FISCAL ACCOUNTABILITY REPORT
FISCAL YEARS 2011 – 2014

OFFICE OF POLICY AND MANAGEMENT
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NOVEMBER 23, 2010

INTRODUCTION

FINANCIAL SUMMARY OF FUNDS

(In Millions)

	Estimated	Estimated Current Services		Projected
General Fund	2010-11	2011-12	2012-13	2013-14
Revenues	$ 17,934.8	$ 16,392.6	$ 17,254.8	$ 18,221.8
Expenditures	17,894.5	19,761.5	20,481.8	21,348.3
Misc. Adjustment to Resources of the Fund	(40.0)	-	-	-
Surplus/(Deficit)	$ 0.3	$ (3,368.9)	$ (3,227.0)	$ (3,126.5)
Special Transportation Fund				
Revenues	$ 1,182.3	$ 1,218.5	$ 1,281.4	$ 1,305.2
Expenditures	1,176.9	1,295.0	1,339.1	1,378.8
Surplus/(Deficit)	$ 5.4	$ (76.5)	$ (57.7)	$ (73.6)
Other Funds				
Revenues	$ 166.5	$ 244.8	$ 240.1	$ 242.6
Expenditures	166.1	244.4	239.8	242.5
Surplus/(Deficit)	$ 0.4	$ 0.4	$ 0.3	$ 0.1
Total All Appropriated Funds				
Revenues	$ 19,283.6	$ 17,855.9	$ 18,776.3	$ 19,769.6
Expenditures	19,237.5	21,300.9	22,060.7	22,969.6
Misc. Adjustment to Resources of the Fund	(40.0)	-	-	-
Surplus/(Deficit)	$ 6.1	$ (3,445.0)	$ (3,284.4)	$ (3,200.0)

DIFFERENCES BETWEEN OPM AND OFA ESTIMATES FOR GENERAL FUND

(In Millions)

Item	FY 12 Difference*	FY 13 Difference*	Explanation
Payment in Lieu of Taxes grants	184.3	229.6	OFA assumed funding at statutory formulas; OPM assumed flat funding since statute allows for pro-rating grants based on amount appropriated.
SDE -Education Equalization Grants	52.0	110.4	OFA inflated; OPM used agency request, which flat funded.
Refunds and Adjudicated Claims	59.9	59.9	OFA assumed expenditures for refunds of escheated property and payment of adjudicated claims; OPM did not because budget has not historically included these (we would not argue with including these in the budget in the future).
All Other Differences	8.3	(52.6)	Net value of all other differences between estimates.
Total Difference	304.5	347.3	

* Positive numbers indicate that OFA's expenditure estimate is higher than OPM's.

STRUCTURAL HOLES

IMPACT ON FISCAL 2012- GENERAL FUND

(In Millions)

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

FY 2013- ADDITIONAL STRUCTURAL HOLES

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

GENERAL FUND

DERIVATION OF CURRENT SERVICES BALANCE

(In Millions)

	FY 2012 vs. FY 2011	FY 2013 vs. FY 2012
Consensus Revenue - Prior Year	$ 17,934.8	$ 16,392.6
Increase / (Decrease) vs. Prior Year		
Remove Securitization	(646.6)	-
Remove Federal Stimulus	(739.6)	-
Remove Other One-Time Revenues	(690.2)	-
Net Estimated Revenue Growth/Current Law	534.2	862.2
Total Change in Revenue vs. Prior Year	(1,542.2)	862.2
Available Resources - Consensus	16,392.6	17,254.8
Projected Prior Year Expenditures	17,894.5	19,761.5
Increase / (Decrease) vs. Prior Year		
Wage Increases	160.4	184.3
27th Payroll Cost	119.0	(119.0)
Fringe Benefits, including Teachers' Retirement	524.9	151.6
Debt Service	247.5	41.0
Medicaid - DSS	359.1	208.8
Formula Grants to Municipalities	143.5	46.6
Statewide Savings (Below-the-Line Lapses)	185.2	-
All Other Changes, including Leap Year	127.4	207.0
Total Increase in Expenditures vs. Prior Year	1,867.0	720.3
Total Current Services Expenditures	19,761.5	20,481.8
Current Services Surplus / (Deficit)	$ (3,368.9)	$ (3,227.0)

SPECIAL TRANSPORTATION FUND

DERIVATION OF CURRENT SERVICES BALANCE

(In Millions)

	FY 2012 vs. FY 2011	FY 2013 vs. FY 2012
Projected Fund Balance - Fiscal Year Start	$ 110.8	$ 34.3
Consensus Revenue - Prior Year	1,182.3	1,218.5
Net Estimated Revenue Growth/Current Law	36.2	62.9
Consensus Revenue - Current Year	1,218.5	1,281.4
Available Resources	1,329.3	1,315.7
Projected Prior Year Expenditures	1,176.9	1,295.0
Increase / (Decrease) vs. Prior Year		
Wage Increases	8.0	12.4
27th Payroll Cost	7.6	(7.6)
State Employee Fringe Benefits	24.4	6.8
Debt Service	20.0	13.4
Bus and Rail Operations - DOT	20.9	15.1
Formula Grants to Municipalities	22.0	-
All Other Changes	15.2	4.0
Total Increase in Expenditure vs. Prior Year	118.1	44.1
Total Current Services Expenditures	1,295.0	1,339.1
Projected Fund Balance - Fiscal Year End	$ 34.3	$ (23.4)

EXPENDITURE CAP

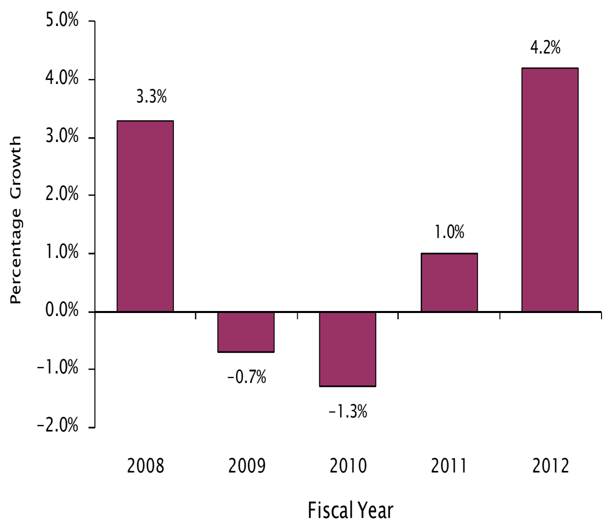
FINANCIAL SUMMARY OF FUNDS

(in millions)

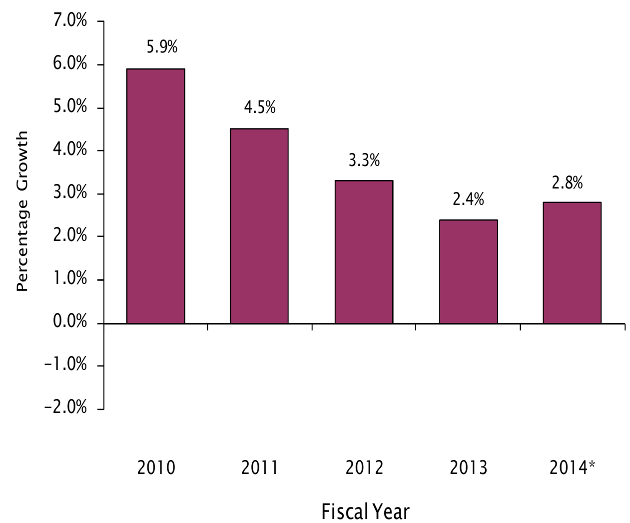
General Fund	Estimated Current Services 2011-12	2012-13	Projected 2013-14
Expenditure Cap Results			
Total All Appropriated Funds	$ 21,300.9	$ 22,060.7	$ 22,969.6
Allowed Appropriations per Cap	19,956.2	20,444.9	21,055.0
Over/(Under) the Cap	$ 1,344.7	$ 1,615.8	$ 1,914.6
Revenues and the Expenditure Cap			
Revenues - All Funds	$ 17,855.9	$ 18,776.3	$ 19,769.6
Allowed Appropriations per Cap	19,956.2	20,444.9	21,055.0
Revenues Less Allowed Approps.	$ (2,100.3)	$ (1,668.6)	$ (1,285.4)

