



# **FISCAL ACCOUNTABILITY REPORT FISCAL YEARS 2019 – 2022**

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

**BENJAMIN BARNES, SECRETARY  
OFFICE OF POLICY AND MANAGEMENT**

**NOVEMBER 15, 2018**





**OFFICE OF POLICY AND MANAGEMENT**  
**2018 FISCAL ACCOUNTABILITY REPORT**

**TABLE OF CONTENTS**

	<u>Page</u>
Overview .....	1
Current Year Outlook .....	3
Outlook for the Upcoming Biennium .....	6
General Fund .....	6
Special Transportation Fund .....	13
Connecticut’s Economy .....	15
Special Topics .....	18
Long-Term Liabilities .....	20
State Employees Retirement System .....	21
Teachers’ Retirement System .....	22
Other Post-Employment Benefits .....	24
Debt Service .....	25
Medicaid .....	26
Municipal Aid .....	28
State Workforce .....	29
Federal Funds .....	30
Special Commissions Studying Fiscal and Pension Issues .....	31
Bonding .....	33
Budget Reserve Fund .....	36
Projected Tax Credits .....	38



## OVERVIEW

Section 2-36b of the Connecticut General Statutes requires the Office of Policy and Management and the Office of Fiscal Analysis to annually analyze issues affecting spending and revenue for the current biennium and the three succeeding fiscal years, and to report those analyses to the Appropriations Committee and to the Finance, Revenue and Bonding Committee. By statute, there are seven components of the report:

1. A comparison of the consensus revenue estimate to annual growth in “fixed costs;”
2. Projected tax credits;
3. Estimated deficiencies for the current fiscal year;
4. Projected balance in the Budget Reserve Fund;
5. Projected bond authorizations, allocations and issuances;
6. An analysis of revenue and expenditure trends and of the major cost drivers affecting state spending; and
7. An analysis of possible uses of surplus funds.

The information in this report outlines the challenges identified by the Office of Policy and Management that will confront decision-makers when developing future budgets. A summary of findings is below, and more detail can be found in the pages that follow.

### FY 2019

The General Fund is on track to finish the year with a \$254.9 million operating surplus. This surplus, combined with amounts subject to the revenue volatility cap, will be deposited to the Budget Reserve Fund, boosting the state’s reserves from nearly \$1.2 billion to almost \$2.1 billion by the end of FY 2019.

The Special Transportation Fund is expected to finish the year with a \$67.3 million operating surplus. The fund balance on June 30, 2019, is projected to grow to \$313.0 million.

### FY 2020 Through FY 2022

As shown in the table below, General Fund revenues in FY 2020 are \$1,446.2 million below projected FY 2019 revenues. However, this decline is primarily due to previously enacted policy changes embedded in the forecast. Without those policy changes, General Fund revenue is actually growing in FY 2020 by over \$200 million. The largest factor contributing to the decline in revenue is related to the state’s taxation of hospitals, foremost of which is the reduction in the hospital tax rate in FY 2020 which serves to reduce revenue by \$516.0 million. Federal grant revenue is also falling by \$760.7 million in FY 2020, again primarily related to issues involving the hospital industry whether it is reimbursement related to hospital supplemental payments or one-time revenue received in FY 2019 that will not repeat in FY 2020. In addition, other factors affecting FY 2020 include a greater portion of the Sales Tax on car sales transferring to the Special Transportation Fund (\$91.0 million), scheduled tax decreases passed in the FY 2018 and FY 2019 biennial budget (\$127.0 million), loss of one-time revenue transfers (\$125.2 million), and recommencement of the amortization schedule to pay down the GAAP deficit (\$75.5 million).

In FY 2021, projected General Fund revenues rise by \$214.8 million compared to FY 2020 even after accounting for additional transfers out of the General Fund to accommodate additional car sales tax collections transferring to the Transportation Fund. Scheduled tax decreases passed in the FY 2018 and

FY 2019 biennial budget account for another \$52.6 million reduction in FY 2021 revenue growth. Without those two factors, revenue growth in FY 2021 would amount to \$352.2 million over FY 2020.

