FISCAL ACCOUNTABILITY REPORT
FISCAL YEARS 2016 – 2020

OFFICE OF POLICY AND MANAGEMENT
BEN BARNES, SECRETARY
NOVEMBER 18, 2015

Presentation Overview

- Summary of OPM projections
- Economic factors and revenue trends
- Expenditures, major cost drivers, and long-term obligations
- Five year bond projections
- Budget Reserve Fund status

Overview of Projections

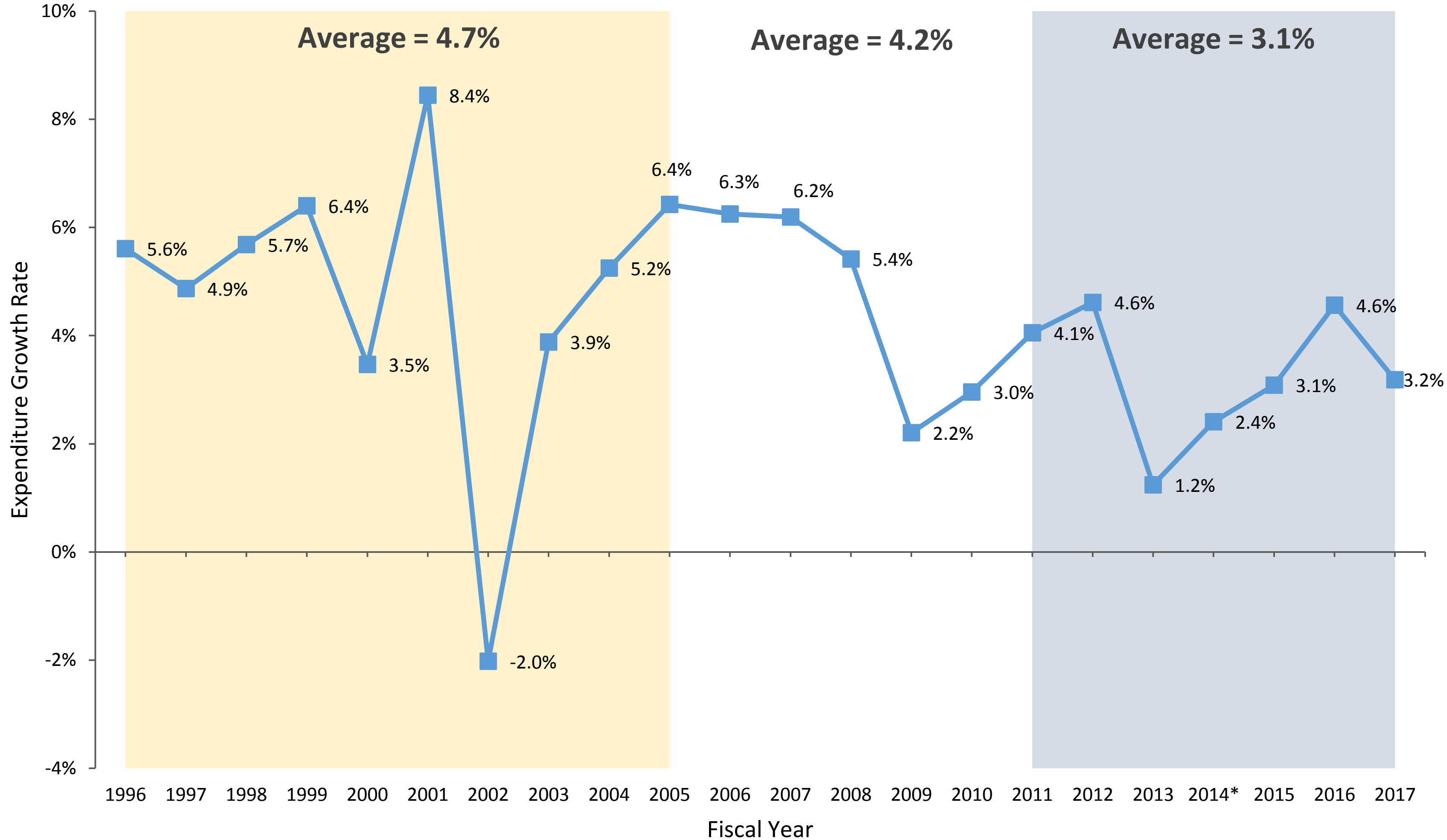
Financial Summary of Funds

in millions

	Estimated	Enacted	Projected		
General Fund	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues	$ 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[1]	-	(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

(1) 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).

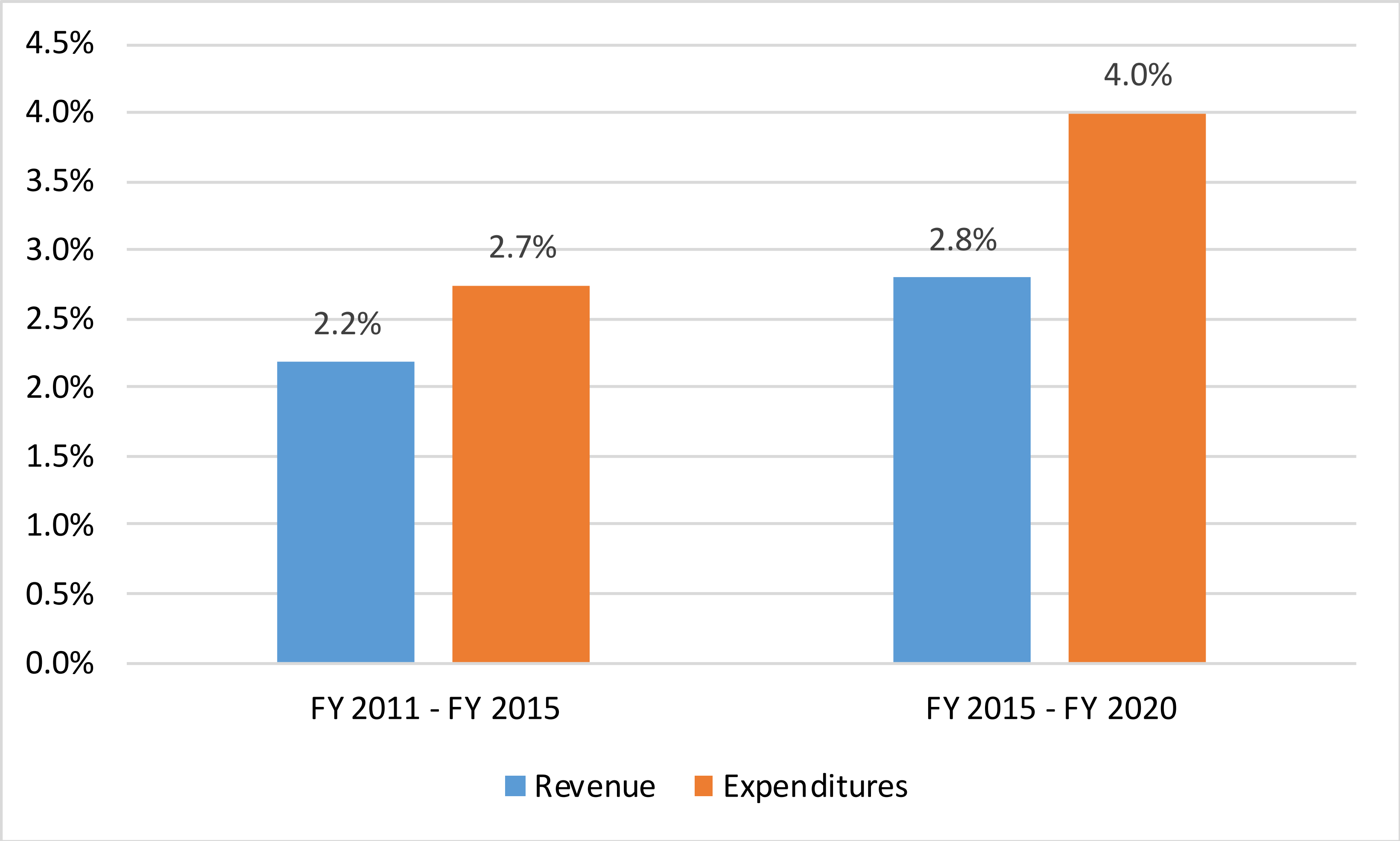
Expenditure Growth - All Funds



Avg. represents the compound annual growth rate of each shaded section.
2013 to 2014 growth has been adjusted to reflect the net budgeting of Medicaid.

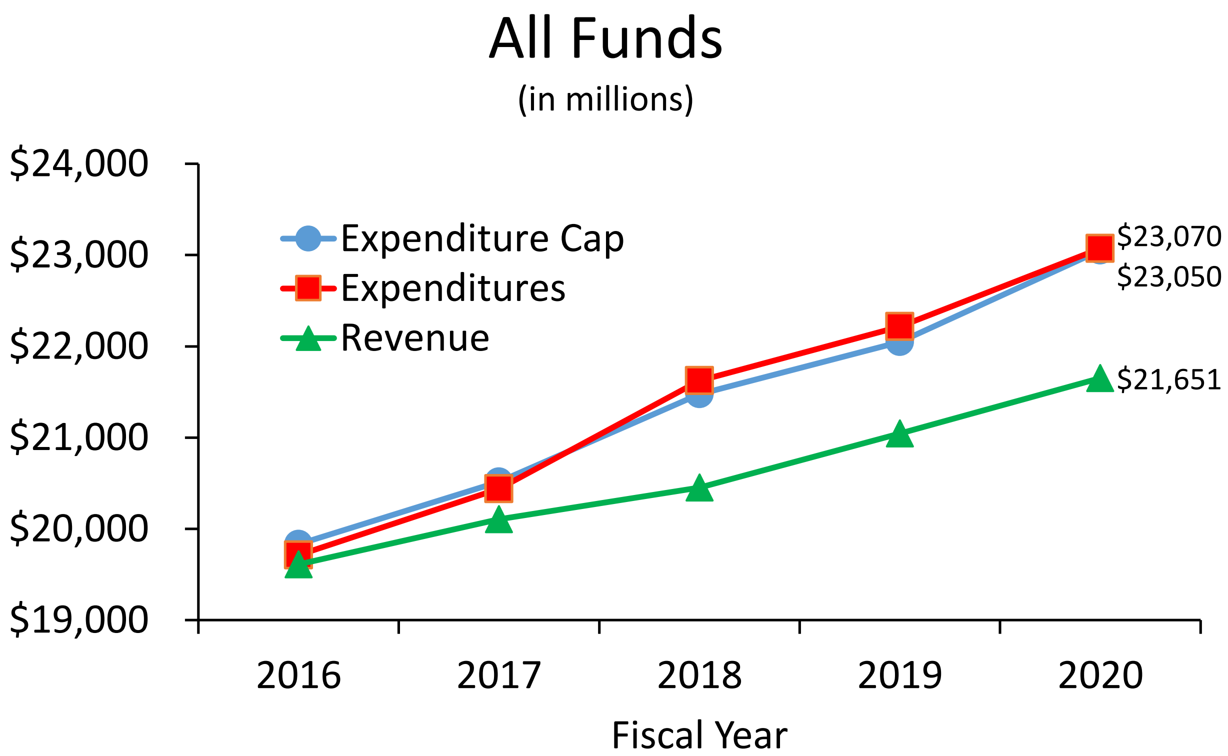
Revenue and Expenditure Growth Rates

All Funds Compound Annual Growth



Revenues and expenditures adjusted for net budgeting of Medicaid.