EXPENDITURE CAP

CT PERSONAL INCOME GROWTH



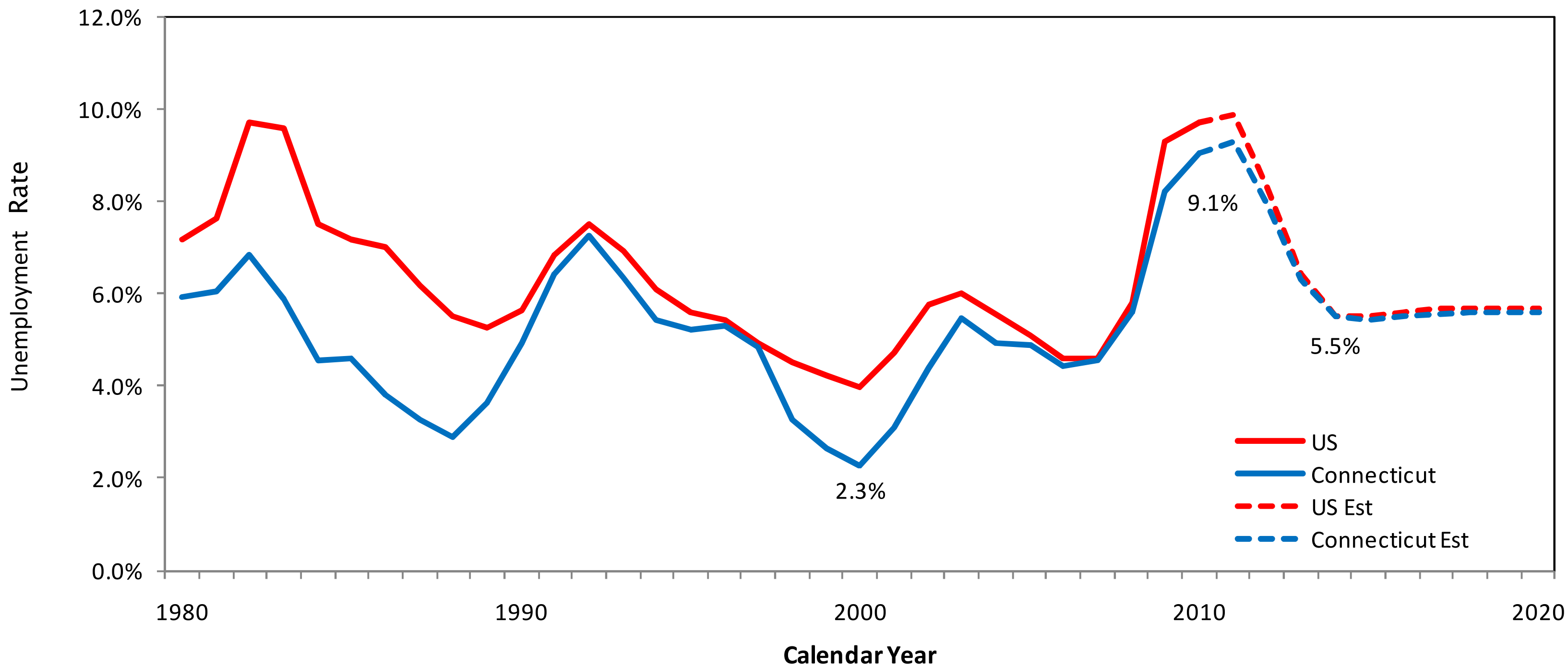
CT EXPENDITURE CAP GROWTH RATE



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

ECONOMY AND REVENUE

UNEMPLOYMENT RATE



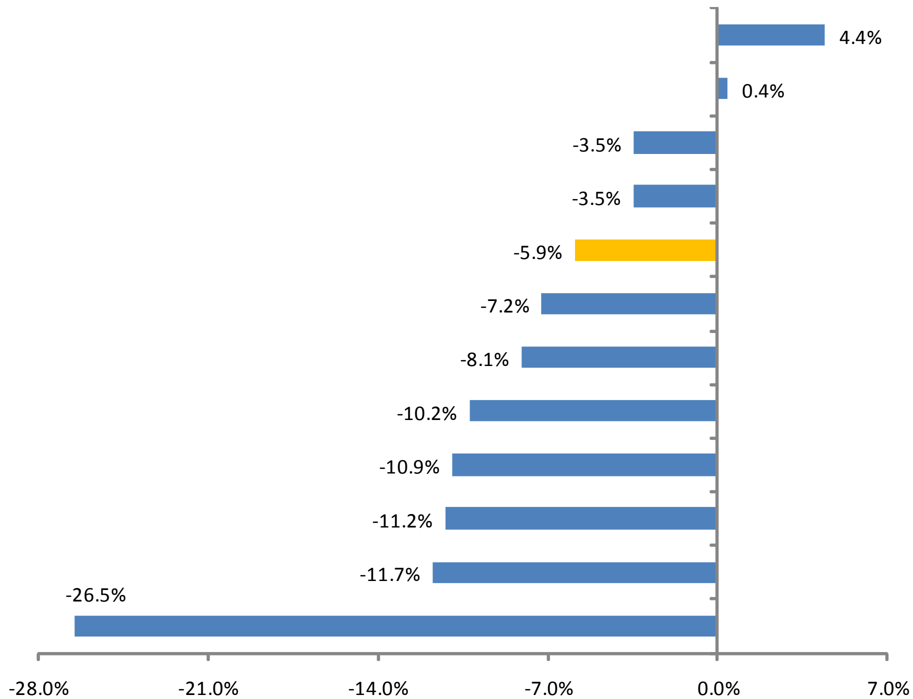
Calendar Year

- Unemployment rates in both Connecticut and the nation are higher than in recent memory.
- Unemployment in Connecticut is expected to rise even higher in 2011, to 9.3%, than in 2010 at 9.1%.
- Unemployment in Connecticut has historically been lower than the nation.
- The unemployment rate is not expected to drop below six percent until 2014.

Source: Bureau of Labor Statistics and Moody's Economy.com.

CONNECTICUT EMPLOYMENT

Percent Change in Connecticut Employment By Sector Since March 2008 Peak

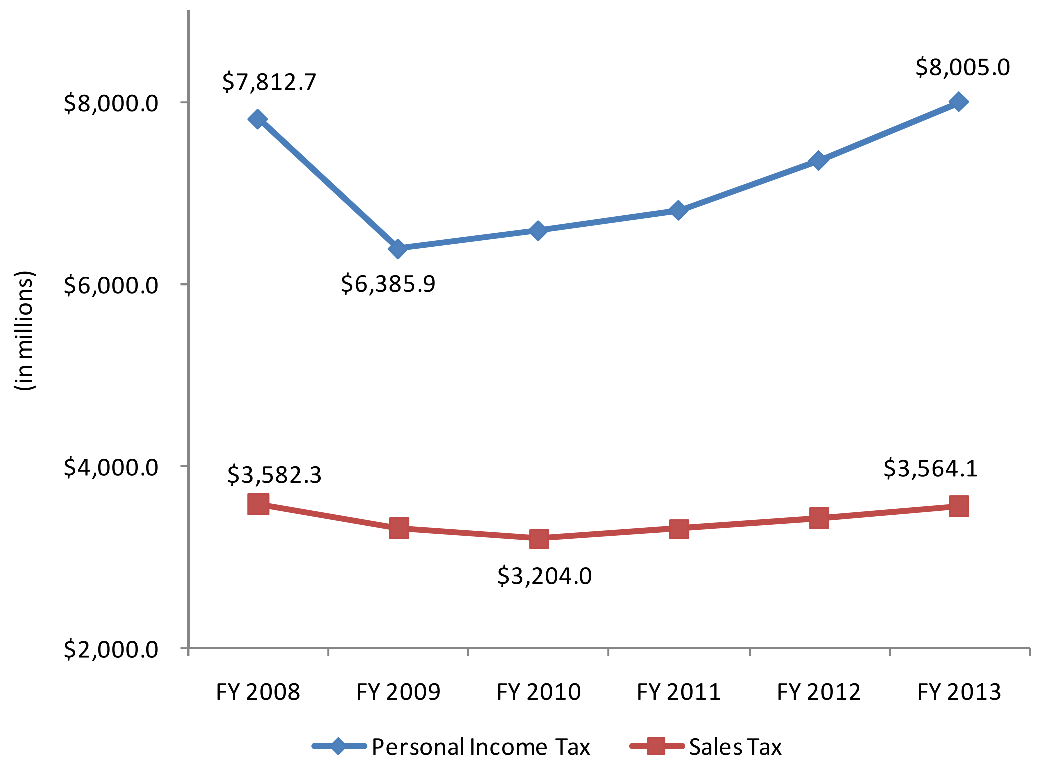


	Jobs Gained / (Lost) As of Sept 2010	Total Jobs March 2008 (Peak Month)
Education & Health Services	13,100	295,000
Leisure & Hospitality	600	138,200
Other Services	(2,200)	63,600
Government	(8,800)	252,500
Total Non-Farm Employment	(100,900)	1,711,500
Wholesale & Retail Trade	(18,900)	260,700
Financial Activities	(11,700)	144,700
Information	(3,900)	38,200
Professional & Business Srvcs	(22,800)	208,600
Transportation & Utilities	(5,900)	52,600
Manufacturing	(22,100)	188,400
Construction	(18,300)	69,000

- Connecticut's total non-farm employment peaked in March of 2008 at 1,711,500 jobs, but has lost 100,900 jobs, or 5.9 percent as of September of 2010.
- The only sectors with growth have been education and health services and leisure and hospitality.
- The sectors with the largest numbers of lost jobs are professional and business services (22,800 jobs), manufacturing (22,100), wholesale and retail trade (18,900), construction (18,300), and financial activities (11,700).

Source: Bureau of Labor Statistics

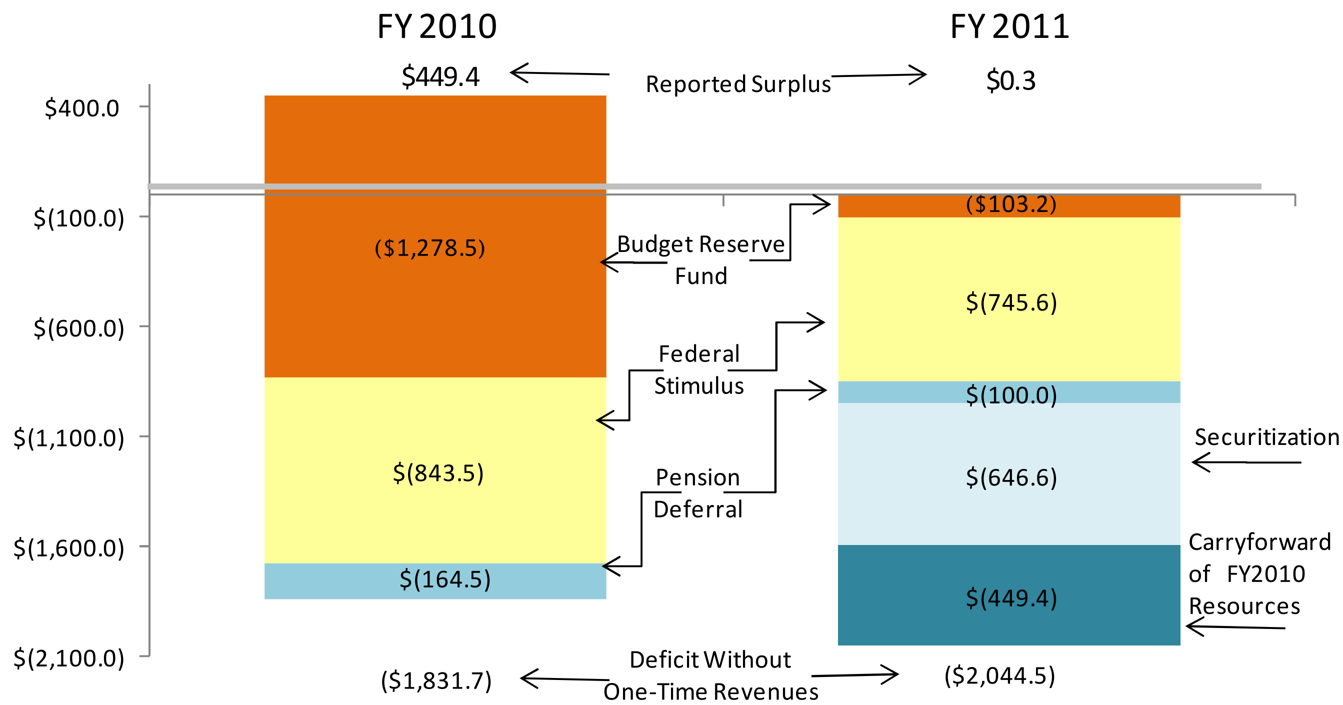
REVENUE TRENDS



- The financial crisis that began in FY 2007 severely impacted the state's revenues.
- The income tax is projected to exceed FY 2008's levels in FY 2013, but it has taken a millionaire's tax to do so.
- Overall, General Fund revenues in FY 2012 are just returning to their FY 2008 levels.
- The October 15, 2010 consensus revenue projections already assumes revenue growth of $862.2 million in FY 2013.

REPORTED SURPLUS
DUE TO ONE-TIME SOURCES

(In Millions)



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

ECONOMIC RECOVERY REVENUE BONDS

A.K.A. SECURITIZATION

FY 2011 Financing Plan

Economic Recovery Revenue Bonds (ERRB's)
(in millions)

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

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

CAPITAL GAINS VOLATILITY

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

(In Millions)

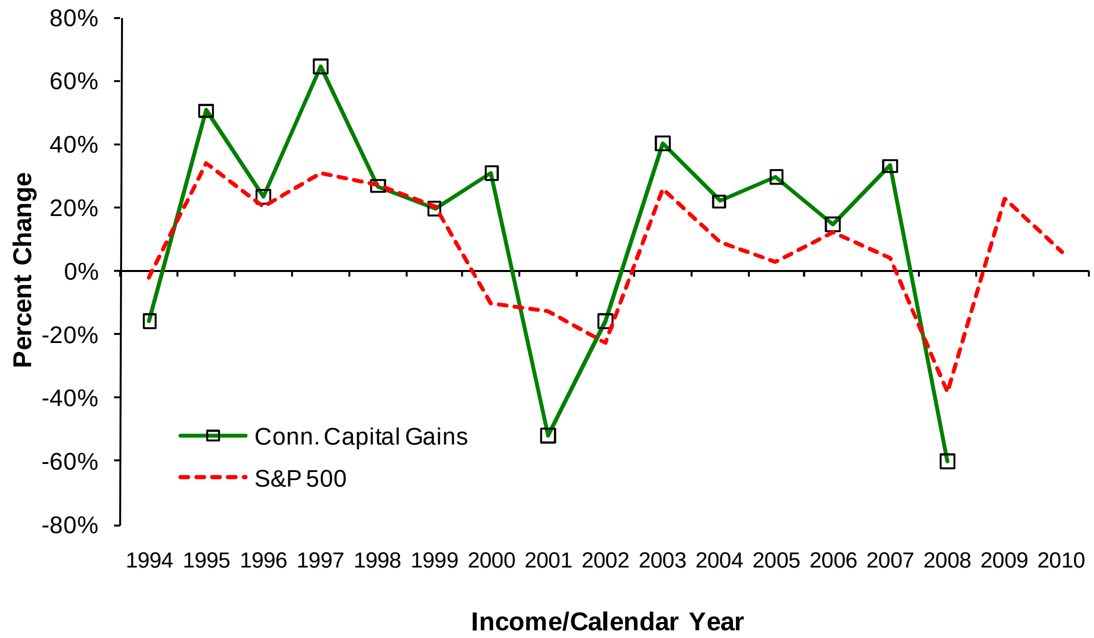
Income Year	Conn. Capital Gains	Percent Change	S&P 500 Percent Change
1994	$2,547	-16%	-2%
1995	$3,832	50%	34%
1996	$4,732	23%	20%
1997	$7,787	65%	31%
1998	$9,867	27%	27%
1999	$11,800	20%	20%
2000	$15,435	31%	-10%
2001	$7,391	-52%	-13%
2002	$6,231	-16%	-23%
2003	$8,723	40%	26%
2004	$10,626	22%	9%
2005	$13,765	30%	3%
2006	$15,784	15%	12%
2007	$21,006	33%	4%
2008	$8,377	-60%	-38%

- Capital gains income is strongly influenced by the performance of the stock market.
- In high years capital gains can represent almost 15% of total adjusted gross income.
- In low years, they can represent just 5% of total adjusted gross income.
- Unfortunately, a record high year can be immediately followed by a record low year, devastating state finances.
- In 2008, Capital Gains fell significantly following a record high in 2007.