“Fixed” costs are anticipated to rise by \$620 million, \$569 million, and \$552 million in fiscal years 2020 through 2022. These costs are driven by the following factors:

- Decreasing federal support for the expansion population under the Medicaid program, as well as the Children’s Health Insurance Program,
- The continued phase-in from level percent of payroll to level dollar amortization of unfunded SERS liabilities (this transition will be complete, and SERS expenditure growth is anticipated to level-off, after FY 2023),
- Continued increases in the Teachers Retirement System (TRS) which are likely to accelerate through the current primary amortization period which ends in FY 2032,
- Annualization, in FY 2020, of private provider low-wage COLAs and other rate increases that were implemented in FY 2019,
- Rising debt service projections,
- A return to the statutory level of contributions for Retired Teachers’ Healthcare and projected growth in retired state employee healthcare requirements, and
- Caseload growth in both entitlement and quasi-entitlement services.

## FINANCIAL SUMMARY

### YEAR-OVER-YEAR REVENUE GROWTH vs. FIXED COST GROWTH (in millions)

#### GENERAL FUND

	FY 2020 vs. FY 2019	FY 2021 vs. FY 2020	FY 2022 vs. FY 2021
Revenue Growth	\$ (1,446.2)	\$ 214.8	\$ (127.9)
Fixed Cost Growth			
Debt Service	93.5	169.1	230.3
State Employee Pensions	115.9	98.8	104.1
Teacher Pensions	99.9	45.2	30.4
State and Teachers OPEB	100.7	75.1	43.6
Medicaid	169.0	146.6	113.7
Other Entitlements	41.0	33.6	29.8
Total Fixed Cost Growth	620.0	568.5	551.9
Difference	\$ (2,066.2)	\$ (353.7)	\$ (679.8)

#### SPECIAL TRANSPORTATION FUND

	FY 2020 vs. FY 2019	FY 2021 vs. FY 2020	FY 2022 vs. FY 2021
Revenue Growth	\$ 118.9	\$ 101.3	\$ 89.8
Fixed Cost Growth			
Debt Service	44.9	74.4	65.8
State Employee Pensions	36.5	12.5	13.1
Total Fixed Cost Growth	81.4	86.9	79.0
Difference	\$ 37.5	\$ 14.4	\$ 10.8

# CURRENT FISCAL YEAR OUTLOOK

## FY 2019 - GENERAL FUND

The adopted budget anticipates a \$10.5 million balance from operations during FY 2019. The Office of Policy and Management is projecting an operating surplus of \$254.9 million. Projected revenues exceed the budget plan by \$260.7 million, while estimated expenditures exceed the budget plan by \$16.3 million.

<b>FY 2019 - General Fund</b>			
(in millions)			
	Enacted	OPM 11/15/2018	
	<u>Budget</u>	<u>Projection</u>	<u>Variance</u>
Revenue	\$ 19,008.7	\$ 19,269.4	\$ 260.7
Expenditures	\$ 18,998.2	\$ 19,014.5	\$ 16.3
Balance from Operations	\$ 10.5	\$ 254.9	\$ 244.4

### Revenue

Revenues reflect the November 13, 2018, consensus forecast, with total revenues projected to exceed the original budget plan by a net \$260.7 million. The largest difference between the adopted budget and the consensus forecast is in the estimated and finals portion of the Personal Income Tax, up \$284.9 million compared to the budget plan. This additional revenue is offset by a corresponding increase in the volatility cap transfer of resources to the Budget Reserve Fund. The forecast for collections from the withholding portion of the Personal Income Tax is \$255.4 million more than budgeted, reflective of strong collections year-to-date due to rising employment levels and better wage growth projected for the fiscal year. All other projected revenue changes net to a positive \$5.3 million compared to budgeted revenues.