Cap and Balance Projections



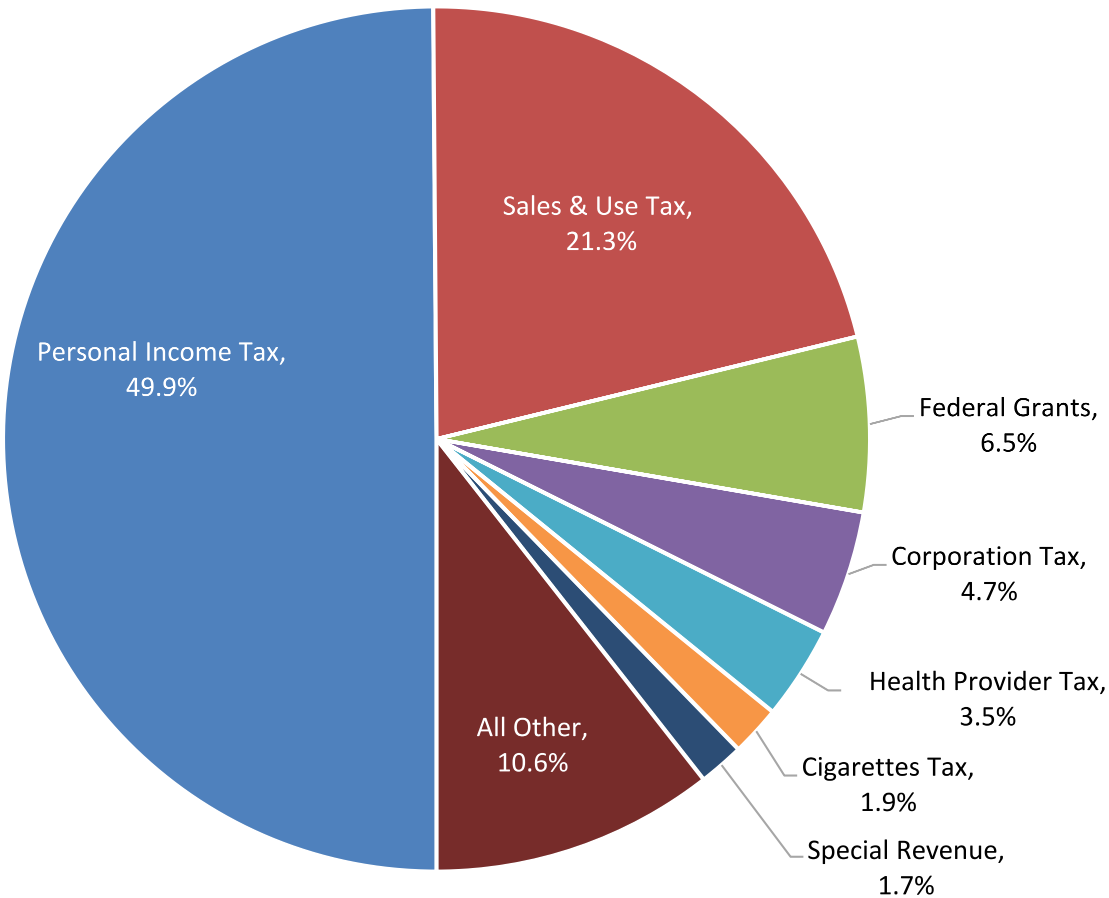
- Over the next four years revenues are projected to grow by $2.0 billion.
- The state's spending cap will permit growth of $3.3 billion.
- Expenditures and revenues will need to be aligned in order for the budget to remain in balance.

Economy and Revenue

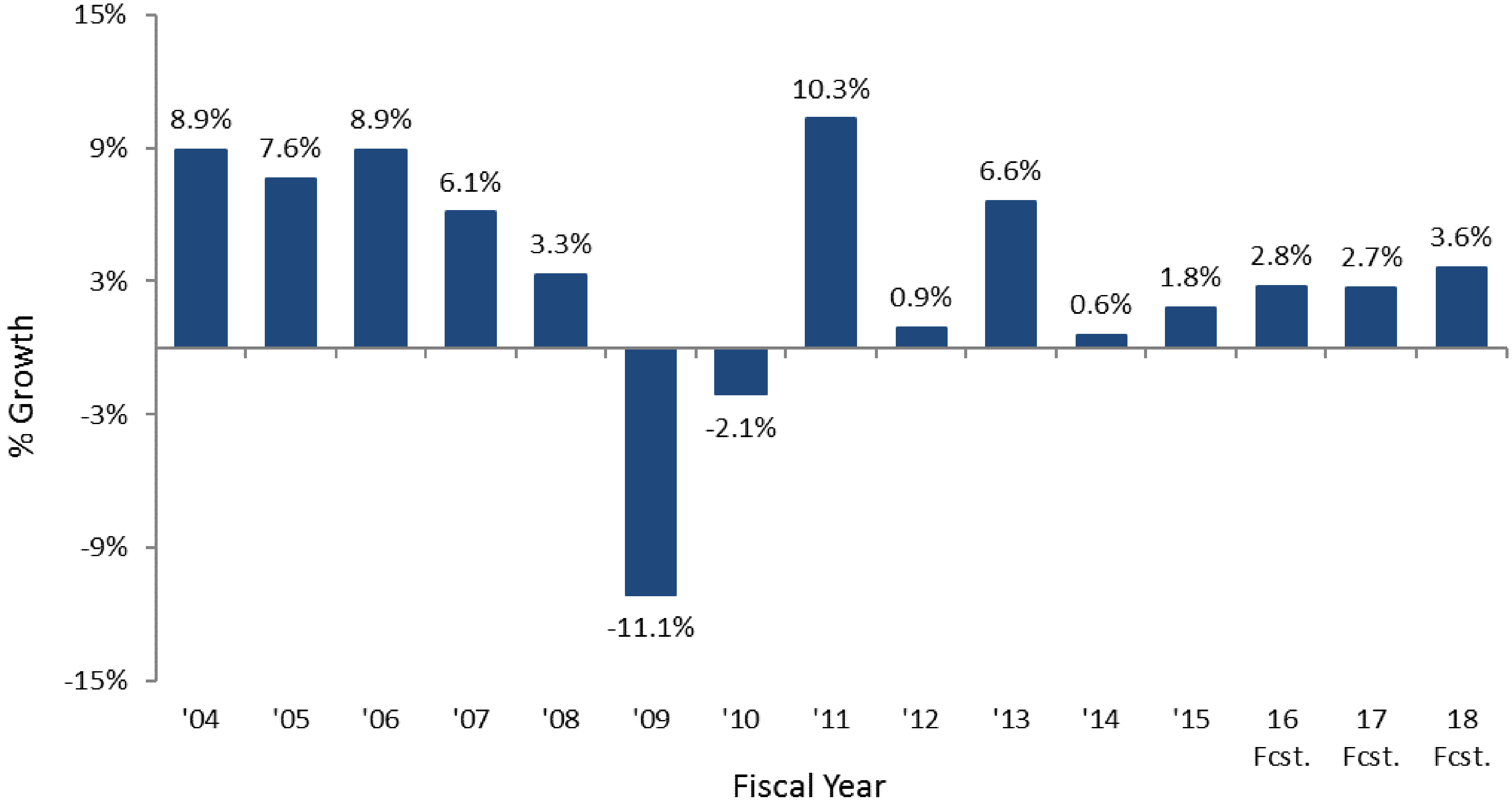
General Fund Revenue Sources

Fiscal Year 2016

Total $17,944.9 Million

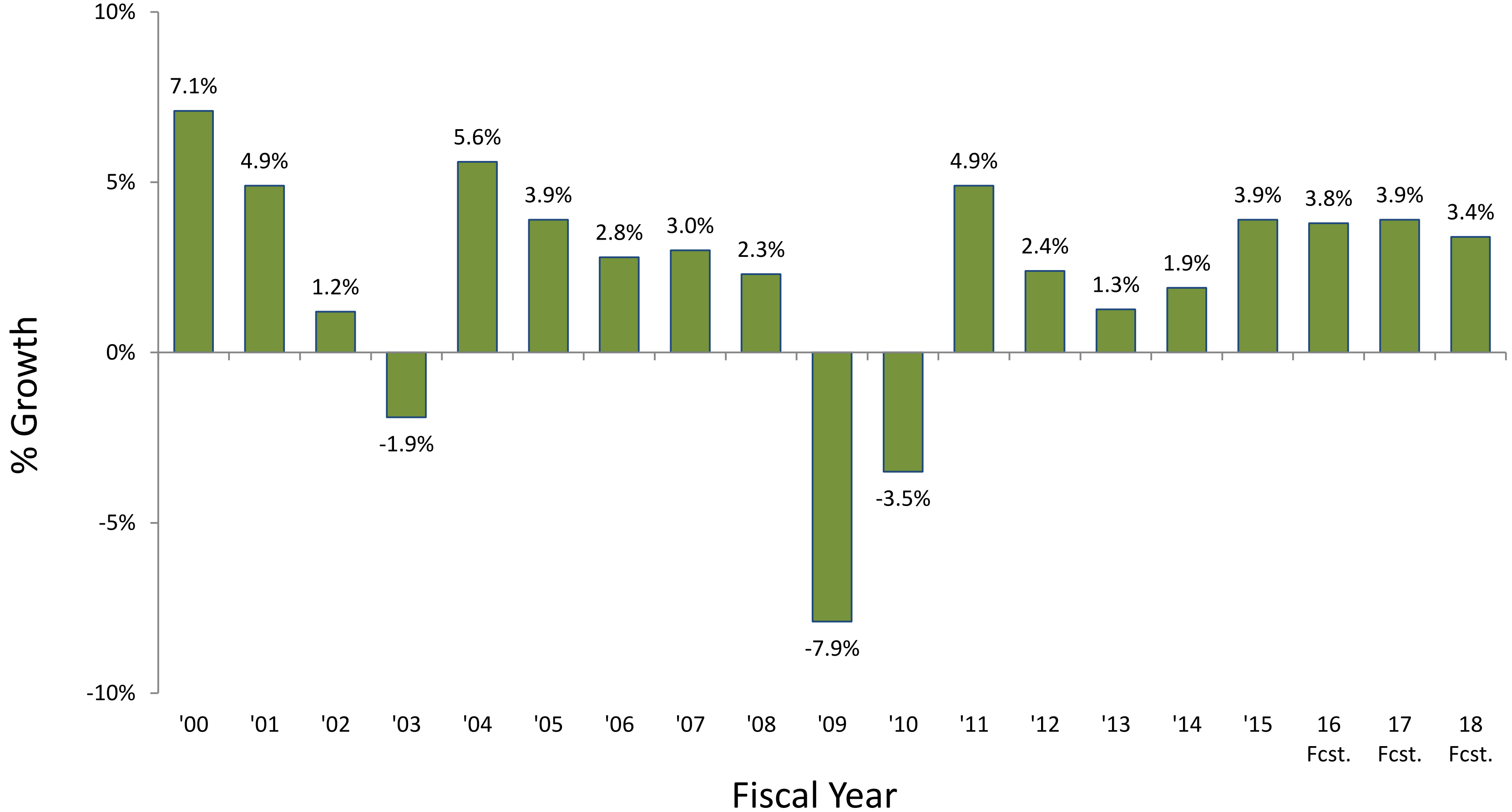


General Fund Economic Growth Rates



Sales Tax Trends

Economic Growth Rates



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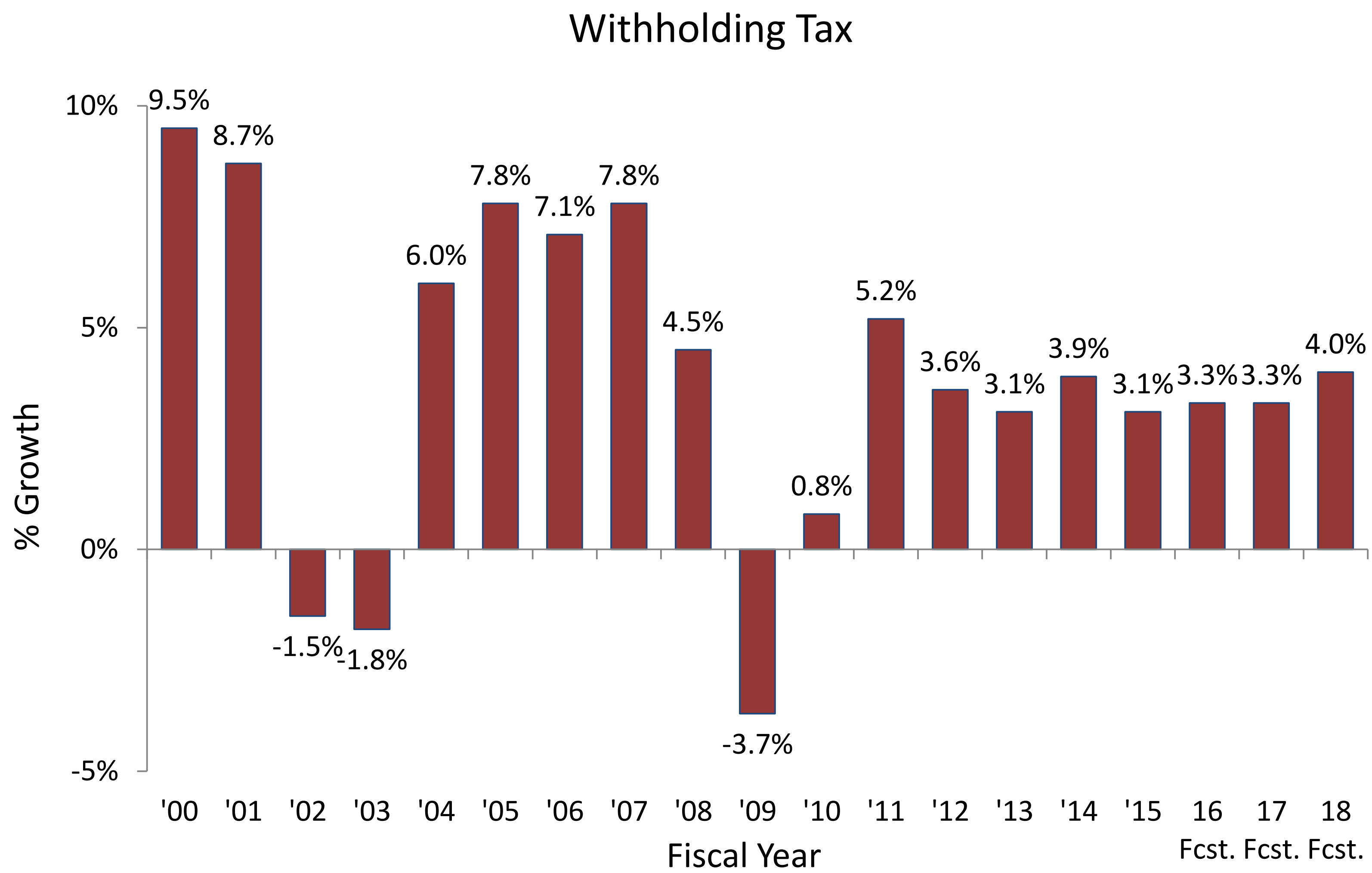
Personal Income Tax Trends