Sources: Department of Revenue Services and Internal Revenue Service various years

INCOME TAX GROWTH REMAINS TENUOUS

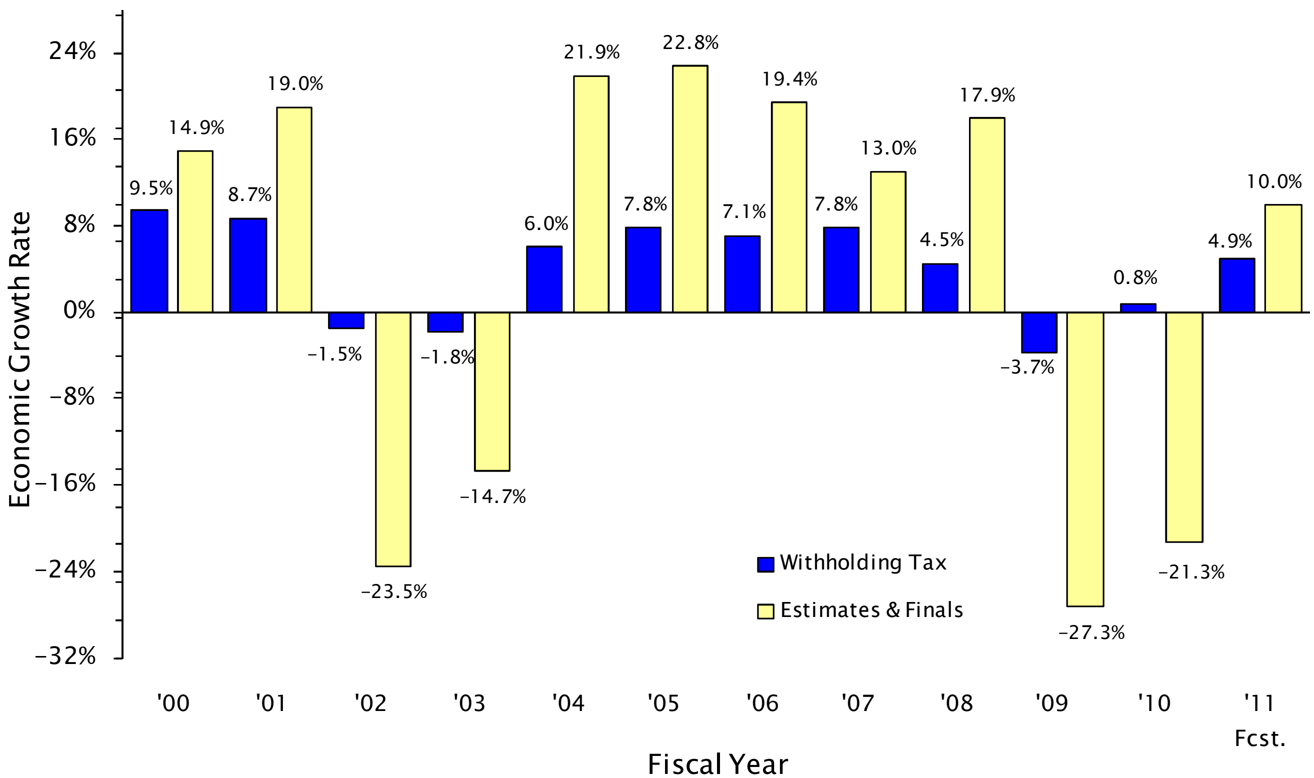
CONNECTICUT CAPITAL GAINS AND THE S&P 500



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

PERSONAL INCOME TAX TRENDS

ECONOMIC GROWTH RATE OF THE PERSONAL INCOME TAX

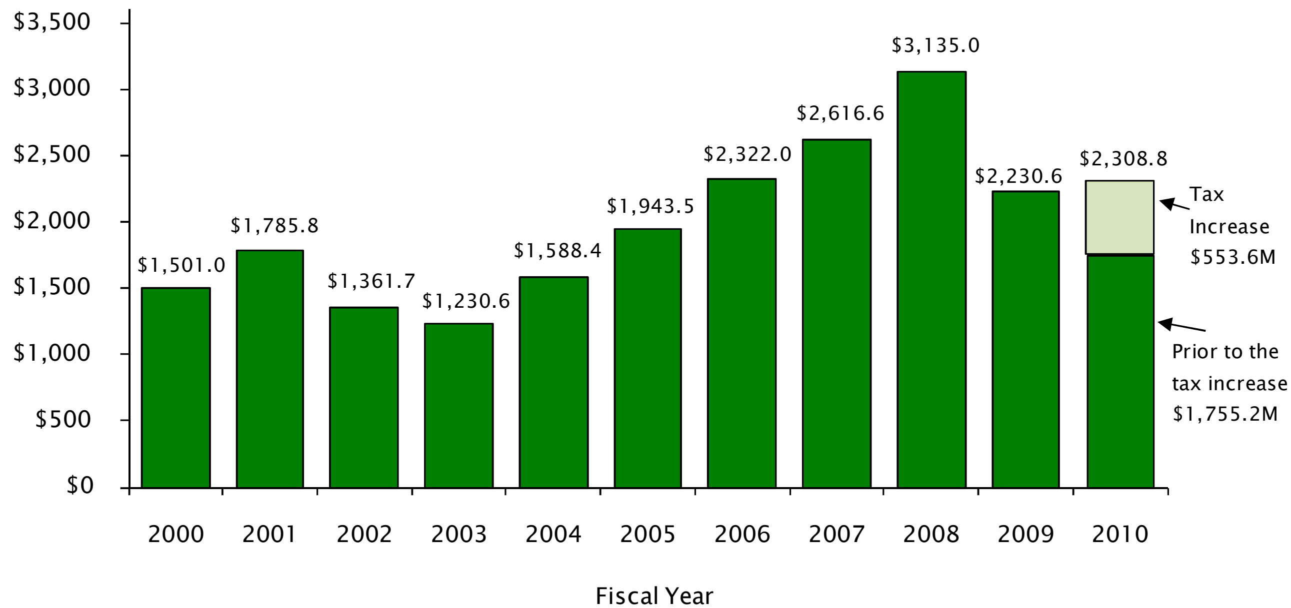


- Over the past decade Connecticut's income tax revenue has fluctuated dramatically.
- This was due to the performance of the stock market and two recessions.
- Performance in the financial markets significantly influences the growth in this revenue source.

ESTIMATES AND FINALS INCOME TAX

ESTIMATES AND FINALS INCOME TAX COLLECTIONS

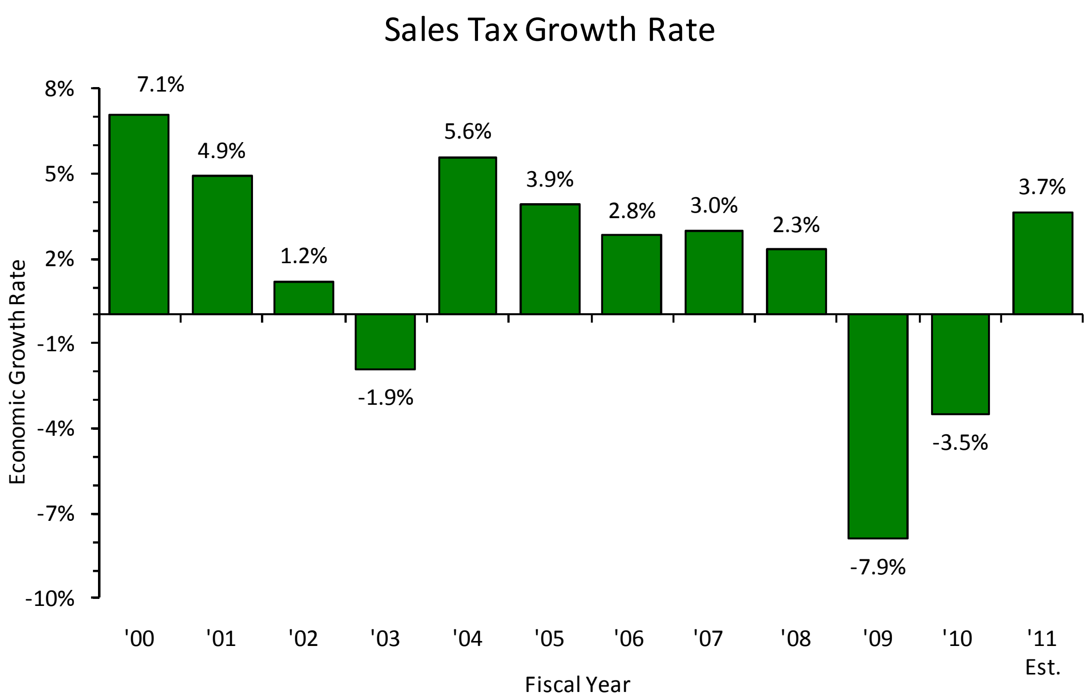
(In Millions)



- The estimates and finals component of the income tax typically represents one-third of total income tax collections It has been extremely volatile over the years.
- In FY 2002, estimates and finals fell by $424.1 million.
- In FY 2003, they fell by an additional $131.1 million for a total of $555.2 million or 31% from the 2001 peak.
- In FY 2009 alone, estimates and finals fell by $904.4 million and fell an additional $475.4 million in FY 2010 for a total decline over two years of approximately $1.4 billion or 44.5% from the 2008 peak .
- The increase in actual collections in FY 2010 was a result of increasing the top tax rate from 5% to 6.5%, the underlying economic growth rate was -21.3% .