### Expenditures and Discussion of Projected Deficiencies

OPM is projecting that, in aggregate, the year will end approximately in line with the budget plan. General Fund overruns are largely offset by under-spending, and net to \$16.3 million above the budget plan. Projected shortfalls total \$54.6 million and consist of the following:

- Department of Emergency Services and Public Protection. A \$2.5 million deficiency is anticipated in Personal Services as a result of higher than anticipated overtime costs.
- Office of the Chief Medical Examiner. A \$300,000 deficiency is expected in Personal Services. The appropriation for FY 2019 is less than FY 2018, expenditures are impacted by overtime, and unbudgeted salary increases were approved by the Commission on Medicolegal Investigations for the Chief Medical Examiner and the Deputy Chief Medical Examiner. These costs are partially offset by the expected receipt of a federal Opioid Surge grant during the current fiscal year.
- Department of Mental Health and Addiction Services. A \$5.0 million deficiency is projected in Personal Services, primarily as a result of overtime and staffing costs at Whiting Forensic Hospital and Connecticut Valley Hospital.
- Office of Early Childhood. A \$14.0 million deficiency is projected in the Care4Kids TANF/CCDF account to reflect spending associated with increased federal Child Care Development Fund receipts.
- Department of Correction. A \$27.0 million shortfall is projected. Personal Services is anticipated to have a \$15.0 million deficiency, as the revised FY 2019 appropriation for Personal Services is \$20

million less than projected expenditures for FY 2018. The Other Expenses account will be \$1.0 million over budget, and the Inmate Medical account faces a projected shortfall of \$11.0 million. It should be noted that the enacted budget assumes saving \$8 million immediately through an RFP process for inmate medical services. While many of these services have been brought in-house to DOC, some are being put out to bid via RFP. The transition from UConn to DOC will take some time and may entail costs, making achievement of overall savings unlikely before the next biennium.

- Department of Children and Families. A net deficiency of \$5.8 million is projected across a variety of accounts. This shortfall is due to three factors: 1.) the lack of funding in the revised FY 2019 budget to honor the state's commitment to the 2017 Revised Juan F. Exit Plan, which in part requires adequate support for community-based programming to address service needs in order to implement the Exit Plan's outcome measures; 2.) the legislature did not concur with the Governor's recommendation to restore to DCF a portion of Juvenile Justice Outreach Services funding that was moved to the Judicial Branch in the biennial budget. DCF is committed to maintaining important clinical interventions and other services utilized by non-delinquent youth, and this programming further enables the department to meet Juan F. requirements; and 3.) the need to support unanticipated other expenses to implement corrective actions at the Solnit Children's Center.

Offsetting the shortfalls noted above are funds that will go unspent in agency budgets that exceed the level envisioned in the budget plan by \$58.3 million. These include:

- Office of Policy and Management. A total of \$3.3 million will lapse, with \$900,000 in the State-Owned PILOT account and \$2.4 million in the Municipal Transition account after all required payments have been made.
- Department of Social Services. A net total of \$35.5 million is projected to lapse. Given favorable expenditure trends, the Medicaid program is expected to end the year \$25.0 million under budget, the Connecticut Home Care Program is projected to lapse \$5.0 million, and the Temporary Family Assistance program is expected to lapse \$5.5 million.
- State Comptroller – Fringe Benefits. A net lapse of \$22.3 million is anticipated and is attributable mainly to lower than anticipated expenditures for Active and Retired State Employee Healthcare as well as recoveries in the Higher Education Alternative Retirement System that exceed the level assumed in the adopted budget.
- Department of Administrative Services – Workers' Compensation Claims. A \$300,000 lapse is projected as a result of lower than anticipated claims costs during the first quarter of the fiscal year.

Additionally, OPM projects \$20.0 million in unappropriated expenditures for Adjudicated Claims, which impacts General Fund balance. Of this amount, \$6.5 million is for a settlement that was delayed from late FY 2018 into FY 2019, and the remainder is for payment of other claims.

## FY 2019 - SPECIAL TRANSPORTATION FUND

The adopted budget anticipates a \$3.2 million balance from operations. OPM estimates a \$67.3 million operating surplus for FY 2019, which would result in a \$313.0 million Transportation Fund balance on June 30, 2019. Projected revenues from the Oil Companies Tax exceed the budget by \$50.2 million, and all other revenues net to \$13.9 million above the budget plan. There are no significant deviations in projected expenditures compared to the budget plan.



## FY 2019 - OTHER APPROPRIATED FUNDS

Agency budgets in several other appropriated funds also are projected to experience shortfalls totaling nearly \$1.6 million. In each case, the enacted budget did not make technical adjustments to fringe benefit and indirect overhead appropriations to match the recovery rates promulgated by the State Comptroller.