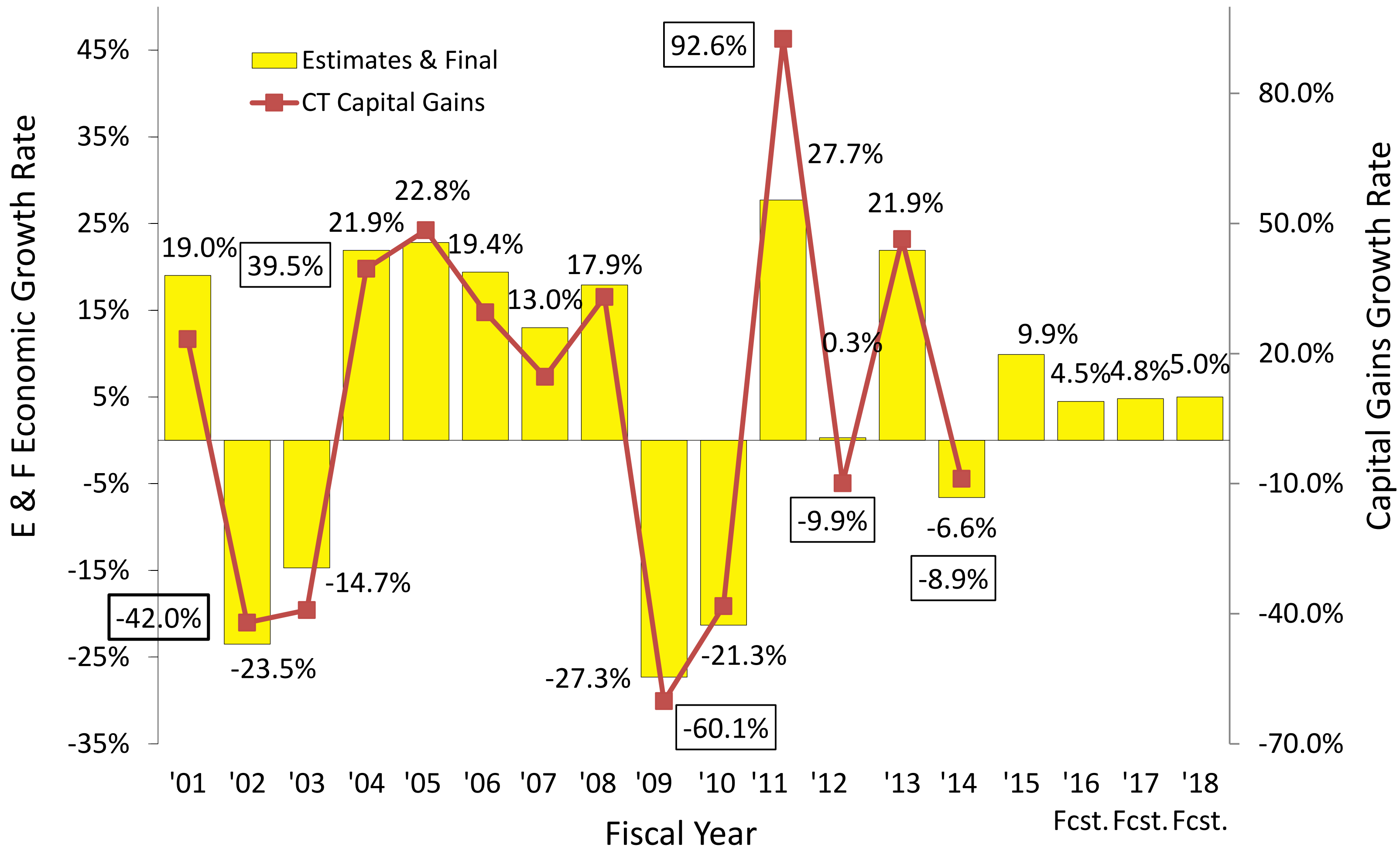
Economic Growth Rates



Income Tax

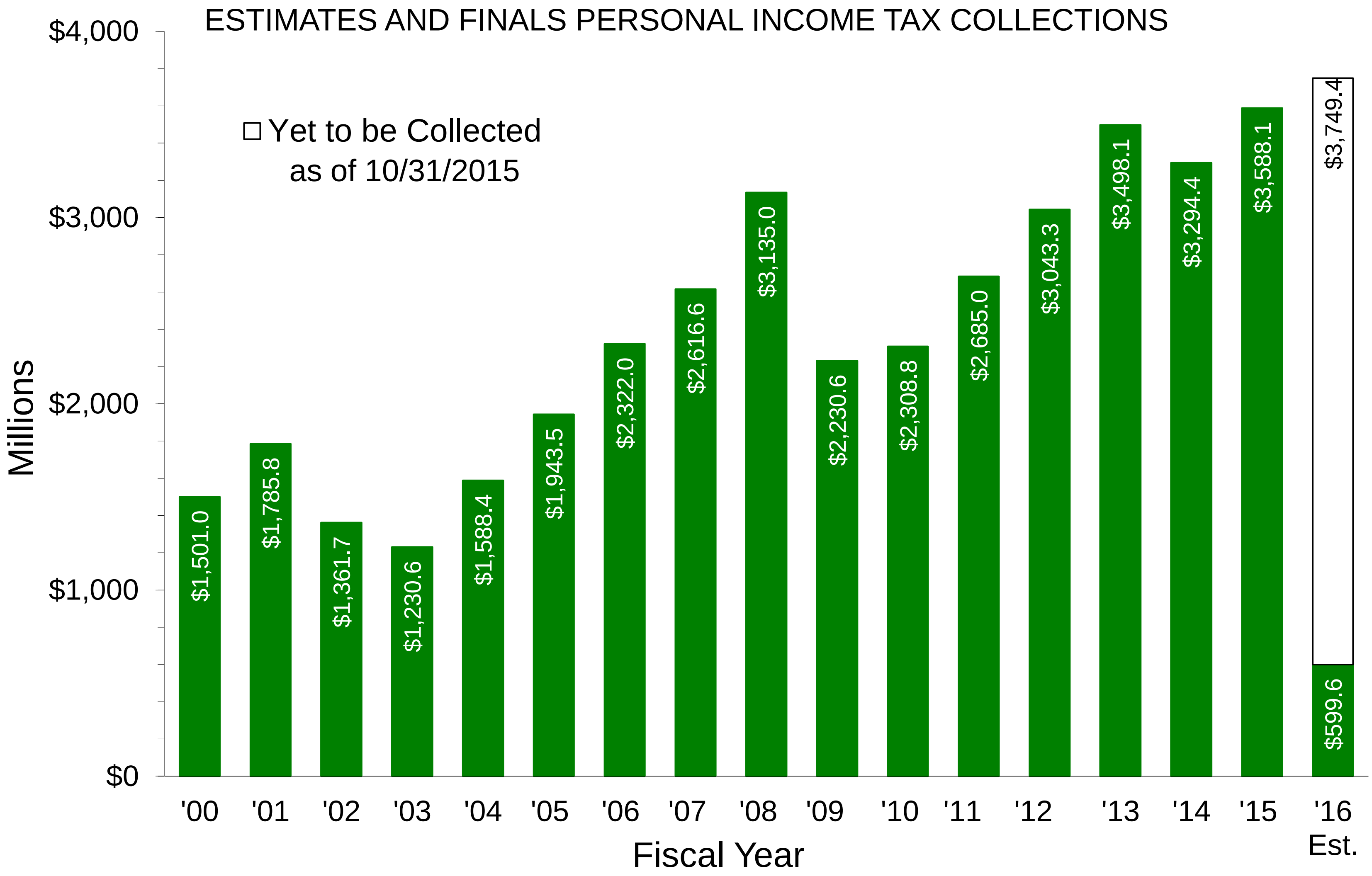
Highly Dependent Upon Capital Gains

Estimates & Finals vs. Capital Gains Realizations

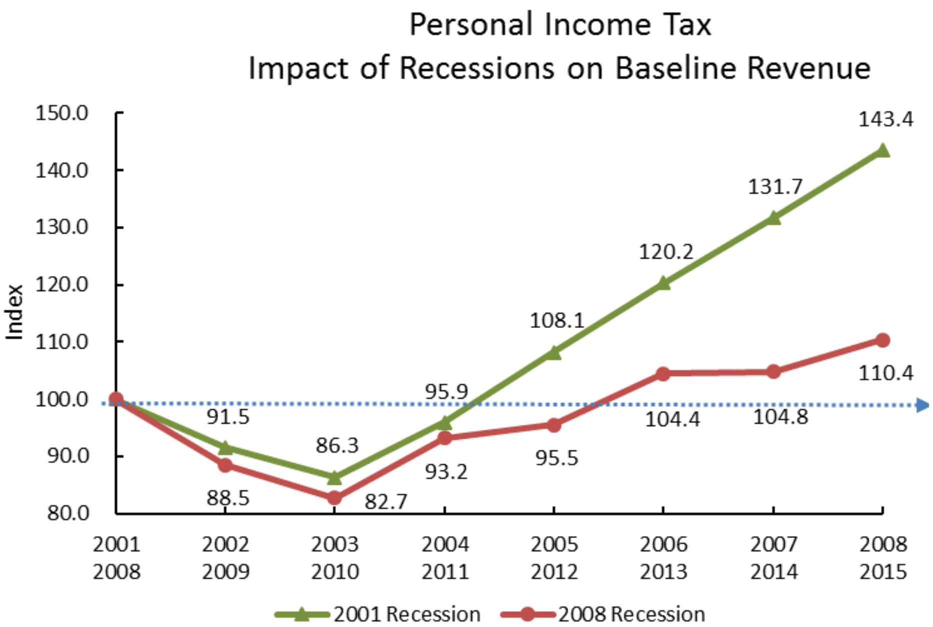


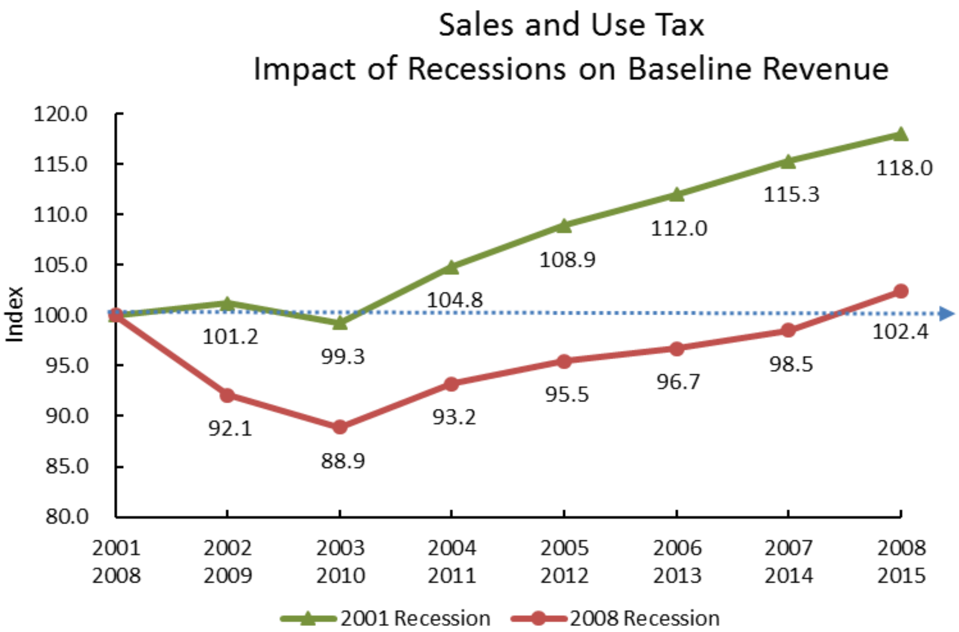
Note: Capital Gains are for the immediately preceding calendar year.

Risks to FY 2016 Revenue Forecast



Slow Revenue Recovery





- Income tax revenues have exceeded their pre-recession peak for the last three fiscal years. This past fiscal year, for the first time since the recovery began, sales tax revenues exceeded their pre-recession peak.
- If this recovery had been similar to the 2003 recovery, income tax revenue would have been $2.5 billion higher in FY 2015.
- Had the sales tax recovered at the same pace as in 2003, revenues would have been $560 million higher in FY 2015.