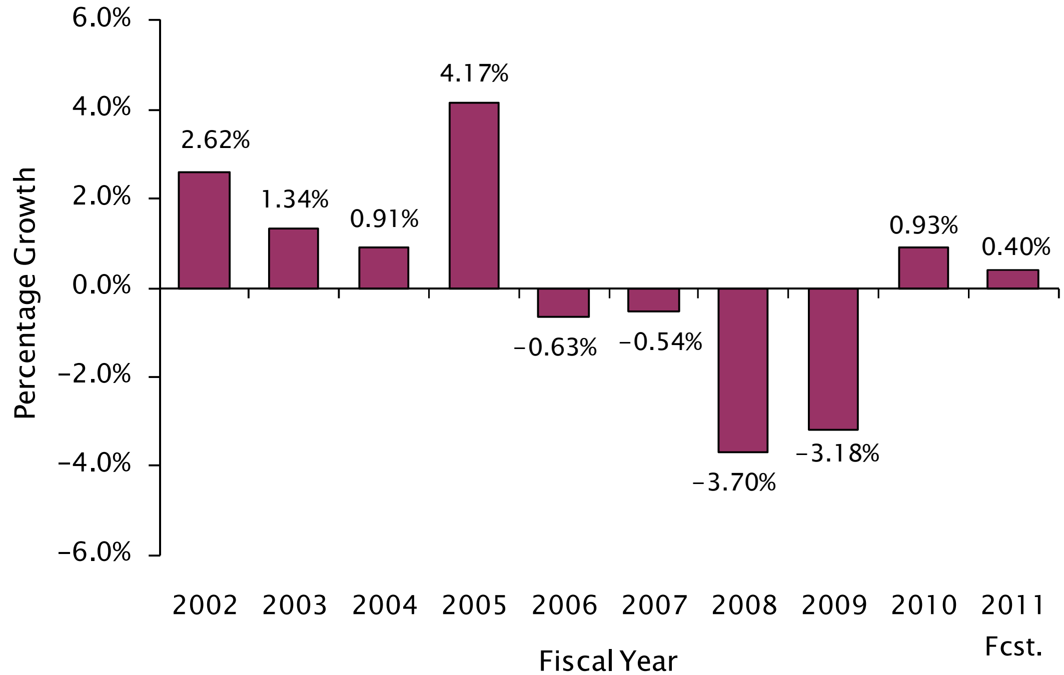
SALES TAX TRENDS

ECONOMIC GROWTH RATES OF THE SALES AND USE TAX



- The sales tax dropped in two consecutive years, fiscal 2009 and 2010, due to chaos in the financial market and the worst economic downturn since the WWII.
- Beginning in late fiscal 2008, collections started to weaken as the housing market deteriorated with prices declining and foreclosure rates increasing.
- Without the federal stimulus packages, FY 2009 and FY 2010 would have been worse.
- Collections in late Fiscal 2010 showed some signs of improvement as employment and personal income increased.
- Consumers have increased their saving in an attempt to reduce debt and improve their balance sheets and yet households' wealth remains 20% below its 2007 peak.
- Consumer credit outstanding remains 6% below its 2008 peak.
- A 1.0% increase in the sales and use tax growth rate results in a revenue gain of more than $30 million.

MOTOR FUELS TAX TRENDS
AND THE SPECIAL TRANSPORTATION FUND



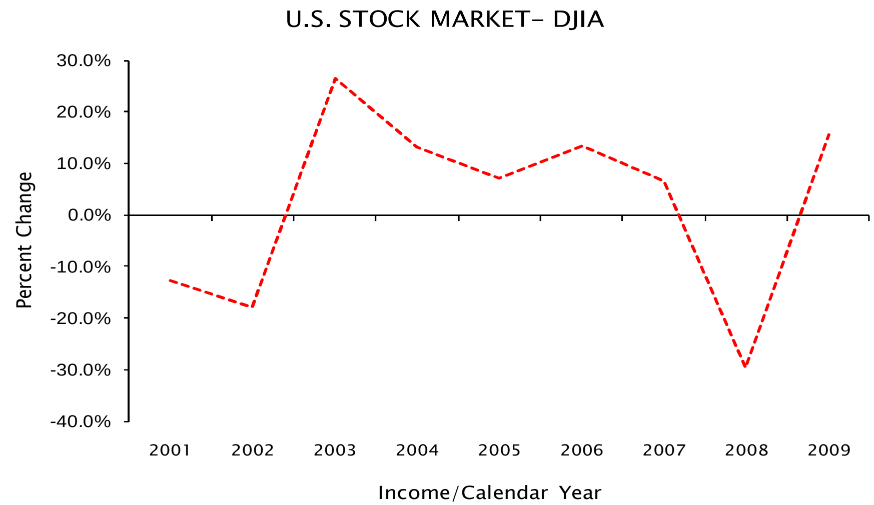
- In FY 2010, Motor Fuels tax revenue equaled 45% of the total revenue of the Special Transportation Fund.
- Consumers began to curtail consumption as prices began to rise.
- By the summer of 2008, record high gasoline prices and the onset of a severe national recession forced consumers to significantly alter their driving habits and/or mode of transportation in an effort to reduce their gasoline bill in the short term.
- Only recently has gasoline consumption begun to rise again, however, FY 2011 is projected to remain 6.4% below the FY 2005 peak and nearly equivalent to FY 2002 consumption levels.

GENERAL FUND REVENUES

ARE NEARLY AS VOLATILE AS THE STOCK MARKET

FY 2001 THROUGH FY 2009

Tax/Revenue Stream	Multiples Of DJIA
Oil Companies (Most Volatile)	3.2
Real Est Conveyance	2.0
Personal Income Tax (Est & Fin)	1.8
Corporation	1.7
Cigarettes	1.4
Inheritance & Estate	1.4
Personal Income Tax Total	1.3
Federal Grants GF	1.2
Personal Income Tax (WH)	1.1
Public Service Corp	1.1
Refunds of Taxes G.F.	1.1
Stock Market (DJIA)	1.0
GRAND TOTAL GF	0.9
Insurance Companies	0.8
Indian Gaming Payments	0.6
GRAND TOTAL STF	0.5
Sales and Use	0.5
Alcoholic Beverages	0.3
Transfer-Special Revenue	0.3
Motor Fuels (Least Volatile)	0.2



- Connecticut's revenue sources are volatile.
- Compared to the volatility of the US stock market –Dow Jones Industrial Average (DJIA), total General Fund revenues are only ten percent less volatile.
- The state's largest revenue source, the personal income tax, is thirty percent more volatile than the market.
- The sales tax is more stable, only half as volatile as the market.
- This volatility makes it difficult to consistently fund ongoing programs and can result in increased program funding in good times beyond sustainable levels and a propensity to ratchet up tax rates when a recession occurs.

EXPENDITURES:

MAJOR COST DRIVERS & LONG TERM OBLIGATIONS

SUMMARY OF APPROPRIATED FUND PROJECTIONS

LARGEST AMOUNTS

(In Millions)

		Estimated 2010-2011		Current Service 2011-2012		Current Service 2012-2013		Projected 2013-2014
GENERAL FUND								
DSS - Medicaid	$	4,311.4	$	4,670.5	$	4,879.3	$	5,154.0
STATEWIDE - Personal Services		2,349.1		2,554.7		2,474.2		2,596.8
SDE - Education Equalization Grants		1,889.6		1,889.6		1,889.6		1,942.5
OTT - Debt Service		1,485.7		1,713.6		1,704.4		1,724.3
OSC - Retired Employee Health Serv Cost		595.3		597.4		648.3		674.3
TRB - Retirement Contributions		581.6		757.2		787.5		819.0
OSC - Retirement Contributions		563.3		722.1		715.5		770.6
STATEWIDE - Other Expenses		552.9		514.8		532.5		547.8
OSC - State Employees Health Serv Cost		490.6		604.2		665.1		691.7
DDS - Community Residential Services		406.9		431.5		456.1		473.9
OSC - Employers Social Security Tax		232.3		246.7		248.4		255.3
UOC - Operating Expenses		219.8		241.4		234.5		241.1
DCF - Board & Care - Residential		180.7		201.9		218.5		231.3
DDS - Employment Opportunities & Day Svcs		179.1		192.7		209.7		217.4
SDE - Magnet Schools		174.1		215.9		235.6		242.2
CCC - Operating Expenses		155.8		163.0		159.5		164.0
CSU - Operating Expenses		154.9		168.3		164.7		169.3
SDE - Excess Cost - Student Based		139.8		169.9		183.4		188.5
DSS - Temporary Assist to Families - TANF		130.4		123.7		127.2		130.7
MHA - General Assistance Managed Care		128.8		153.4		177.1		184.2
UHC - Operating Expenses		118.8		125.6		121.3		124.7
SDE - Priority School Districts		117.2		118.5		120.4		123.8
DCF - Board and Care for Children - Foster		117.0		126.0		136.6		142.7
OTT - UConn 2000 - Debt Service		116.6		120.3		130.0		144.7
OSC - Loss Taxes Private Tax-Exempt Property		115.4		115.4		115.4		115.4
DSS - DMHAS – Disproportionate Share		105.9		105.9		105.9		105.9
DSS - Child Care Services - TANF/CCDBG		103.4		114.1		133.6		148.5
DOC - Inmate Medical Services		98.6		104.6		104.6		108.8
STATEWIDE - ALL OTHER		2,381.6		2,615.8		2,920.0		3,032.0
General Fund - Gross	$	18,196.9	$	19,878.7	$	20,599.0	$	21,465.5
Total Lapses	$	(302.4)	$	(117.2)	$	(117.2)	$	(117.2)
General Fund - Net	$	17,894.5	$	19,761.5	$	20,481.8	$	21,348.3

SUMMARY OF APPROPRIATED FUND PROJECTIONS

(In Millions)

OTHER APPROPRIATED FUNDS

	Estimated 2010-2011	Current Service 2011-2012	Current Service 2012-2013	Projected 2013-2014
SPECIAL TRANSPORTATION FUND - Gross	$ 1,187.9	$ 1,306.0	$ 1,350.1	$ 1,389.8
Estimated Unallocated Lapses	(11.0)	(11.0)	(11.0)	(11.0)
Special Transportation Fund - Net	**$ 1,176.9**	**$ 1,295.0**	**$ 1,339.1**	**$ 1,378.8**
BANKING FUND	24.0	26.1	22.2	21.8
INSURANCE FUND	26.3	26.9	26.4	27.4
CONSUMER COUNSEL/PUBLIC UTILITY FUND	24.5	26.3	26.0	27.0
WORKERS' COMPENSATION FUND	22.2	22.5	22.5	23.3
MASHANTUCKET PEQUOT AND MOHEGAN FUND	61.8	135.0	135.0	135.0
SOLDIERS, SAILORS AND MARINES FUND	3.0	3.1	3.2	3.3
REGIONAL MARKET OPERATION FUND	1.0	1.0	1.0	1.0
CRIMINAL INJURIES COMPENSATION FUND	3.4	3.5	3.6	3.7
TOTAL ALL OTHER FUNDS - NET	**$ 1,343.1**	**$ 1,539.4**	**$ 1,578.9**	**$ 1,621.3**
TOTAL ALL FUNDS - NET	**$ 19,237.5**	**$ 21,300.9**	**$ 22,060.7**	**$ 22,969.6**

PROJECTED FY 2011 GENERAL FUND DEFICIENCIES

(In Millions)

Agency / Account		Amount
Department of Public Works		$ 6.4
Other Expenses	2.0	
Management Services	1.1	
Rents and Moving	3.3	
Department of Public Safety		8.4
Other Expenses	5.0	
Fleet Services	3.4	
Department of Mental Health and Addiction Services		28.4
Other Expenses	5.3	
GA Managed Care	23.1	
Department of Social Services		172.5
Other Expenses	15.0	
Medicaid (Net of offsetting lapses)	157.5	
Department of Correction - Other Expenses		12.0
Public Defender Services		2.1
Other Expenses	0.2	
Special Public Def - Contractual	0.2	
Special Public Def - Noncontractual	1.0	
Expert Witnesses	0.7	
Child Protection Commission - Contracted Attorneys		2.6
Department of Administrative Services - Workers Compensation		1.0
TOTAL		$ **233.40**

CONNECTICUT'S BOND RATING

CURRENT GENERAL OBLIGATION BOND RATING

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

Prior to 1975, Connecticut's General Obligation (GO) bonds had the highest rating possible: Aaa by Moody's and AAA by Standard & Poor's (S&P)

The most recent revision in Connecticut's bond rating was a downgrade to AA by Fitch in June 2010. Moody's and Fitch had recalibrated the state's rating to Aa2 and AA+, respectively, in April 2010.

NUMBER OF STATES RATED

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

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

LONG TERM OBLIGATIONS

- The state's long-term obligations total $70.2 billion, up 13.8% from last year's reported amount of $61.7 billion.
- This equates to approximately $20,050 for every man, woman and child in Connecticut, up $2,422 from last year's reported amount of $17,628.
- In comparison, total Personal Income Tax collections in FY 2011 will only be $6.8 billion.

