is anticipated in calendar years 2012 to 2016, amounts borrowed in those years are anticipated to be paid back in the year borrowed.

# SECTION 7

## ANALYSIS OF POSSIBLE USES OF SURPLUS FUNDS

# 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.

# 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 | 19,405.0 | | 19,007.7 | 0.7 | 398.0 | (8) |
| 2013-14 | 17,200.4 | (11) | 16,953.6 | 1.7 | 248.5 | (9) |
| 2014-15 | 17,282.0 | (11) | 17,398.7 | 3.5 | (113.2) | (10) |
| 2015-16 (proj.) | 17,944.9 | | 18,067.3 | - | (122.4) | (12) |

(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) Per the Office of the State Comptroller. Includes $190.8 million of FY 2013 surplus reserved for use in FY 2014.

(10) Per PA 14-47 and PA 14-217. Includes $30.0 million of FY 2013 surplus reserved for use in FY 2015.

(11) Beginning in FY 2014 the state commenced net budgeting of Medicaid. This reduced appropriated revenues and expenditures by $2,993.0 million in FY 2014, $3,357.0 million in FY 2015, and $3,625.0 in FY 2016

(12) Per the 11/10/2015 Consensus Revenue Forecast and OPM estimated expenditures.