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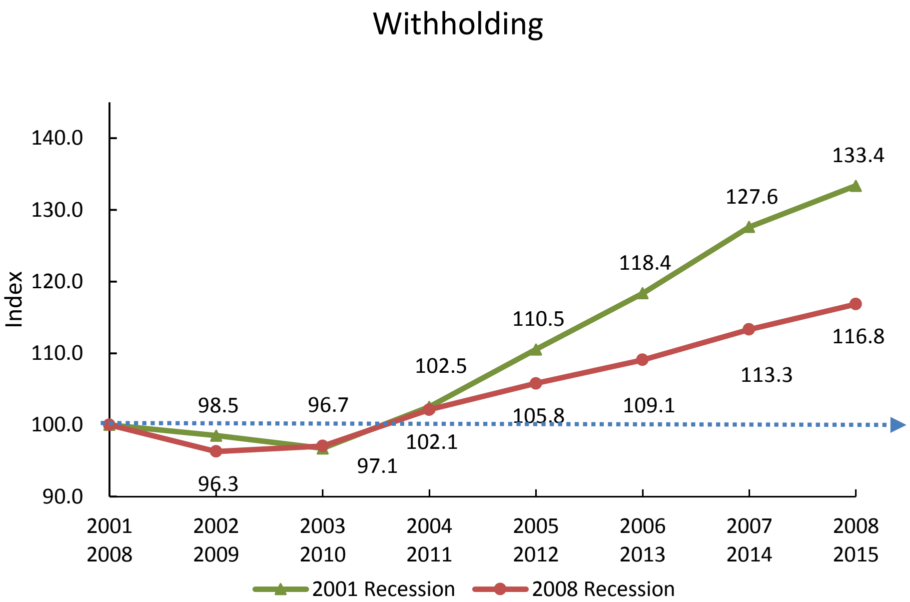
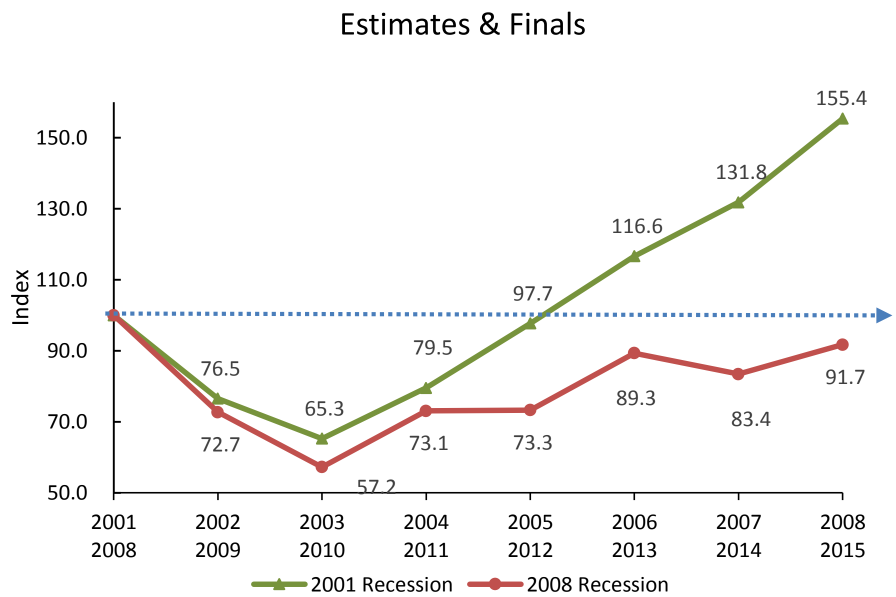
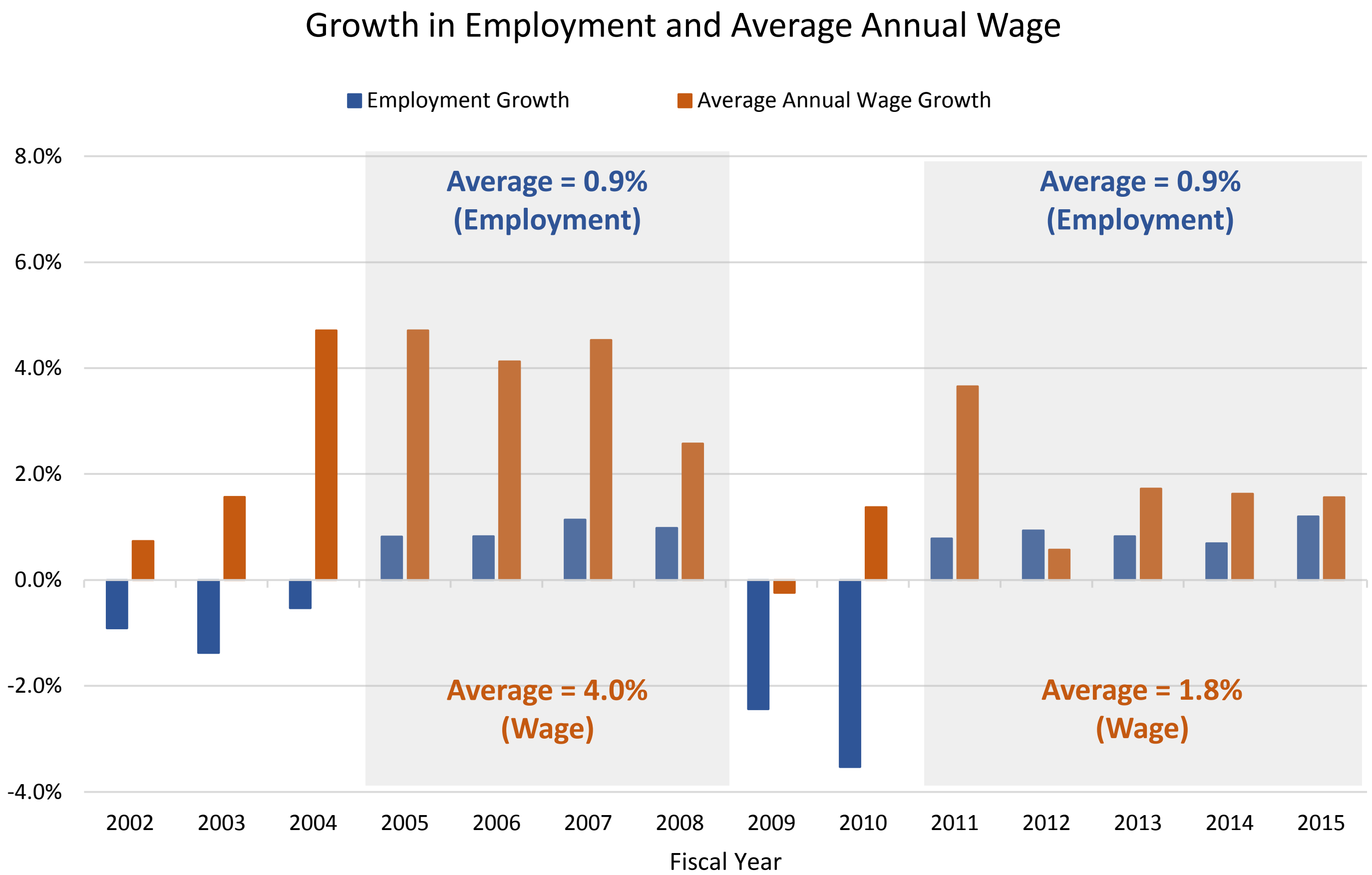
Slower Economic Recovery
Personal Income Tax





- The withholding component of Personal Income Tax has exceeded its pre-recession peak since FY 2011, but revenues from Estimates & Finals remain below their pre-recession peak.
- If this recovery had been similar to the 2003 recovery:
  - Withholding tax revenue would have been about $625 million higher in FY 2015.
  - Estimates & Finals revenue would have been about $1.9 billion higher in FY 2015.

Employment Recovery



- Connecticut has had positive job growth for the past five consecutive fiscal years, from FY 2011 to FY 2015, and has regained 99,500 jobs from the bottom of the recession.
- Average annual wage growth has slowed dramatically post-recession from 4.0% to 1.8%.
- In FY 2015, employment grew 1.2% while the average annual wage grew 1.6%.

Expenditures:
Major Cost Drivers & Long Term Obligations

FY 2016 Shortfall

- Components

Revenue (Nov. 10, 2015 consensus)	$217.5 million
Agency deficiencies	$8.5 million
Total	$226.0 million

- September 18, 2015 rescissions $102.8 million
- Hiring limitations
- Contracting and travel restrictions
- Bipartisan deficit mitigation effort underway

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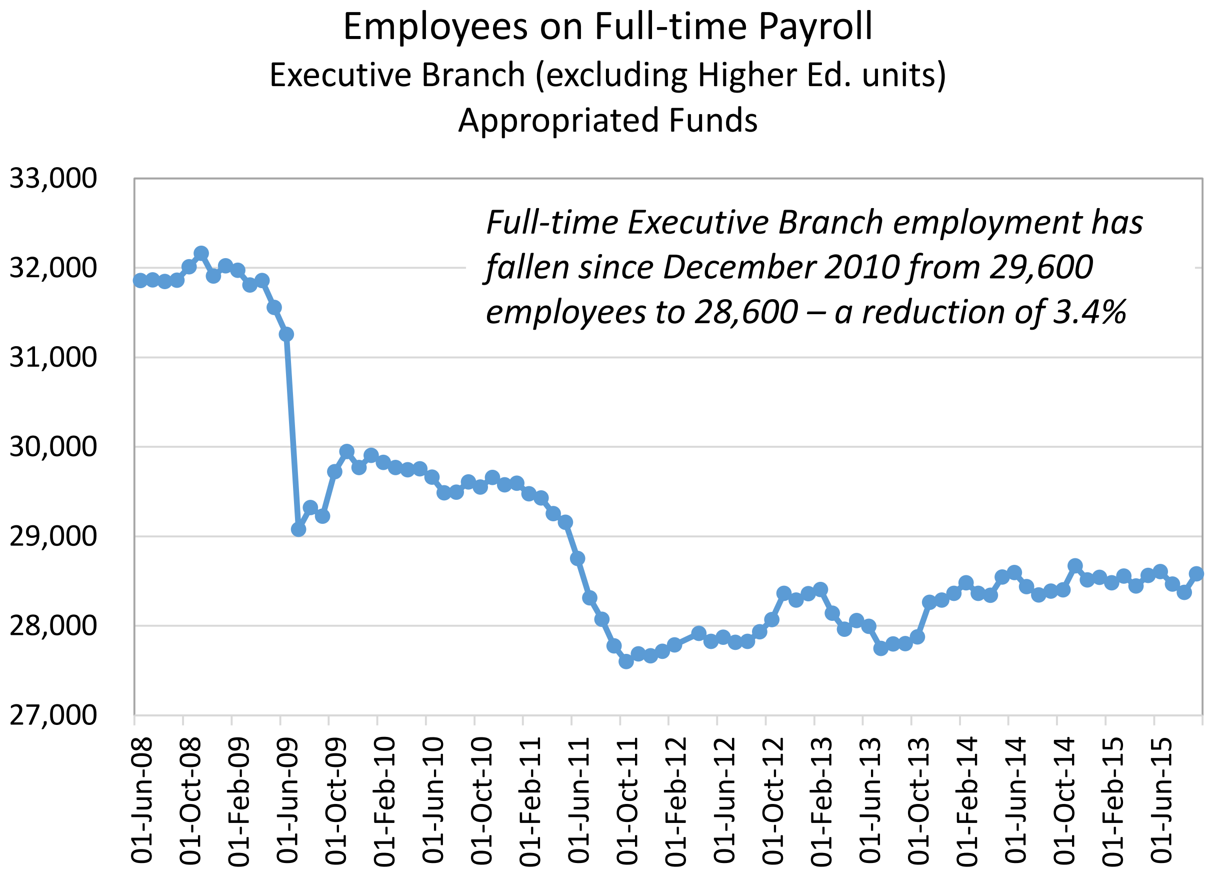
Drivers of Outyear Budget Growth