LONG TERM OBLIGATIONS
(In Billions)

Bonded Indebtedness - As of 8/31/10	$ 19.5
State Employee Pensions - Unfunded 6/30/10	11.7
Teachers' Pension - Unfunded 6/30/10	9.1
State Employee Post Retirement Health and Life - Unfunded	24.6
Teachers' Post Retirement Health and Life - Unfunded	3.0
Cumulative GAAP Deficit (General Fund Unreserved) 6/30/2009	2.3
Total	$ 70.2

DEBT BURDEN

STATE DEBT COMPARISON AMONG THE 50 STATES IN 2008

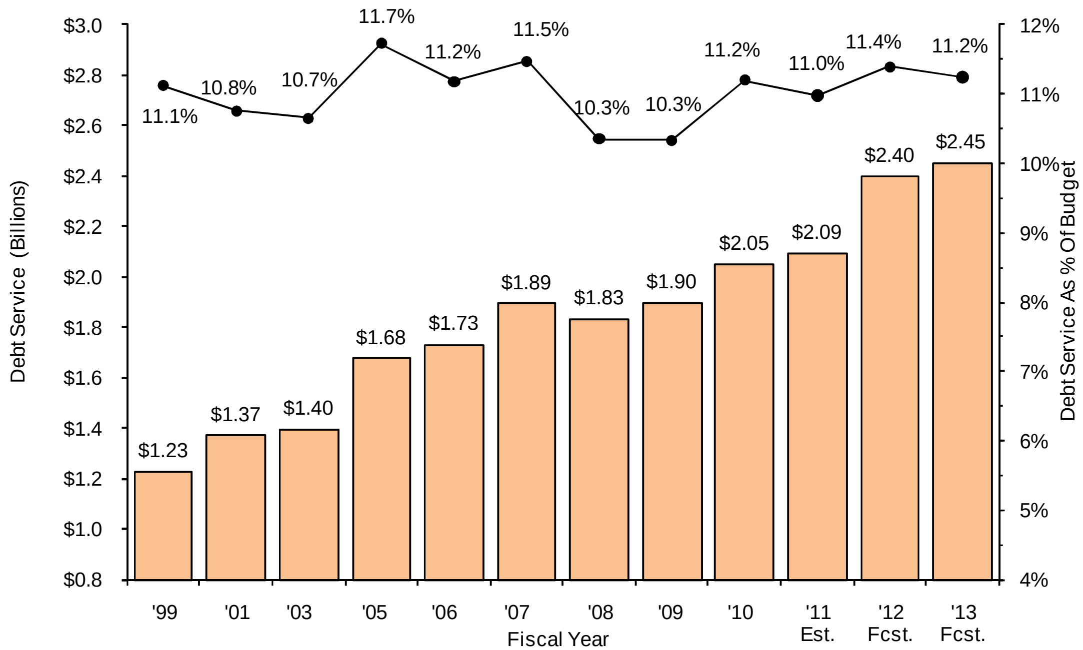
Ranked by Per Capita State Debt-2008			Ranked by State Debt As a % of Personal Income (PI)- 2008		
Rank	State	Amount ($)	Rank	State	Debt/PI
1	Massachusetts	$ 11,026	1	Alaska	22.1%
2	Alaska	9,480	2	Massachusetts	21.8%
3	Rhode Island	8,458	3	Rhode Island	20.5%
4	**CONNECTICUT**	**7,886**	4	Delaware	16.2%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

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

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

IMPACT OF DEBT EXPENSES

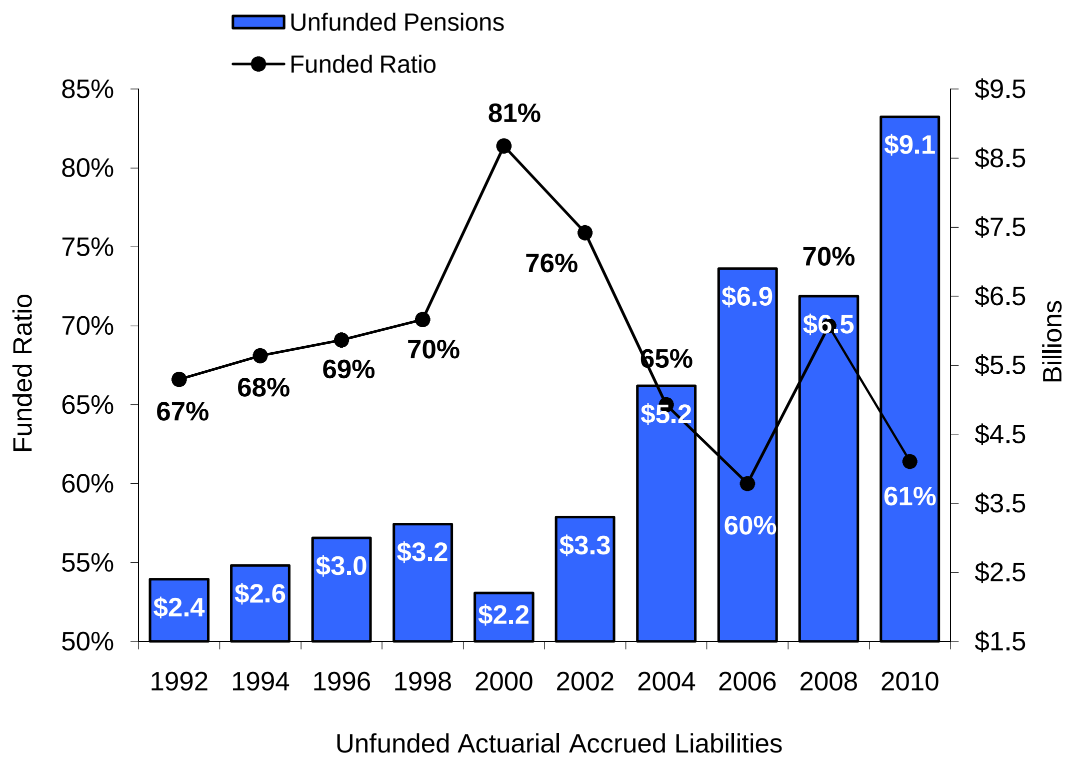
DEBT SERVICE EXPENDITURES
GENERAL AND SPECIAL TRANSPORTATION FUNDS



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

UNFUNDED PENSIONS

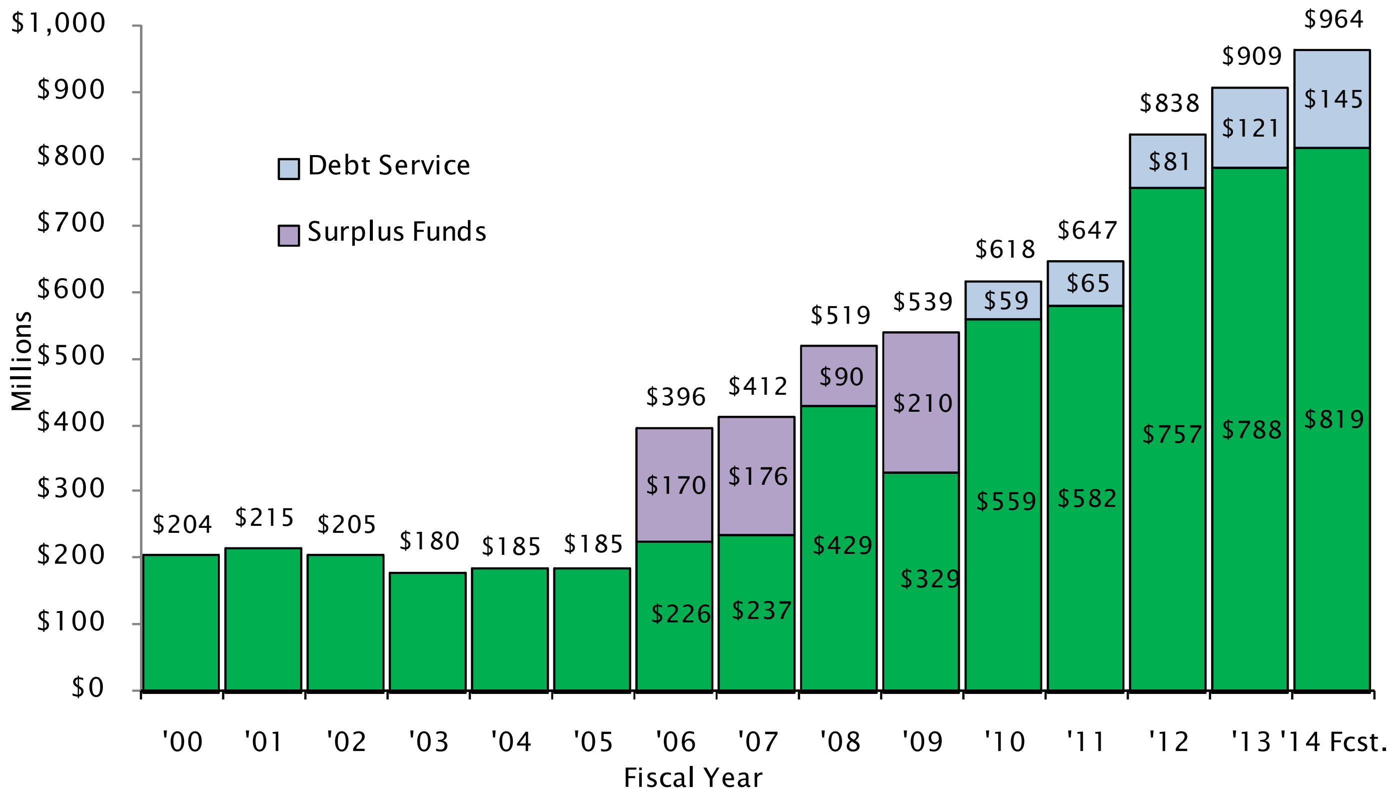
CONNECTICUT TEACHERS' RETIREMENT SYSTEM AS OF 6/30



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

UNFUNDED PENSIONS

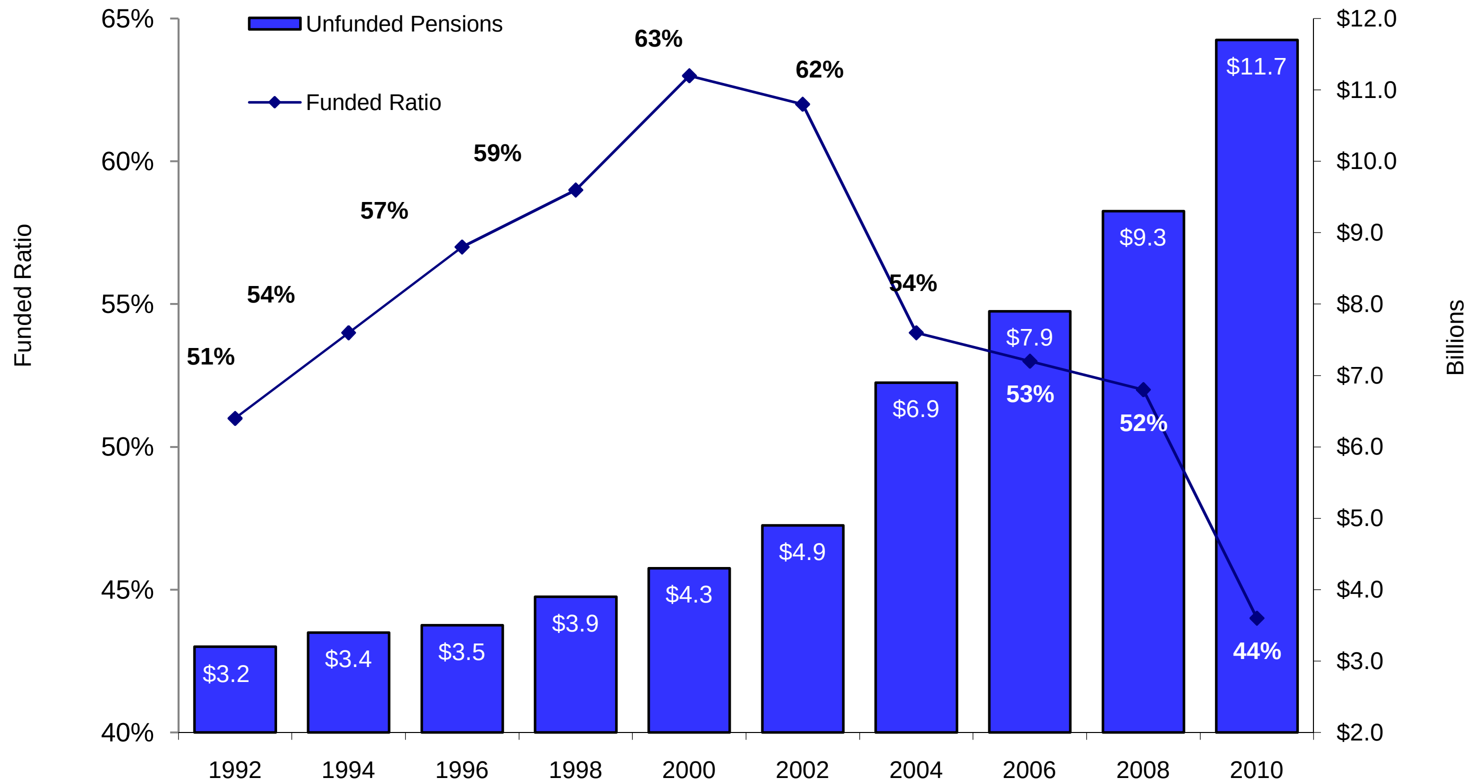
TEACHERS' RETIREMENT SYSTEM CONTRIBUTIONS *



* FY10 and beyond include debt service on the $2.3 billion pension obligation bonds issued on April 30, 2008 on behalf of the Teachers' Retirement System.