- Department of Banking. A net deficiency of \$415,423 is projected in this industry-funded agency. Shortfalls of \$690,000 in Fringe Benefits and \$150,423 in Indirect Overhead are partially offset by a \$425,000 lapse in Personal Services.
- Department of Insurance. A net deficiency of \$178,911 is projected in this industry-funded agency. A shortfall of \$373,812 is projected in Fringe Benefits, offset by \$194,901 over-budgeted in Indirect Overhead.
- Workers' Compensation Commission. A net deficiency of \$979,097 is projected in this industry-funded agency. Shortfalls of \$1,330,400 in Fringe Benefits and \$148,657 in Indirect Overhead are partially offset by a \$500,000 lapse in Personal Services.

If the enacted budget had included appropriation adjustments to accommodate the revised recovery rates, the annual industry assessments in these funds would have reflected the expected costs of oversight and regulatory functions of the affected agencies. Because of the various statutory provisions applicable to the process and timing of industry assessments, it is unlikely that deficiency appropriations in FY 2019 could be offset via adjusted assessments late in the fiscal year; appropriations unmatched by revenue are therefore expected to impact the cumulative balances of these funds.

## FY 2019 - BUDGET RESERVE FUND

Based on projections through November 15, 2018, OPM estimates the transfer to the Budget Reserve Fund (BRF) pursuant to the revenue volatility cap will be \$648 million in FY 2019, which, when combined with the projected General Fund surplus from FY 2019 operations, will increase the state's reserves to nearly \$2.1 billion by fiscal year end. (See page 19 for more information about the revenue volatility cap.)

	(in millions)
BRF Ending Balance - FY 2018	\$ 1,185.3
Projected Operating Surplus - FY 2019 (11/15 Est.)	254.9
Volatility Cap Deposit - FY 2019 (11/15 Est.)	<u>648.0</u>
Estimated BRF Total - FY 2019	\$ 2,088.2

# OUTLOOK FOR FISCAL YEAR 2020 THROUGH FISCAL YEAR 2022

## BACKGROUND AND METHODOLOGY

Section 2-36b of the Connecticut General Statutes requires the Office of Policy and Management and the Office of Fiscal Analysis to annually analyze the state's expenditure and revenue situation for the current biennium and the three succeeding fiscal years, and to report those analyses to the Appropriations Committee and to the Finance, Revenue and Bonding Committee. By statute, there are seven components of the report:

1. The level of spending changes from current year spending allowed by consensus revenue estimates in each fund, any changes to current year spending necessary because of "fixed cost drivers," and the total change to current year spending required to accommodate fixed cost drivers without exceeding current revenue estimates. The law specifies that "fixed cost drivers" may include debt service, pension contributions, retiree health care, entitlement programs, and federal mandate costs;
2. Projected tax credits to be used in the current biennium and the next ensuing three fiscal years, and the assumptions on which such projections are based;
3. A summary of any estimated deficiencies in the current fiscal year, the reasons for such deficiencies, and the assumptions upon which such estimates are based;
4. Projected balance in the Budget Reserve Fund at the end of each uncompleted fiscal year of the current biennium and the next ensuing three fiscal years;
5. Projected bond authorizations, allocations and issuances in each of the next ensuing five fiscal years and their impact on the debt service of the major funds of the state;
6. An analysis of revenue and expenditure trends and of the major cost drivers affecting state spending, including identification of any areas of concern and efforts undertaken to address such areas, including, but not limited to, efforts to obtain federal funds; and
7. An analysis of possible uses of surplus funds, including, but not limited to, the Budget Reserve Fund, debt retirement and funding of pension liabilities.

Each of the topic areas identified in statute is addressed in the pages that follow.

## FY 2020 TO FY 2022 - GENERAL FUND OUTLOOK

Pursuant to Section 2-36b of the Connecticut General Statutes, this report compares year-over-year revenue growth to growth in fixed costs. Revenues are derived from the November 13, 2018, consensus forecast, and are explained later in this document. OPM's approach for estimating "fixed costs" is explained in more detail below.

### Assumptions Used to Develop Growth Estimates for Fixed Costs

The FY 2020 column in the table that follows represents the anticipated increase in spending versus the FY 2019 estimated level. The FY 2021 and FY 2022 columns reflect the estimated increases over FY 2020 and FY 2021 respectively.

#### DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES

- *General Assistance Managed Care* - Reflects leap year costs in FY 2020 and anticipated caseload growth.
- *Medicaid Adult Rehabilitation Option* - Reflects anticipated inflation.

#### DEPARTMENT OF SOCIAL SERVICES

- *HUSKY B Program, Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled, Temporary Family Assistance, Connecticut Home Care Program, Protective Services for the Elderly, State Administered General Assistance, and Community Residential Services* - Reflect anticipated cost and caseload changes based on current trends, as well as annualization of adjustments.
- *Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled, and Community Residential Services* - Reflect leap year payments in FY 2020.
- *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 2016 to 95% in 2017, 94% in 2018, 93% in 2019 and 90% in 2020).
- *HUSKY B Program* - Reflects provisions in the Affordable Care Act and the January 2018 Continuing Resolution, which increased federal reimbursement for the Children's Health Insurance Program (CHIP) by 23 percentage points effective October 1, 2015 through September 30, 2019 and 11.5 percentage points effective October 1, 2019 through September 30, 2020. For Connecticut, reimbursement is increased from 65% to 88% for the period ending September 30, 2019 and from 65% to 76.5% for the period ending September 30, 2020.

#### OFFICE OF EARLY CHILDHOOD

- *Birth to Three and Care4Kids-TANF/CCDF* - Reflects no increase over current year appropriations, since eligibility for these programs is subject to some level of administrative control.

#### TEACHERS' RETIREMENT BOARD

- *Retirement Contributions* - FYs 2020 and 2021 reflect the actuarially determined employer contributions from the pension valuation as of June 30, 2018. FY 2022 reflects the increase estimated by the plan actuary.
- *Retiree Health Service Cost* - Reflects the state share returning to the statutory one-third of costs for the basic health plan starting in FY 2020 and the medical inflation rate.
- *Municipal Retiree Health Insurance* - Reflects the state share returning to the statutory one-third of the subsidy starting in FY 2020. FY 2022 reflects level funding based on flat volume.

#### DEPARTMENT OF CHILDREN AND FAMILIES

- *Board and Care for Children - Foster & Adoption* - Reflects anticipated growth in the number of children in foster care and subsidized adoptive and guardianship homes, and additional post-secondary education costs for children adopted after January 1, 2005.
- *Board and Care for Children - Short Term and Residential, No Nexus Special Education* - Reflect impact of regulatory increases in per diem rates for room and board, and special education at in-state residential treatment facilities.
- *Board and Care for Children - Adoption, Foster Care & Short Term and Residential* - Board and Care for Children accounts have been adjusted in FY 2020 for the cost of an additional per diem payment due to leap year.

#### STATE TREASURER – DEBT SERVICE

- *Debt Service* - Reflects Treasurer's estimates of debt service requirements for FY 2019 through FY 2022 adjusted to reflect reduced issuance in order to comply with the bond covenant based on the assumption that both refunding debt and transportation related general obligation debt are subject to the issuance cap.
- *Municipal Restructuring* - Includes the state's required payment for Hartford's municipal

assistance. Note that in FY 2019, a portion of Hartford’s municipal assistance was funded via a separate appropriation in the Office of Policy and Management.

STATE COMPTROLLER – FRINGE BENEFITS

- *State Employees Retirement Contributions* - FY 2020 reflects the actuarially determined employer contribution from the pension valuation as of June 30, 2018. FYs 2021 and 2022 reflect estimated employer contributions from the pension actuary.
- *Higher Education Alternate Retirement System* - Reflects estimated expenditure requirements.
- *Pensions and Retirements - Other Statutory* - Reflects estimated expenditure requirements with 3% COLA.
- *Judges and Compensation Commissioners Retirement* - Reflects an estimate of the actuarially determined employer contribution.
- *Retired State Employee Health Service Costs* - FYs 2020 and 2021 reflect estimated expenditure requirements. FY 2022 reflects medical inflation.

Based on the assumptions explained above, OPM’s estimates of “fixed cost drivers” are shown in the following table.