in millions

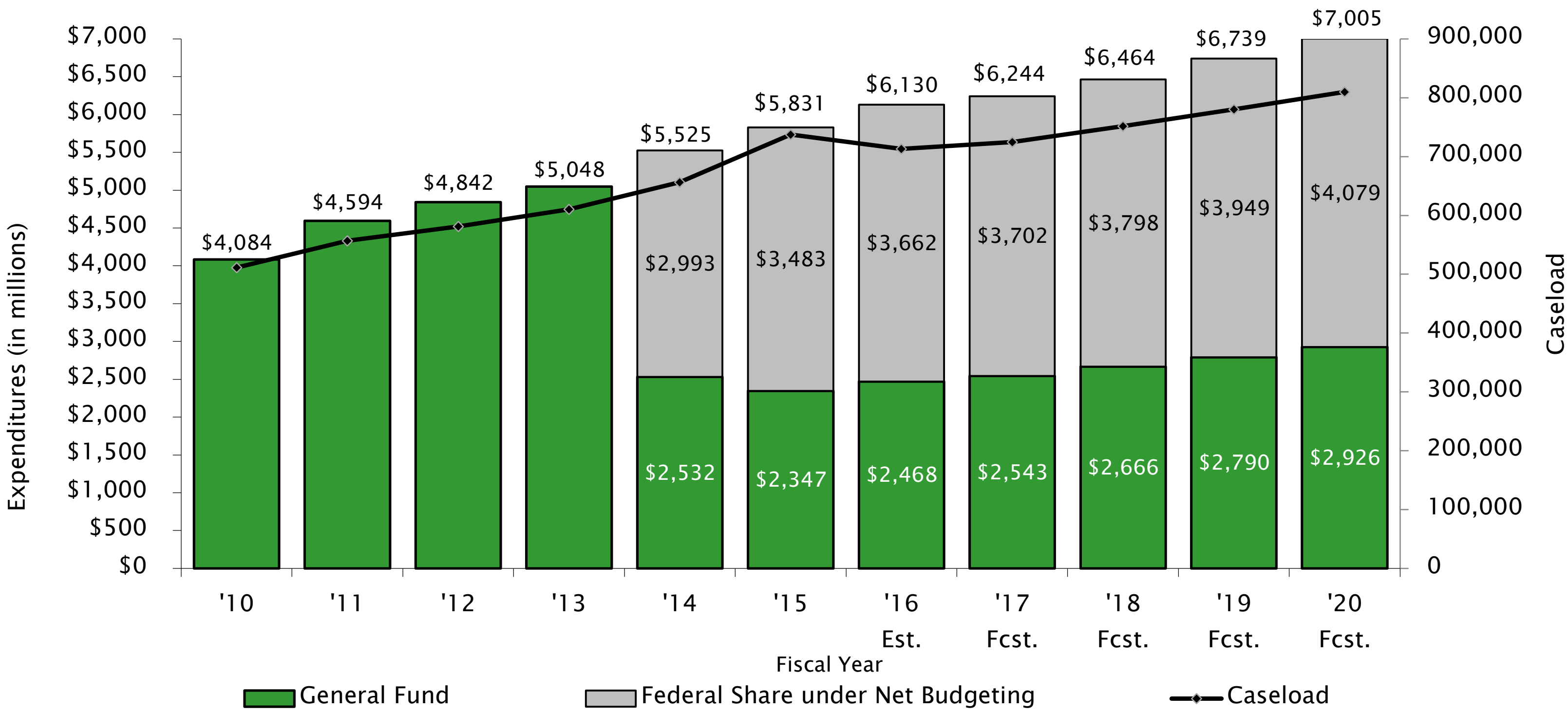
	FY 2016 Expenditures	Average Annual Growth Rate to FY 2020
Teachers' Retirement System	$ 975.6	8.1%
Active & Ret. Healthcare, incl. OPEB	1,355.8	7.8%
Debt Service	1,937.6	6.4%
State Employees' Retirement System	1,096.8	5.5%
Medicaid	2,468.4	4.3%
Personal Services, incl. RSA	2,435.0	3.9%
Higher Education	740.4	3.1%
Other Expenses	513.6	0.5%
All Other	6,544.1	1.5%
Total General Fund	$ 18,067.3	3.9%

Reduced Executive Branch Workforce



- Since FY 2011, the number of budgeted state agencies has been reduced by 27%, from 81 to 59.
- LEAN is now routinely used 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.

Medicaid



- Beginning with the budget adopted in FY 2014, only the state's share of the Medicaid account in the Department of Social Services is appropriated.
- Increases in "Federal Share under Net Budgeting" reflect the impact of federal health care reform, which expands Medicaid coverage to childless adults with income up to 138% of the federal poverty level beginning January 1, 2014. (Costs are 100% federally reimbursed through 2016, after which reimbursement is phased down to 90% in 2020.)

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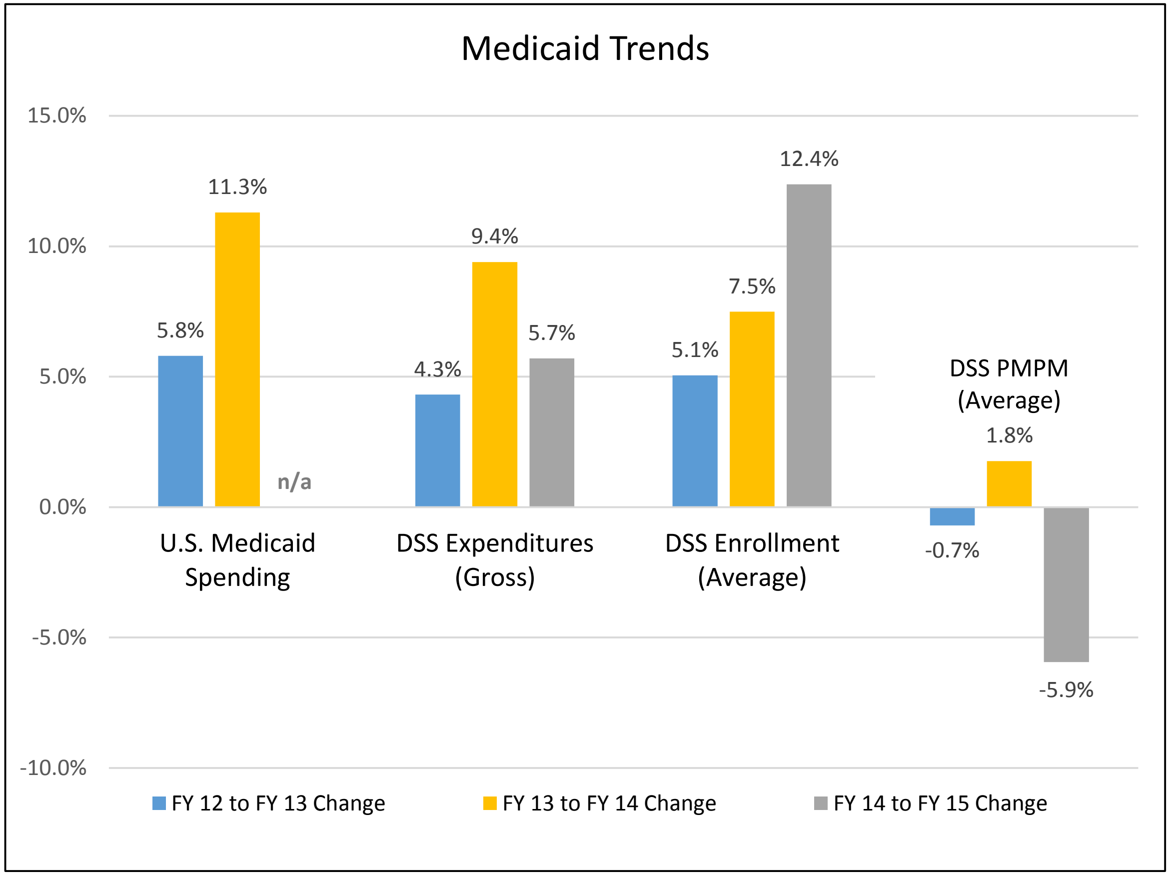
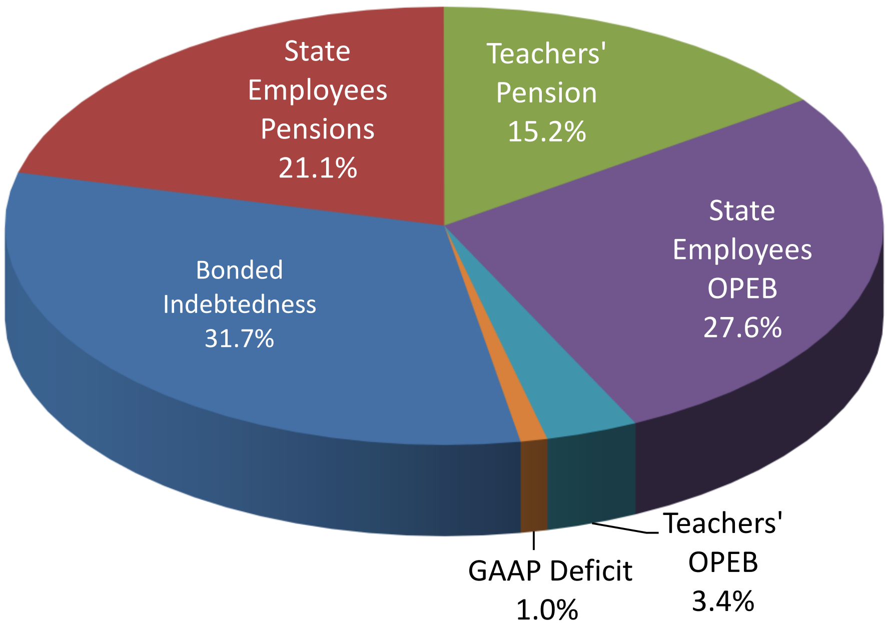
Medicaid

- DSS is employing diverse strategies to achieve improved health outcomes and cost efficiencies in the Medicaid program, including:
  - use of an administrative services organization (ASO) platform to promote efficient, cost-effective and consumer / provider responsive 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—in fact, there was a sizeable drop in the PMPM in FY 2015.

Long Term Obligations



	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

State Employees Retirement System Contributions

in millions

Fiscal Year	ARC	Reductions in the ARC: SEBAC 3	SEBAC 4	SEBAC 5	Other	Total	Budgeted Contribution	Budgeted Contrib. as a % of Unreduced ARC
1993	444.2	(162.4)				(162.4)	281.8	63.4%
1994	474.7	(164.4)			(5.7)	(170.1)	304.5	64.2%
1995	535.3	(173.3)				(173.3)	362.0	67.6%
1996	501.1	(166.0)				(166.0)	335.1	66.9%
1997	542.8	(175.9)			(17.6)	(193.6)	349.2	64.3%
1998	567.6	(175.3)			(18.7)	(194.0)	373.6	65.8%
2000	393.4		(21.0)	(29.6)		(50.6)	342.8	87.1%
2001	429.3		(22.2)	(31.4)		(53.6)	375.6	87.5%
2002	479.7		(26.6)	(37.6)		(64.2)	415.5	86.6%
2003	493.3		(27.9)	(39.5)		(67.4)	425.9	86.3%
2004	544.8		(29.3)	(41.4)		(70.8)	474.0	87.0%
2005	590.6		(30.8)	(43.5)		(74.3)	516.3	87.4%
2006	701.1		(32.3)	(45.7)		(78.0)	623.1	88.9%
2007	745.8		(34.0)	(48.0)		(81.9)	663.9	89.0%
2008	803.0		(35.7)	(50.4)		(86.0)	716.9	89.3%
2009	844.0		(37.4)	(52.9)	(50.0)	(140.3)	703.7	83.4%
2010	998.8		(42.0)	(59.4)	(164.5)	(265.9)	732.9	73.4%
2011	1,049.6		(43.7)	(61.8)	(100.0)	(205.5)	844.1	80.4%
2012	1,040.5		(47.3)	(66.8)		(114.1)	926.4	89.0%
2013	1,059.7					-	1,059.7	100.0%
2014	1,268.9					-	1,268.9	100.0%
2015	1,379.2					-	1,379.2	100.0%
Total	15,887.3	(1,017.4)	(430.3)	(607.8)	(356.5)	(2,412.1)	13,475.2	84.8%

Compounded at 8.00% annually, these reductions would have a FY 2015 value of $7.23 billion

Note: The budgeted contribution for FY 1999 was $315.6 million, however, no actuarial valuation was performed.

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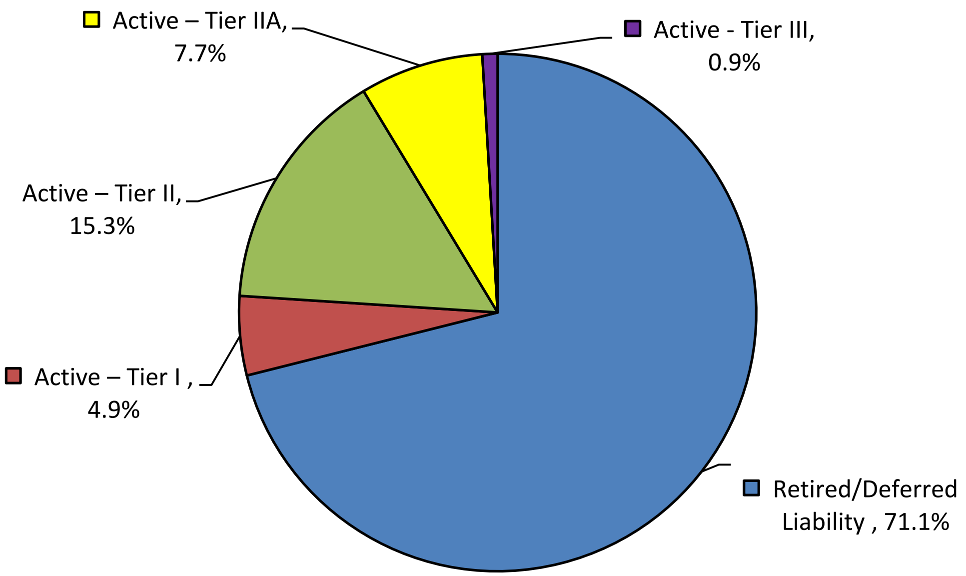
State Employees Retirement System Components of Pension Liability

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 that liability is related to already retired employees.
- 81.7% of the actuarially determined employer contribution is for the unfunded accrued liability.

Fixing Our Pensions

Recent steps to address liability include:

1. The 2011 SEBAC agreement:
   a) Reduced the minimum COLAs and doubled the Early Retirement Reduction Factor.
   b) Increased the age for normal retirement eligibility by 3 years for all non-hazard duty employees who retire after July 1, 2022.
   c) Tier III was created.