UNFUNDED PENSIONS

STATE EMPLOYEES RETIREMENT SYSTEM AS OF 6/30

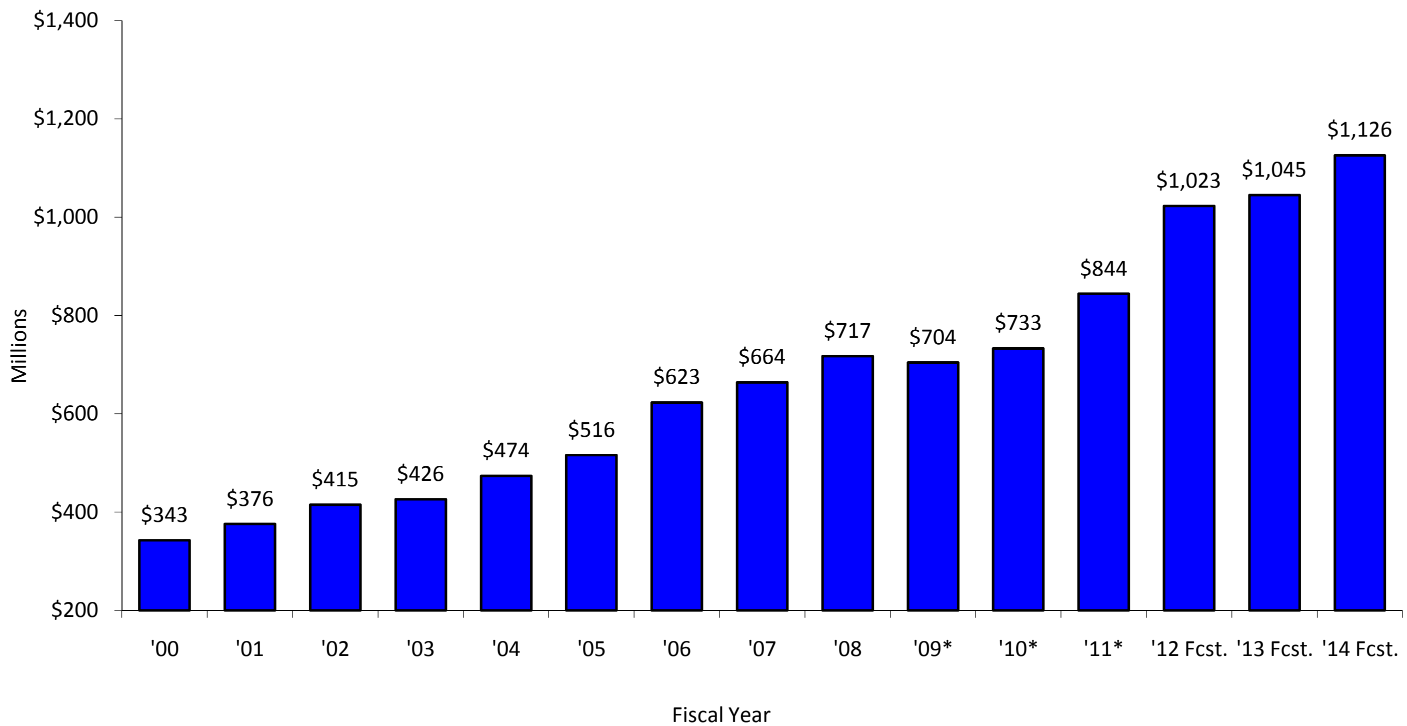


Unfunded Actuarial Accrued Liabilities

- State Employees unfunded pension liabilities continue to grow.
- The State's obligations at the end of FY2010 total $11.7 billion.
- This obligation represents roughly $3,333 for every man, woman, and child in the State.

UNFUNDED PENSIONS

STATE EMPLOYEES RETIREMENT CONTRIBUTIONS



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

- This obligation rose even with the large increase in equity valuations that took place over the 1990s.
- The required contribution will rise by approximately $201M over the next two fiscal years.
- The deferral of the SERS contribution is $50M in FY 2009, $164.5M in FY 2010 and $100M in FY 2011.

OTHER POST EMPLOYMENT BENEFITS

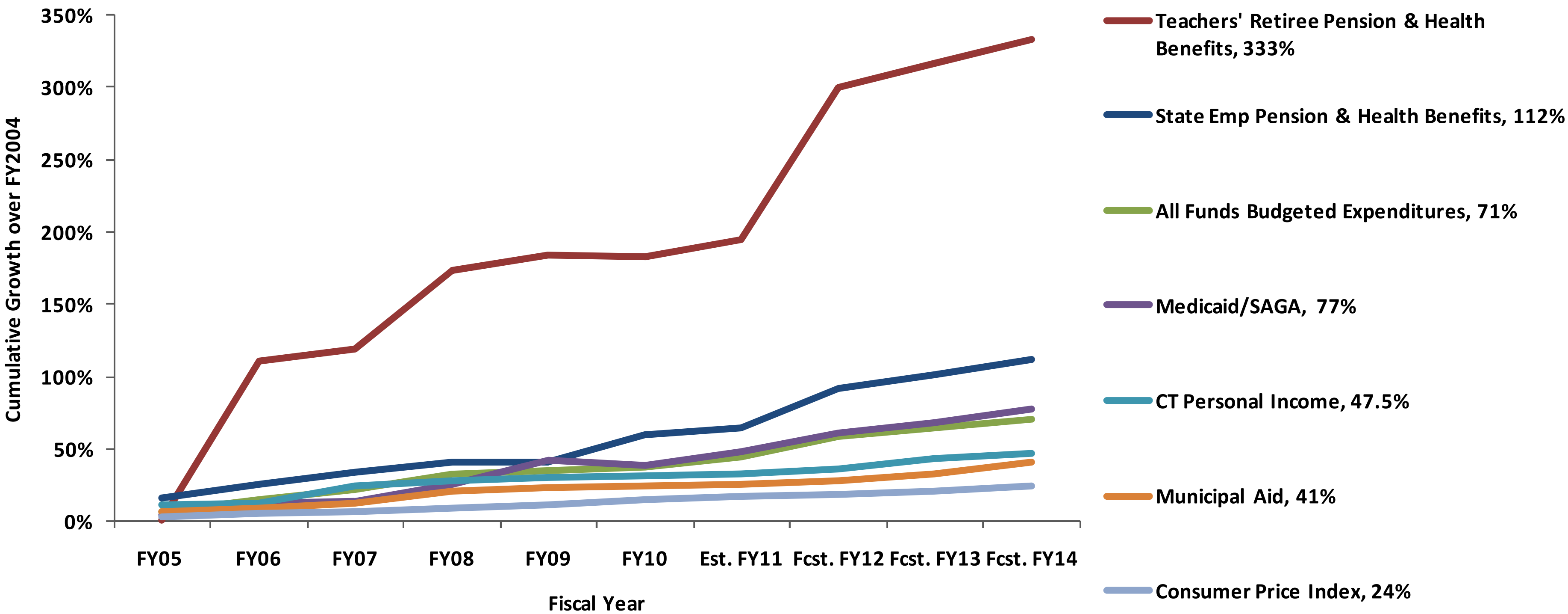
- The Governmental Accounting Standards Board (GASB) requires states to report on unfunded liabilities due to other post-employment benefits (OPEB), such as health, dental and life insurance for retirees.
  - There is currently no requirement to fund OPEB liabilities
  - Required funding is expected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