PROJECTED GROWTH IN EXPENDITURES  
FIXED COST DRIVERS

(Amounts Represent Year over Year Change)

<b>GENERAL FUND</b>	FY 2020 Increase over FY 2019	FY 2021 Increase over FY 2020	FY 2022 Increase over FY 2021
DMHAS - General Assistance Managed Care	\$ 607,642	\$ 426,503	\$ 485,135
DMHAS - Medicaid Adult Rehabilitation Option	238,375	248,053	257,975
DSS - HUSKY B Program	4,400,000	6,360,000	480,000
DSS - Medicaid	169,002,000	146,550,000	113,700,000
DSS - Old Age Assistance	3,742,111	2,111,706	2,335,882
DSS - Aid To The Blind	(42,712)	837	3,071
DSS - Aid To The Disabled	(1,234,773)	1,500,657	1,222,278
DSS - Temporary Assistance to Families - TANF	(852,054)	881,211	892,531
DSS - Connecticut Home Care Program	6,120,000	330,000	1,370,000
DSS - Community Residential Services	62,447,553	16,327,880	17,988,000
DSS - Protective Services to the Elderly	(184,437)	28,116	12,577
DSS - State Administered General Assistance	594,163	293,710	298,593
OEC - Birth to Three	-	-	-
OEC - Care4Kids TANF/CCDF	(26,378,810)	-	-
TRB - Retirement Contributions	99,869,000	45,246,000	30,403,000
TRB - Retirees Health Service Cost	11,426,050	3,848,100	1,193,976
TRB - Municipal Retiree Health Insurance Costs	887,447	3,520	-
DCF - No Nexus Special Education	(263,782)	37,762	38,517
DCF - Board and Care for Children - Adoption	3,278,283	2,485,607	2,779,182
DCF - Board and Care for Children - Foster	4,324,503	1,569,780	1,008,631
DCF - Board and Care for Children - Short-term and Residential	4,310,420	1,031,041	623,121
DCF - Individualized Family Supports	(125,042)	-	-
OTT - Debt Service	62,570,091	139,773,650	139,803,511
OTT - UConn 2000 - Debt Service	5,269,450	18,681,450	7,486,031
OTT - CHEFA Day Care Security	-	-	-
OTT - Pension Obligation Bonds - TRB	-	-	84,680,000
OTT - Municipal Restructuring	25,666,625	10,648,004	(1,636,919)
OSC - Adjudicated Claims	(20,000,000)	-	-
OSC - State Employees Retirement Contributions	104,201,856	97,285,148	102,530,507
OSC - Higher Education Alternative Retirement System	10,000,000	-	-
OSC - Pensions and Retirements - Other Statutory	316,755	55,131	60,874
OSC - Judges and Compensation Commissioners Retirement	1,371,374	1,439,943	1,511,940
OSC - Retired State Employees Health Service Cost	88,422,000	71,288,000	42,365,450
<b>TOTAL - GENERAL FUND</b>	<b>\$ 619,984,088</b>	<b>\$ 568,451,809</b>	<b>\$ 551,893,863</b>

## General Fund Revenue

The November consensus revenue estimate shows General Fund revenues at \$17.8 billion in FY 2020, \$18.0 billion in FY 2021, and \$17.9 billion in FY 2022. The table below shows the detailed revenue estimates.