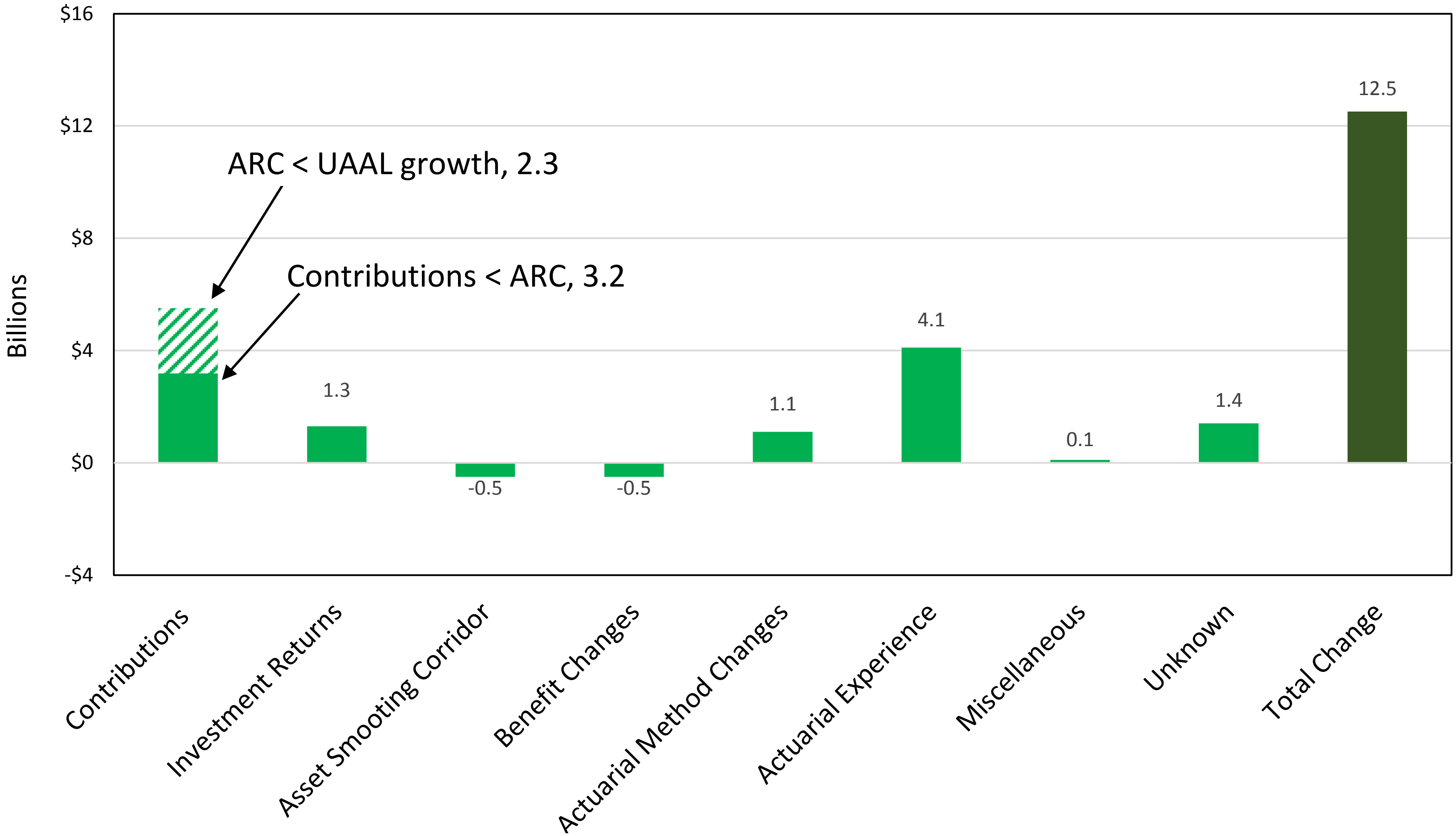
2. In 2012 more conservative actuarial assumptions were adopted which included lowering the assumed rate of investment returns from 8.25% to 8%.

3. The State increased its annual required contribution to the pension system by eliminating the SEBAC IV and V adjustments.

4. OPM engaged the Center for Retirement Research at Boston College to assess both SERS and TRS.

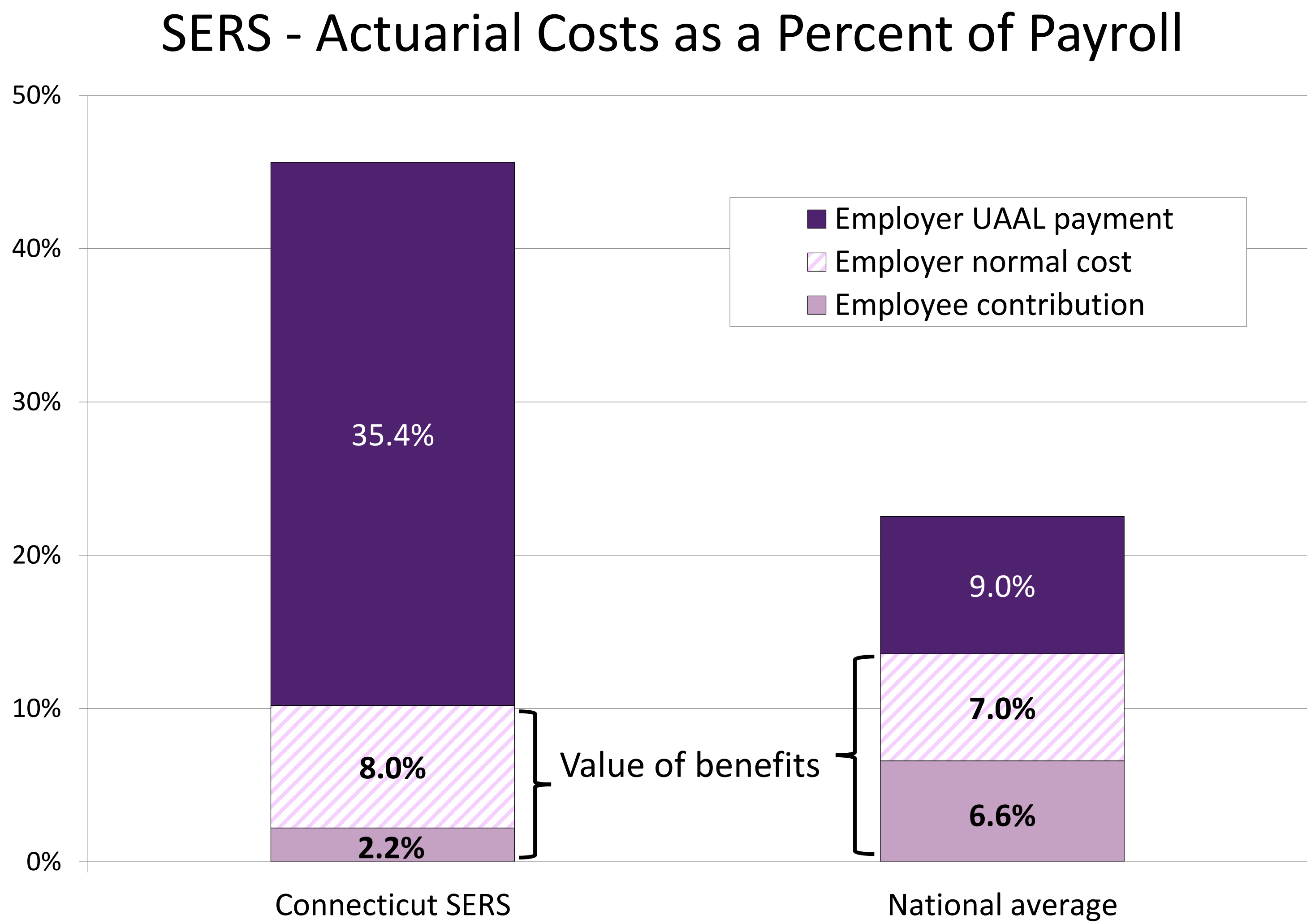
Fixing Our Pensions

SERS - Sources of Changes to the Unfunded Accrued Actuarial Liabilities (UAAL) 1985 - 2014



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

Fixing Our Pensions



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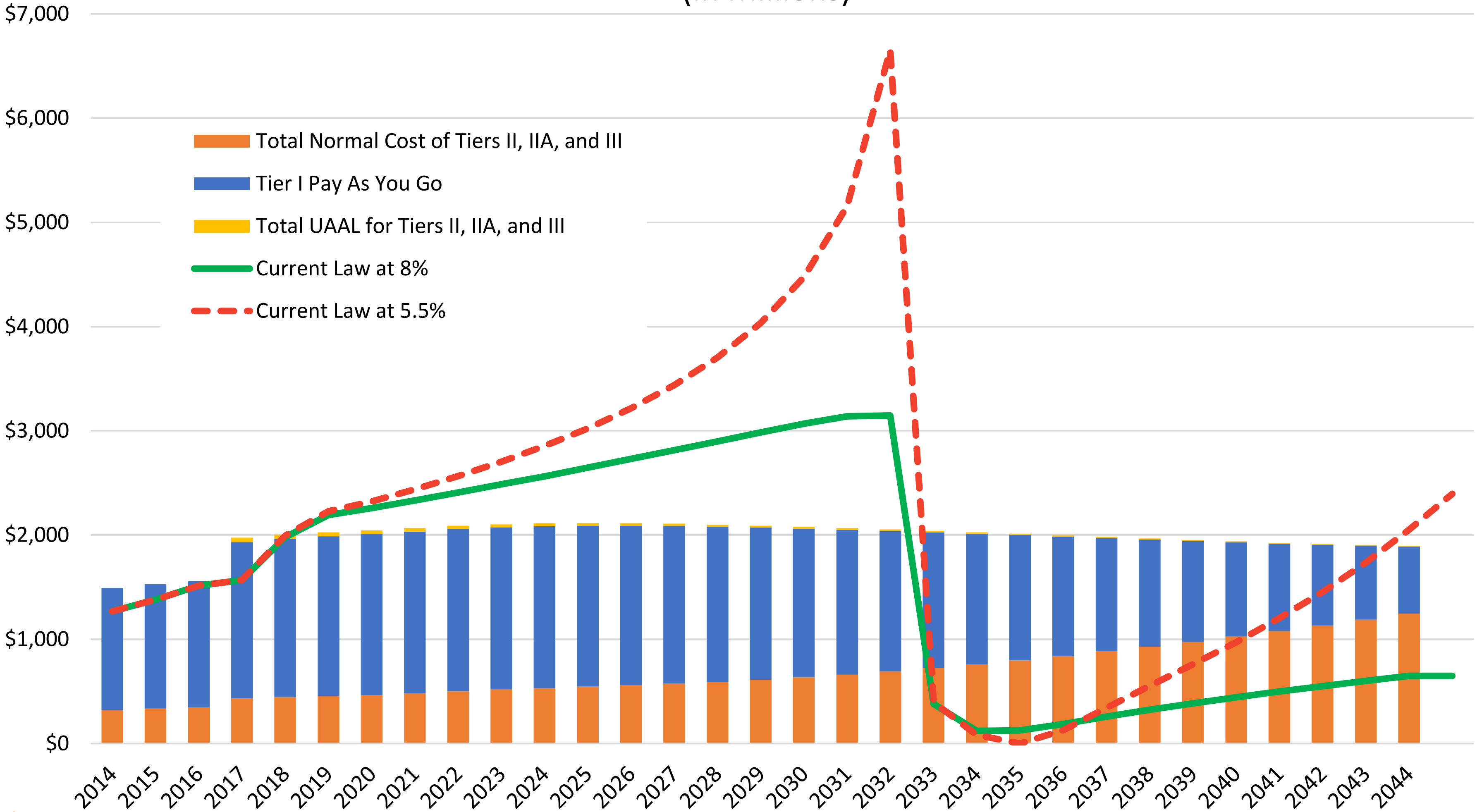
Fixing Our Pensions

Projected Annual Payments for State Employees Retirement System May Top $6.6 Billion by 2032
(In Millions)