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

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

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

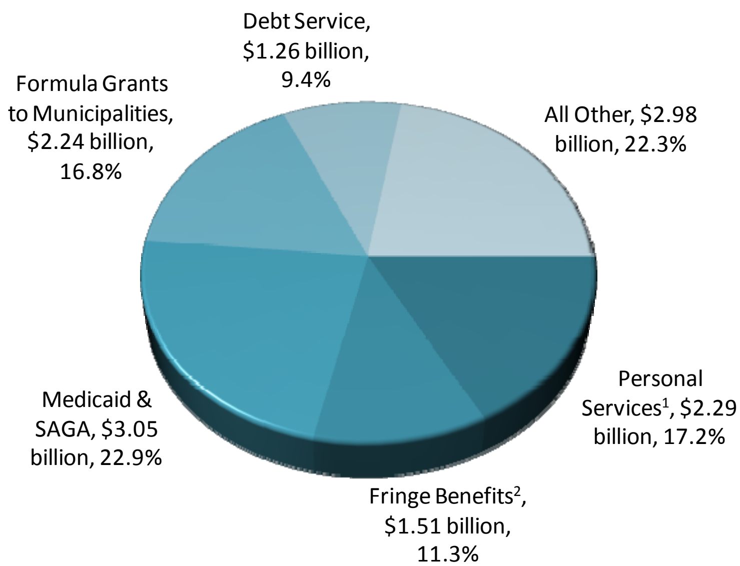
GROWTH IN SIGNIFICANT STATE EXPENDITURES



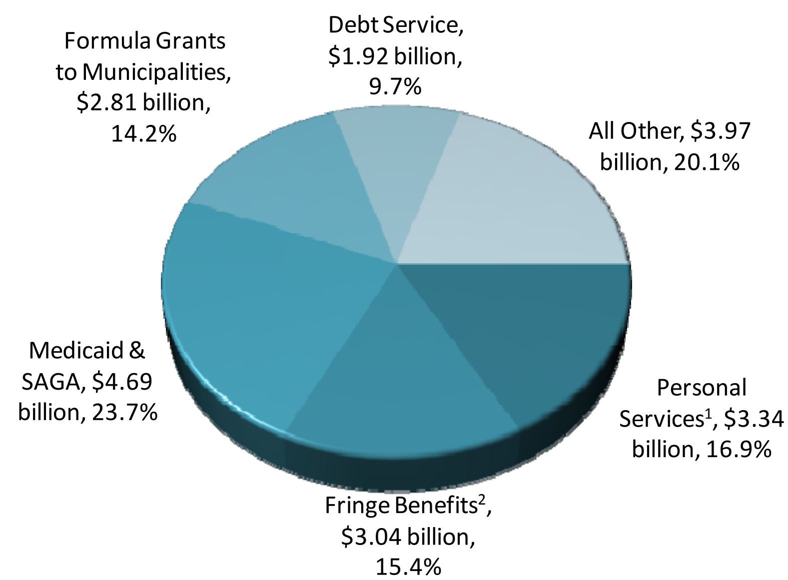
COMPONENTS OF GENERAL FUND SPENDING

FY2005 VS FY2012

FY 2005 Actual Expenditures



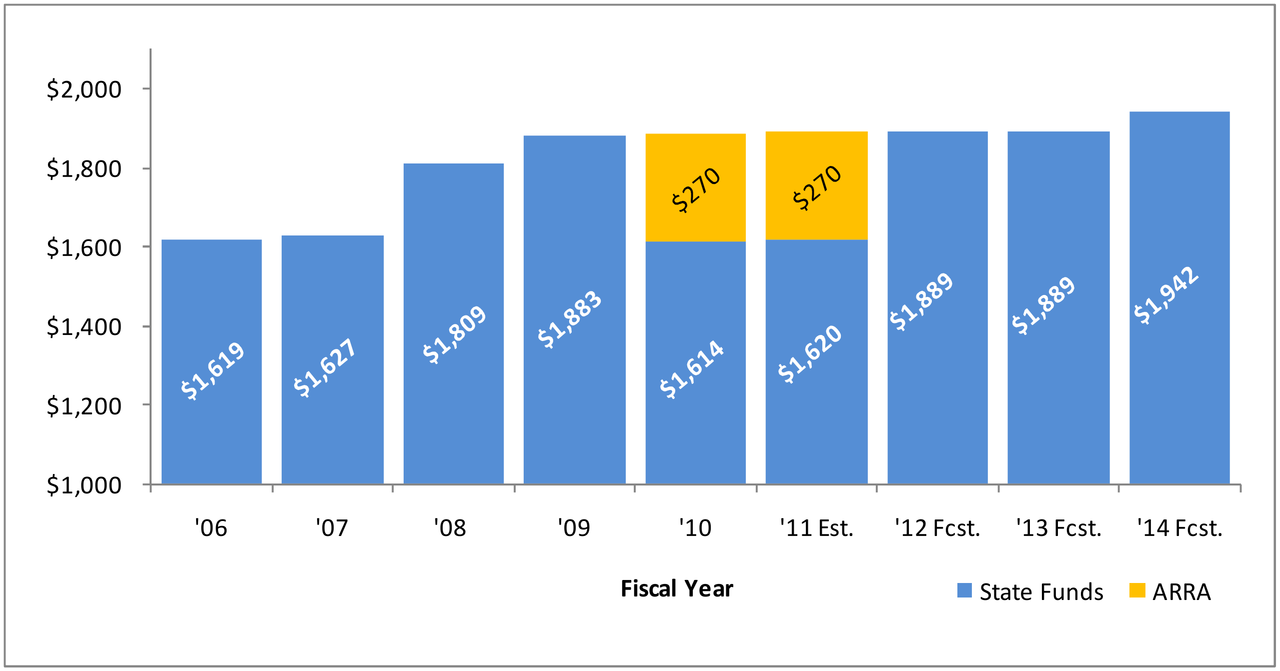
FY 2012 Current Services Projection



1. Personal Services includes Personal Services Account plus estimated PS costs in Other Current Expense accounts including Higher Education block grants. FY 2012 amount excludes estimated value of 27th payroll.
2. Fringe benefits includes Teachers Retirement and Healthcare costs.

EDUCATION COST SHARING GRANT

(In Millions)

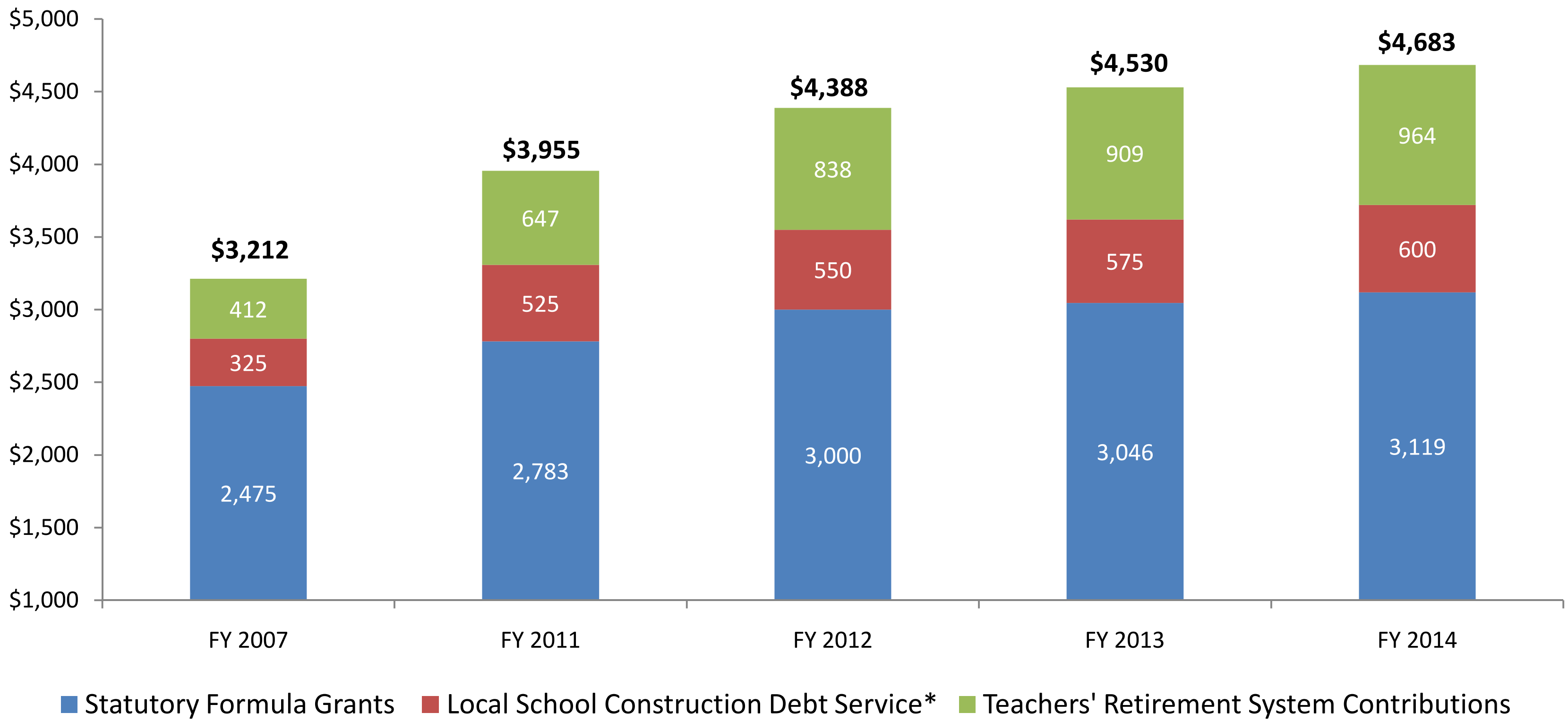


- The budget for FY2010 and FY2011 included federal ARRA SFSF funding of $269.5 million (14% of the grant) for a total of nearly $1.9 billion in ECS funding for both years.

STATE AID TO OR ON BEHALF OF LOCAL GOVERNMENTS

MUNICIPAL AID – ALL FUNDS

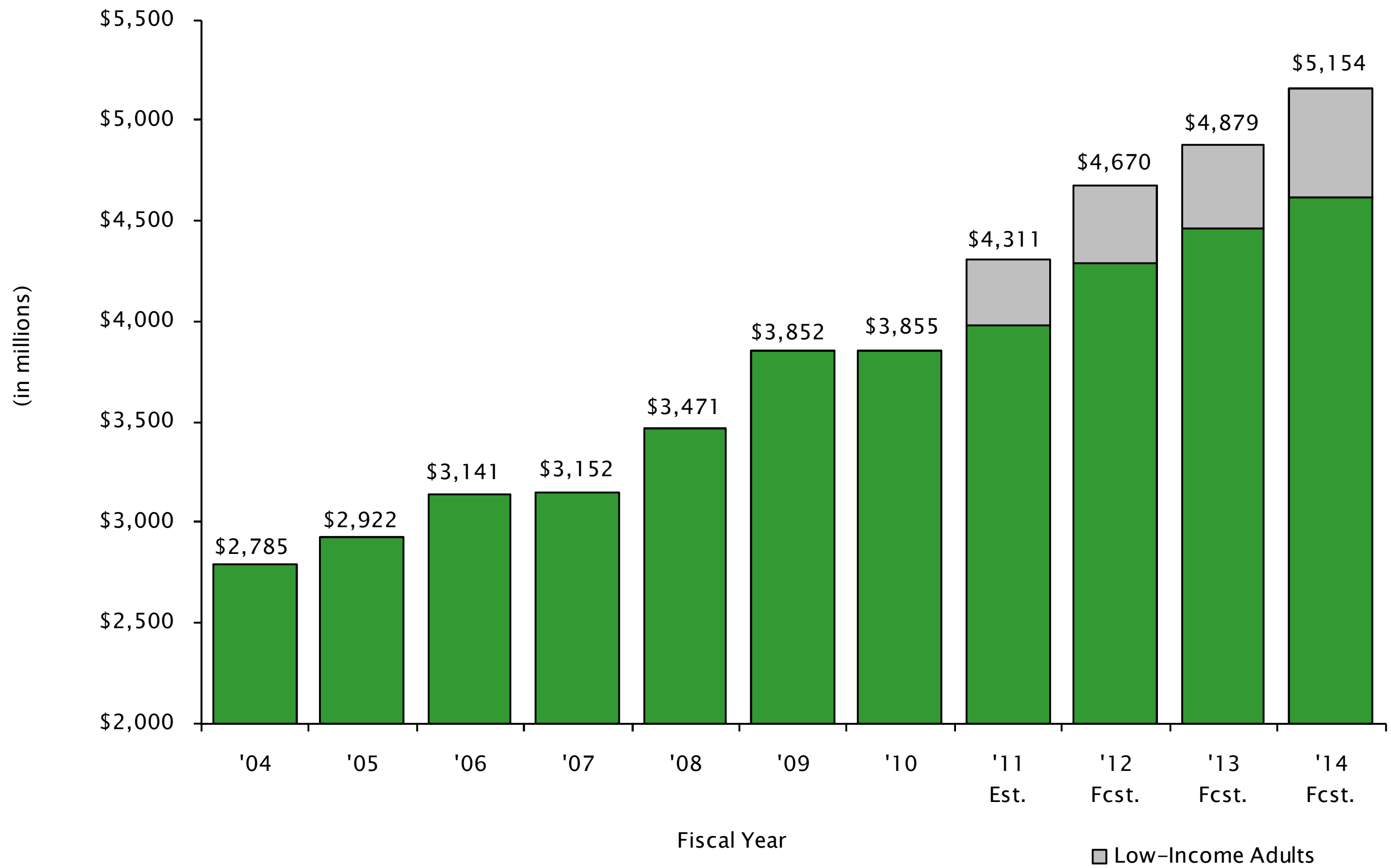
(In Millions)



*As estimated by the Office of Policy and Management

DEPARTMENT OF SOCIAL SERVICES

MEDICAID



- Projected expenditures for FY 2011 thru FY 2014 reflect the Medicaid expansion for low income adults (the "SAGA waiver"), which will result in additional growth in Medicaid beginning in FY 2011.