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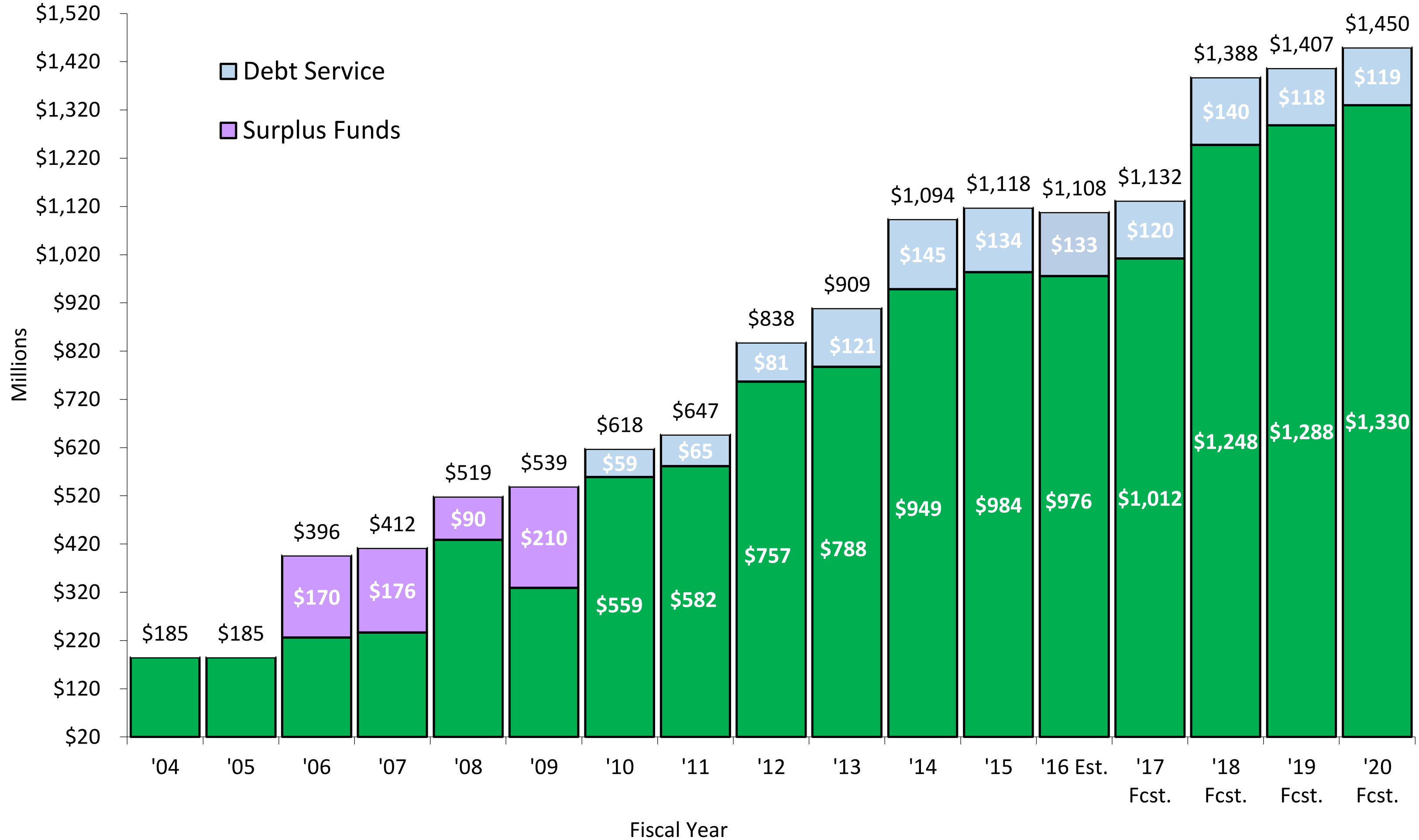
Teachers’ Retirement System Contributions



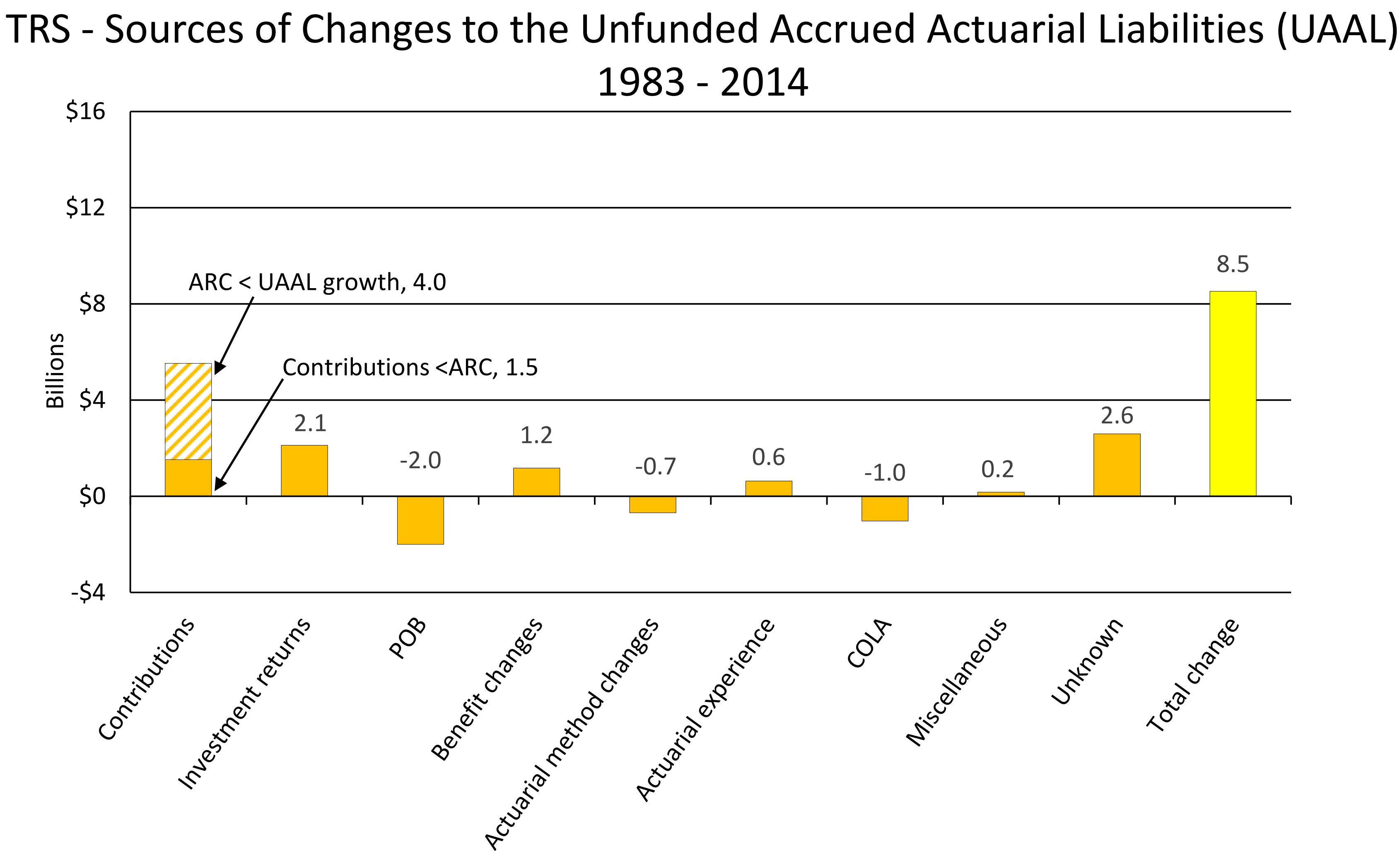
* FY 2018 and beyond reflect the impact of lowering the assumed rate of investment return to 8% from 8.5%.

Fixing Our Pensions

The Teachers' Retirement Board has taken the following steps toward a more sustainable pension plan:

- Reduced the assumed rate of return from 8.5% to 8.0%;
- Adopted more conservative mortality and other assumptions;
- Increased the state's contributions to the plan; and
- Directed the plan actuary to develop additional funding strategies that could be implemented in order to limit the volatility of future contributions.

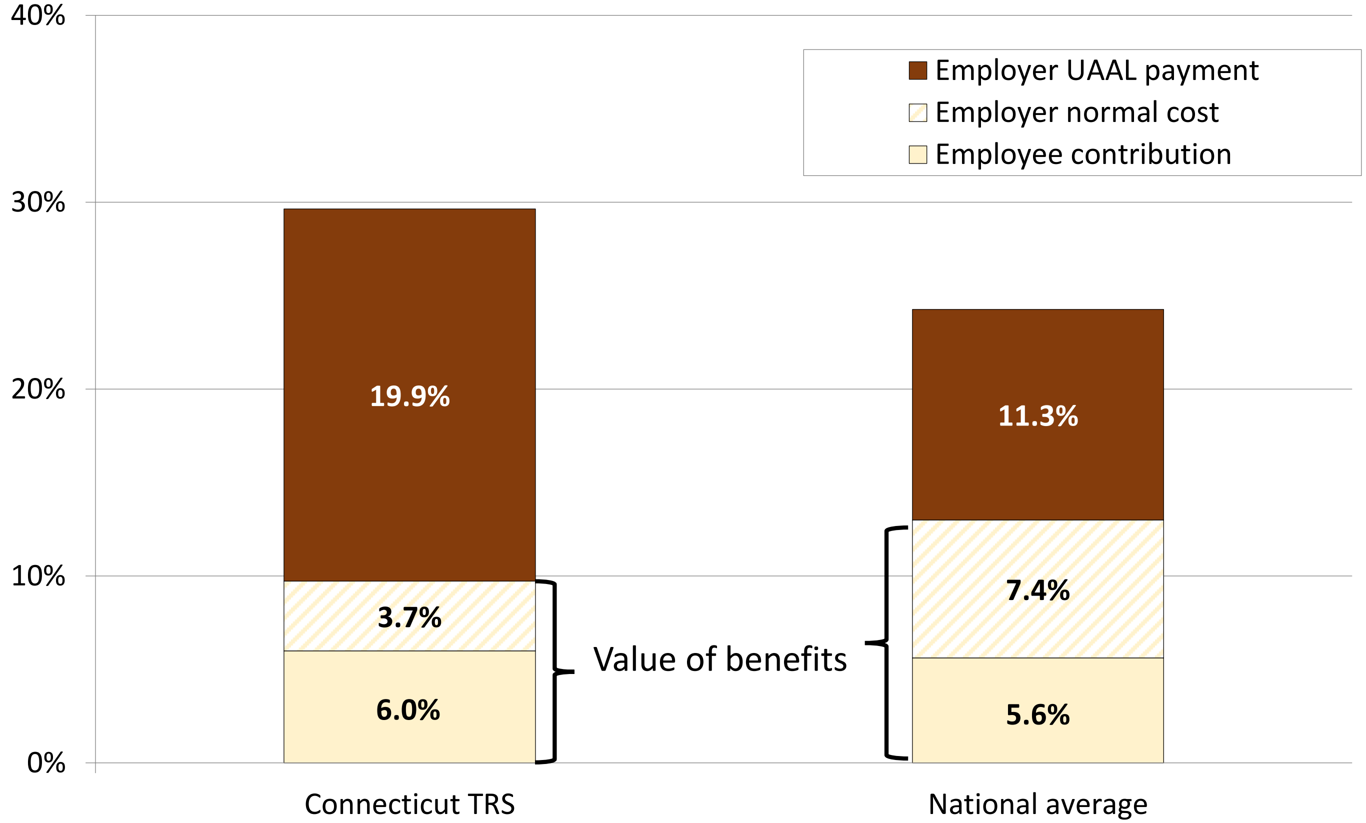
Fixing Our Pensions



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

Fixing Our Pensions

TRS - Actuarial Costs as a Percent of Payroll



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

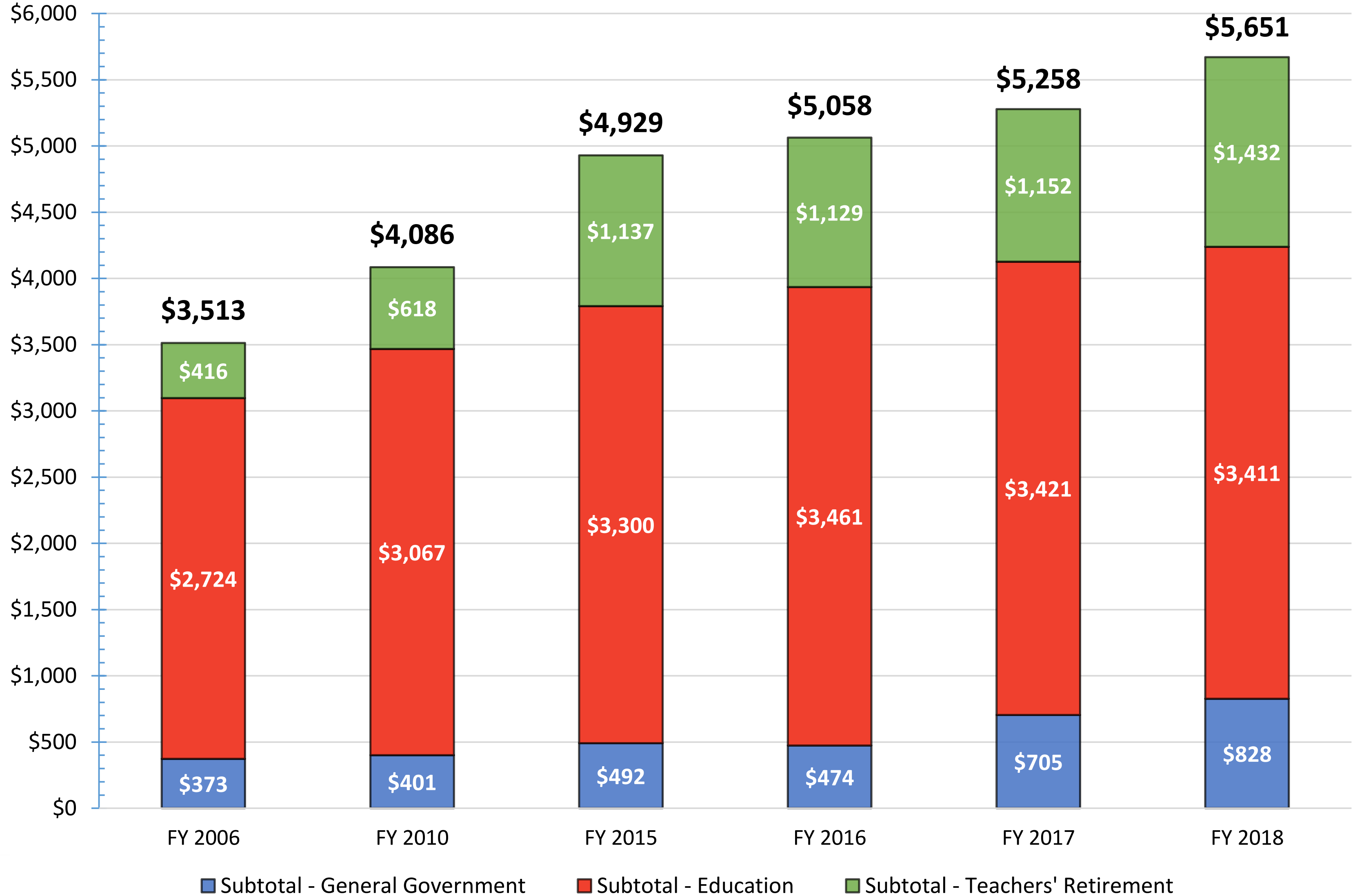
Fixing Our Pensions

CRR has identified several alternatives to the current funding methods for both SERS and TRS.