UNEMPLOYMENT COMPENSATION FUND

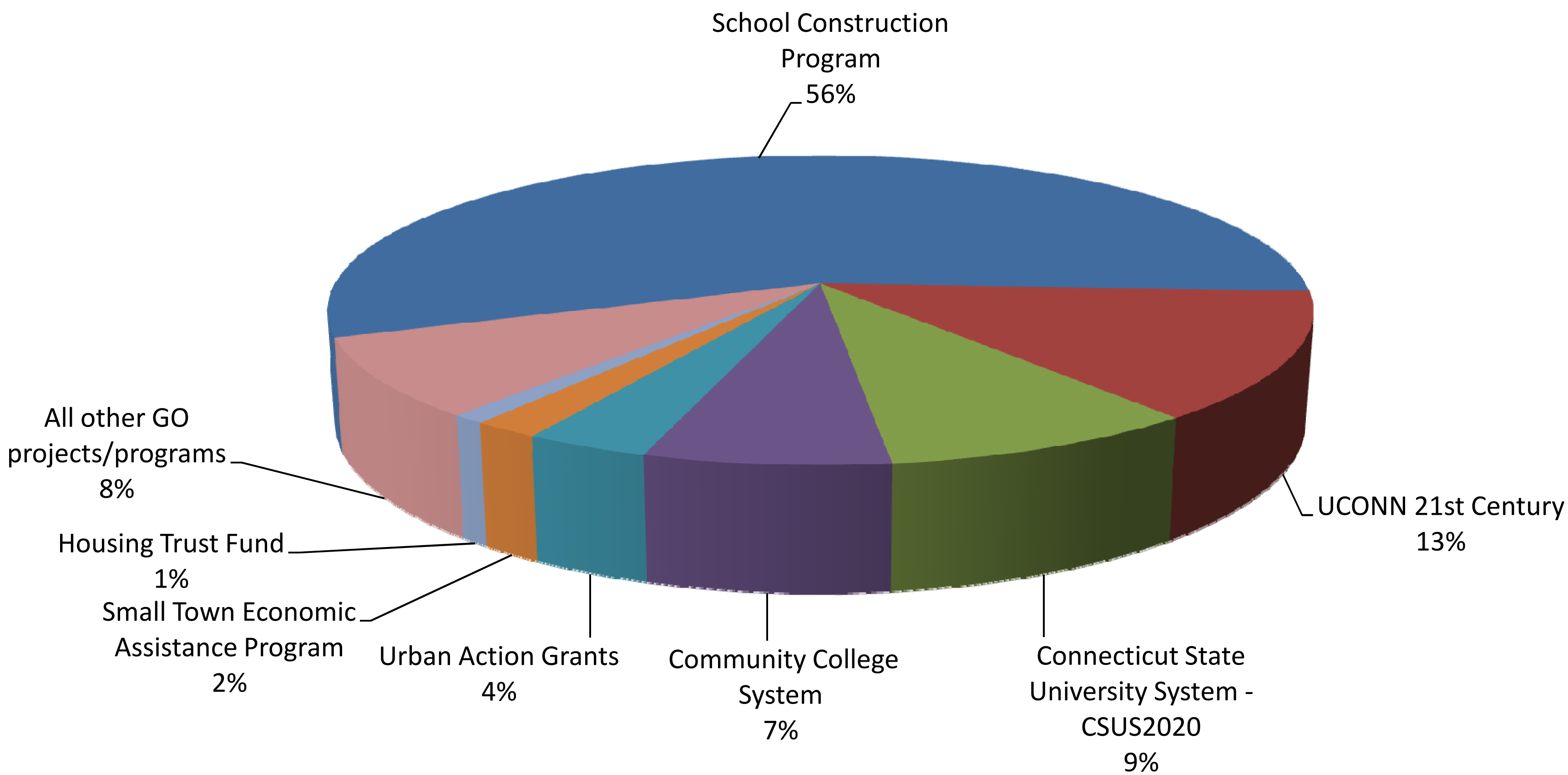
The recent high unemployment in Connecticut will have an effect on Connecticut businesses for the next several years.

- The Unemployment Compensation Fund became insolvent as of October 2009.
- To continue making unemployment payments, CT has been borrowing from the federal government.
- The ARRA provides interest free borrowing through calendar year 2010, however, states with loans outstanding beginning in 2011 will be subject to interest on these loans.
- If these loans are not repaid by January 1, 2011, the federal government will raise the Federal Unemployment Insurance (UI) tax on employers beginning in January 2012.
- Current projections, which are based on existing statutory provisions (both state and federal), indicate –
    - The need for continued borrowing until at least CY 2012 and will total approximately $950.0 million.
    - Under current statutory provisions, final repayment of the loans will likely occur in CY 2014 with $770.0 million from state UI taxes and $180.0 million from the increased federal UI taxes.

FIVE YEAR
BOND PROJECTIONS

FIVE YEAR BOND PROJECTIONS

PROJECTED GENERAL OBLIGATION BOND ALLOCATIONS FY2011 - FY2015



USE OF SURPLUS

BUDGET RESERVE FUND SHORTFALL

PROJECTED FUND BALANCE

BUDGET RESERVE FUND ACTIVITY

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

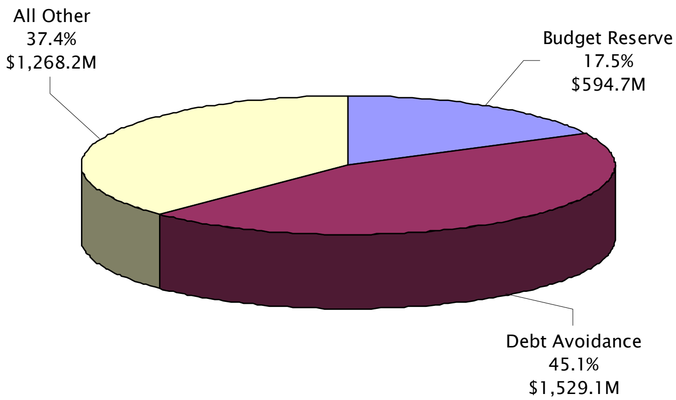
PLANNED DISPOSITION OF FUTURE SURPLUSES

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

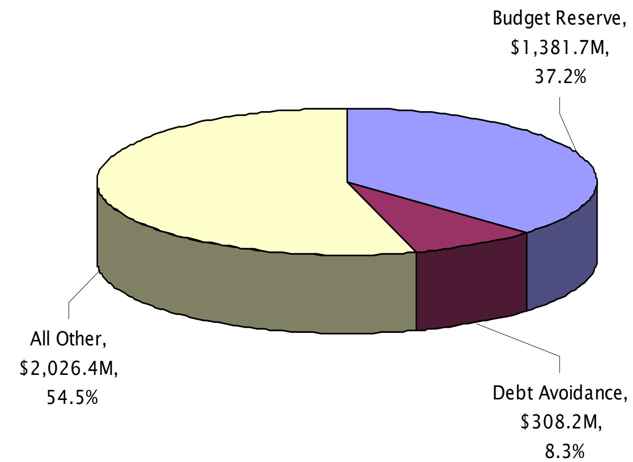
Therefore, the state would have to generate surpluses of almost $1.6 billion before the first deposit into the Budget Reserve Fund could be made.

LOST OPPORTUNITY

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



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



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

- Redeem any of the outstanding Economic Recovery Notes that were issued to finance the FY2009 deficit of $947.6 million, and then

- Redeem any of the outstanding Economic Recovery Revenue Bonds (a.k.a. Securitization) that were issued to balance the FY2011 budget. This issuance has yet to be completed, but is expected to total $646.6 million.

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

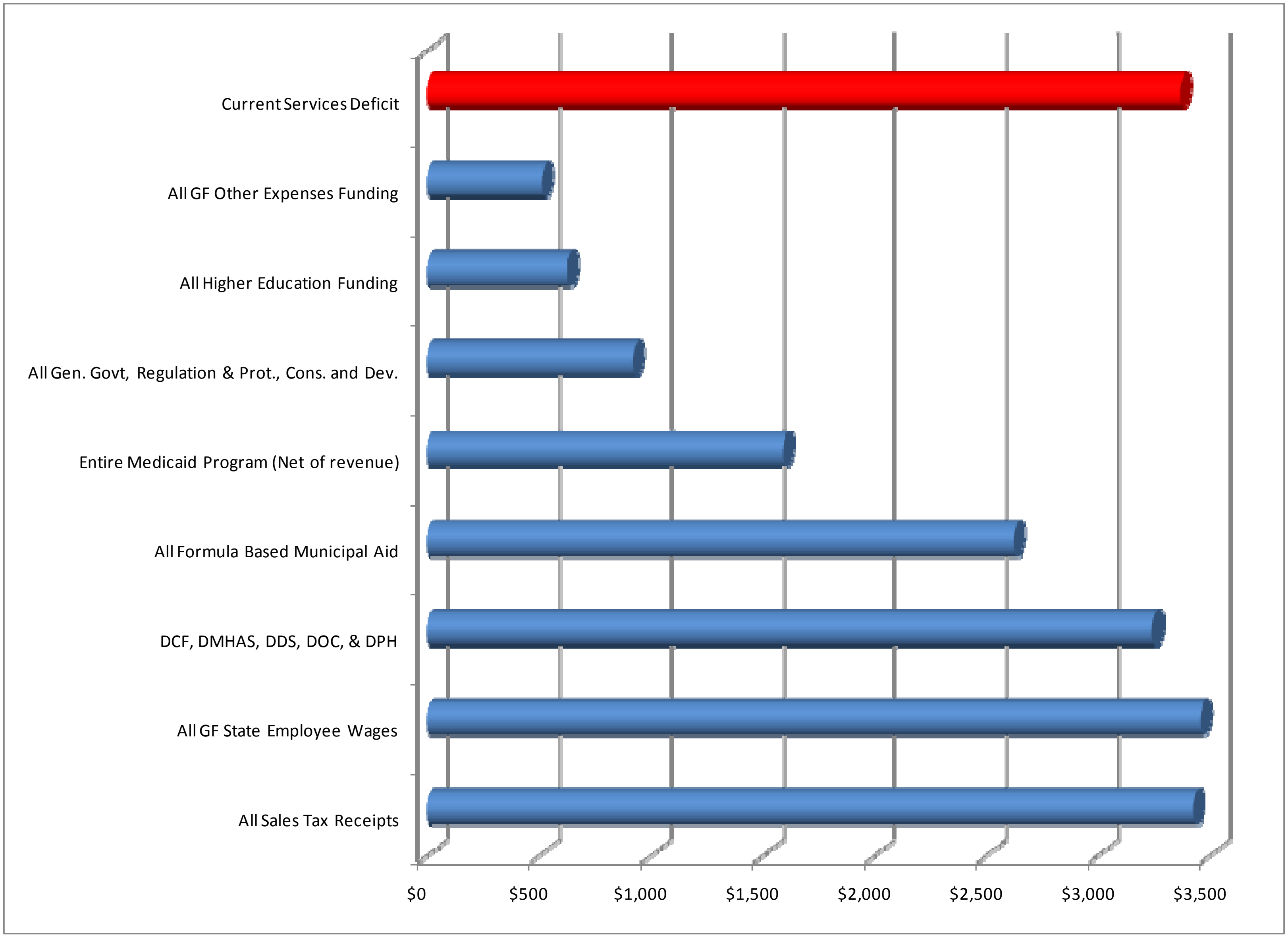
SUMMARY

FY2012 AND FY2013 BIENNIAL BUDGET CHALLENGES

- Pace of economic recovery
  - Joblessness trends
  - Revenue growth
- Scope and scale of government spending
- Federal mandates/policy changes
  - Expiration of federal tax cuts
  - Health care reform
- Long term unfunded liabilities
- Structural holes
- One-time expenditure requirements in FY 2012
  - 27th payroll
  - Leap year
- Increasing expenditure requests
  - Health care worker contracts expiring – nursing homes – spring 2011
  - Pension revaluations
  - Debt service
  - Sunset of biennial caps on major education grants, like Adult Education and Transportation
  - Medicaid
  - Private Providers
- Special Transportation Fund
  - Increasing expenditures
  - Construction cost escalation
  - Metro North increasingly shifting costs to Connecticut
  - Unknown federal commitments

FY 2012 DEFICIT IN CONTEXT

(In Millions)



SUMMARY

- The General Fund is projected to experience a deficit of $3.37 billion in FY 2012, $3.23 billion in FY 2013, and $3.13 billion in FY 2014.
- The Special Transportation Fund is projected to experience a deficit of $76.5 million in FY 2012, $57.7 million in FY 2013, and $73.6 million in FY 2014.
- Projected current services spending levels exceed the constitutional and statutory spending cap by $1.34 billion in fiscal year 2012 and $1.61 billion in fiscal year 2013.
- The loss of one-time revenues, including federal ARRA dollars, that support on-going programs and projects contributes over $2.0 billion to these projected deficits.
- The budget reserve fund balance will be exhausted during FY 2011.
- These large deficits occur even with projected revenue growth in excess of $500 million in FY 2012 and $900 million in FY 2013.
- Debt service will continue to grow and consume a significant portion of the budget.
- The state faces significant long-term obligations including debt, unfunded pension liabilities and unfunded post-employment retirement benefits that are estimated to exceed $70 billion in total.