- Switch from level percent of payroll amortization method to a level dollar.
- Combine the switch to level dollar method with a 15-year open amortization of the UAAL.
- Relax the 2032 full funding date when the plan is 80% funded.
- Lower the current assumed rate of investment return.
- Separately finance the liabilities for Tier 1 members (SERS) and members hired before 1979 (TRS).

State Aid to or Behalf of Local Governments

(in millions)



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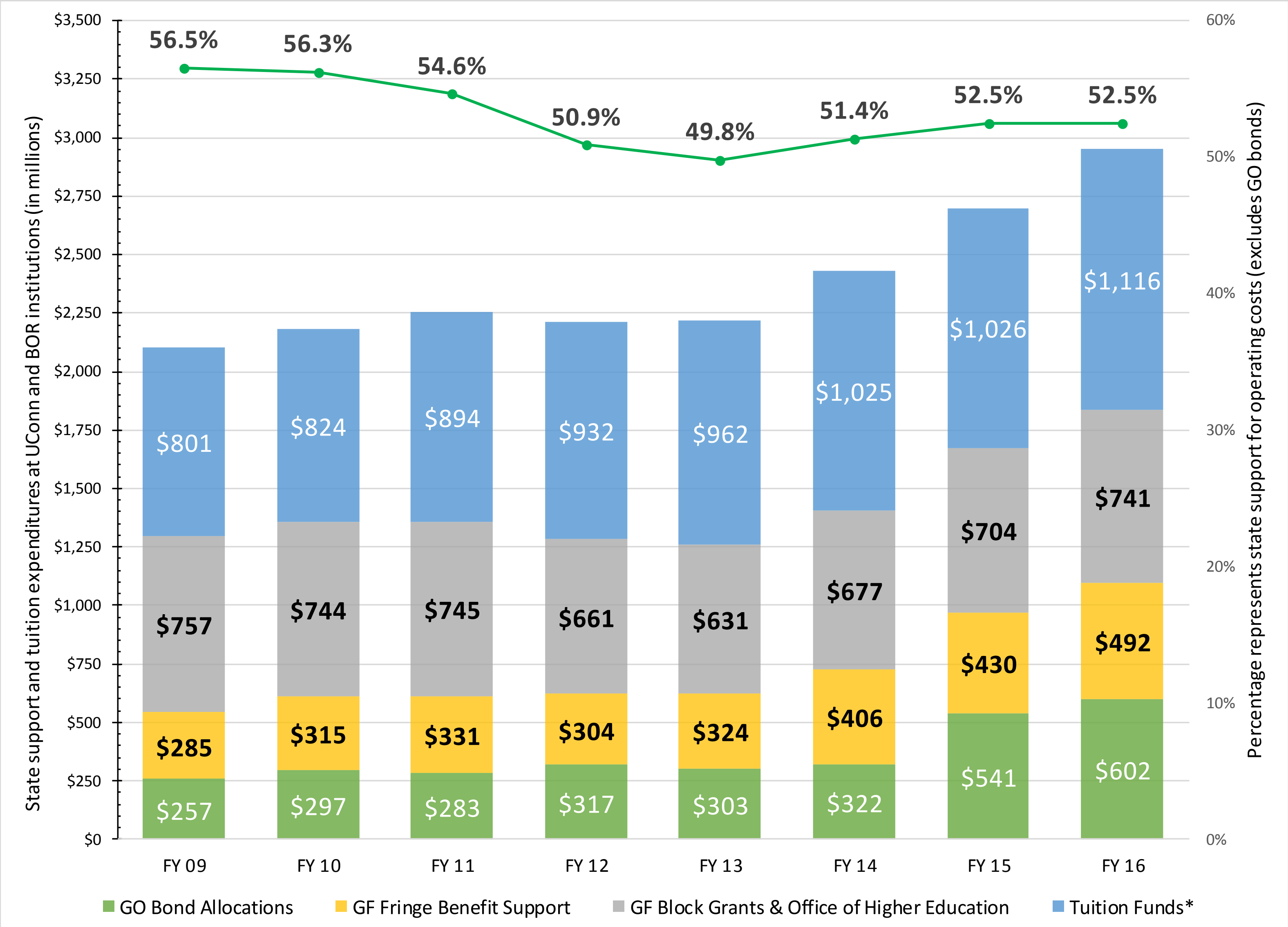
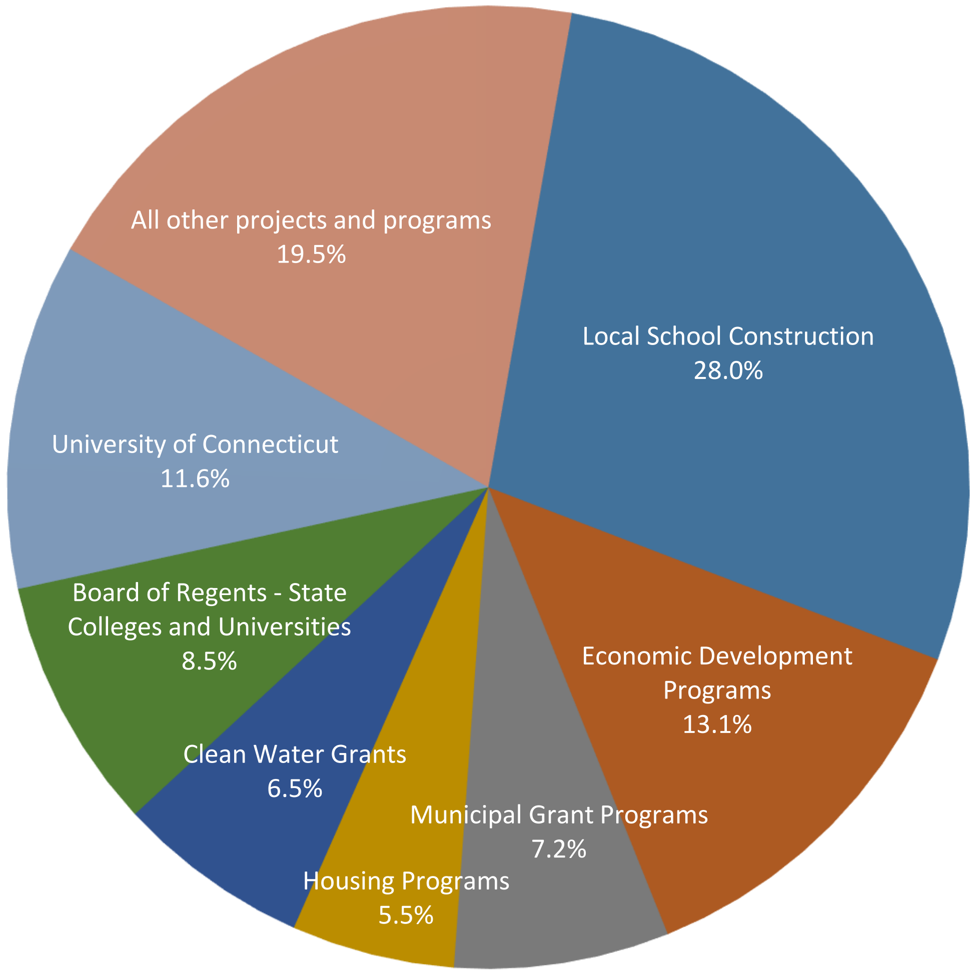
Increasing State Support for Public Higher Education



*excludes auxiliary functions (food & housing), research and clinical funds

Five Year Bond Projections

Projected GO Bond Allocations FY 2016 – FY 2020



Statutory GO Bond Debt Limit

	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

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

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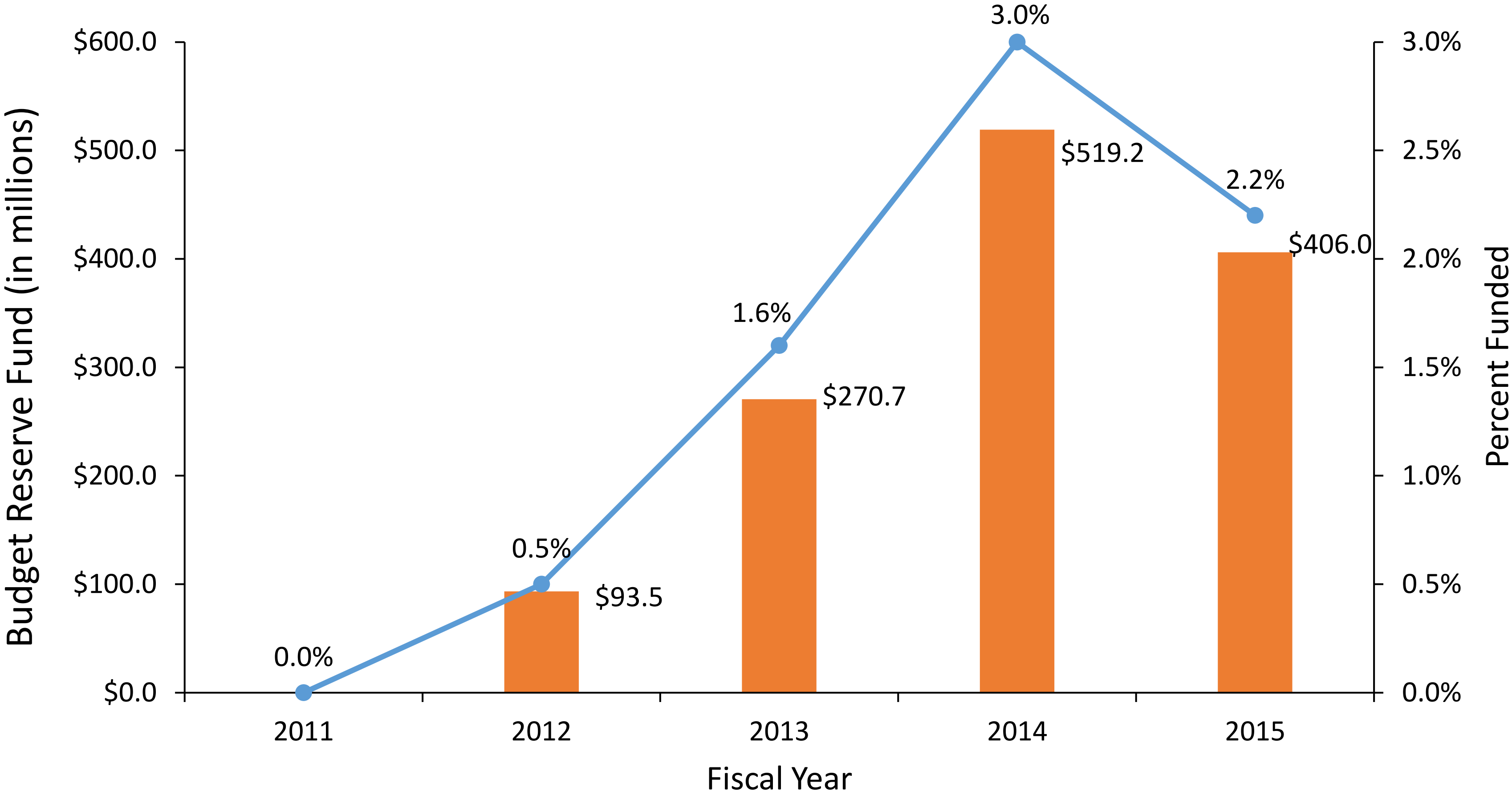
Budget Reserve Fund

Budget Reserve Fund Balance

(in millions)



Questions?