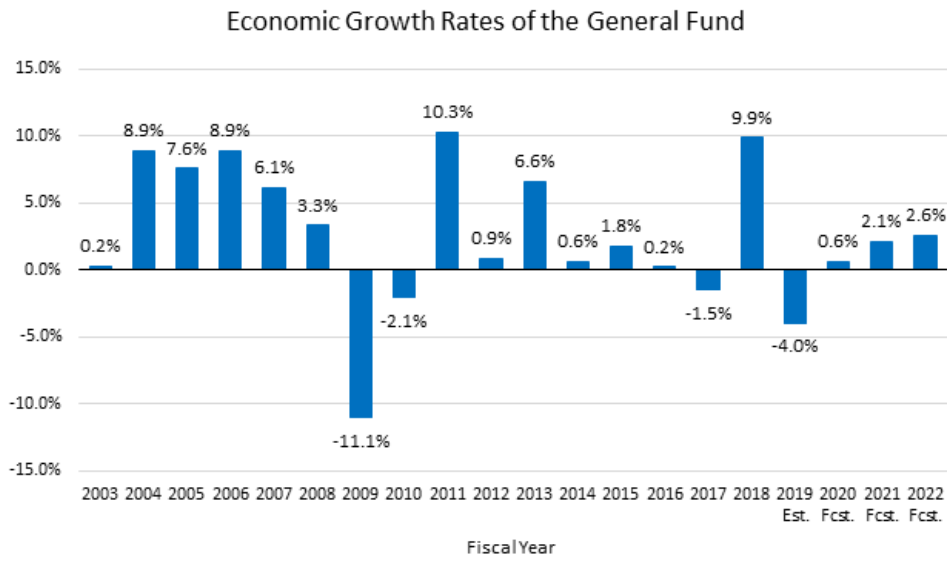
# PROJECTED REVENUES

## Consensus Revenue Forecast - November 13, 2018

(In Millions)

	<b>General Fund</b>			
<u>Taxes</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Personal Income - Withholding	\$ 6,403.1	\$ 6,498.4	\$ 6,633.8	\$ 6,774.3
Personal Income - Estimates & Finals	3,244.8	2,972.7	3,051.8	3,133.1
Sales & Use Tax	4,211.6	4,203.5	4,218.6	3,902.7
Corporation Tax	969.2	928.6	992.7	971.7
Pass-through Entity Tax	600.0	600.0	600.0	600.0
Public Service Tax	230.8	237.7	244.7	251.9
Inheritance & Estate Tax	176.2	155.8	134.2	126.0
Insurance Companies Tax	234.3	237.4	239.6	241.8
Cigarettes Tax	375.5	356.4	338.8	322.0
Real Estate Conveyance Tax	209.4	217.5	224.4	232.7
Alcoholic Beverages Tax	63.0	63.4	63.8	64.1
Admissions & Dues Tax	41.8	42.1	42.4	42.7
Health Provider Tax	1,049.2	534.0	535.5	536.9
Miscellaneous Tax	20.2	20.7	21.2	21.6
Total Taxes	\$ 17,829.1	\$ 17,068.2	\$ 17,341.5	\$ 17,221.5
Less Refunds of Tax	(1,287.3)	(1,391.6)	(1,460.3)	(1,530.8)
Less Earned Income Tax Credit	(94.2)	(97.3)	(100.6)	(104.0)
Less R&D Credit Exchange	(6.4)	(6.7)	(6.8)	(7.7)
Total - Taxes Less Refunds	\$ 16,441.2	\$ 15,572.6	\$ 15,773.8	\$ 15,579.0
<u>Other Revenue</u>				
Transfers-Special Revenue	\$ 352.7	\$ 360.2	\$ 368.2	\$ 373.8
Indian Gaming Payments	223.6	201.2	200.3	199.3
Licenses, Permits, Fees	292.6	322.7	300.6	331.4
Sales of Commodities	29.1	30.2	31.0	31.8
Rents, Fines, Escheats	151.1	153.4	155.7	158.1
Investment Income	29.8	30.9	31.4	31.9
Miscellaneous	174.1	178.1	181.7	185.4
Less Refunds of Payments	(63.1)	(64.3)	(65.7)	(67.0)
Total - Other Revenue	\$ 1,189.9	\$ 1,212.4	\$ 1,203.2	\$ 1,244.7
<u>Other Sources</u>				
Federal Grants	\$ 2,097.8	\$ 1,337.1	\$ 1,346.5	\$ 1,353.9
Transfer From Tobacco Settlement	110.2	110.0	108.6	107.6
Transfers From (To) Other Funds	78.3	(130.8)	(130.8)	(130.8)
Transfers to BRF - Volatility Adjustment	(648.0)	(278.1)	(263.3)	(244.3)
Total - Other Sources	\$ 1,638.3	\$ 1,038.2	\$ 1,061.0	\$ 1,086.4
<b>Total - General Fund Revenues</b>	<b>\$ 19,269.4</b>	<b>\$ 17,823.2</b>	<b>\$ 18,038.0</b>	<b>\$ 17,910.1</b>

The November 13, 2018, consensus revenue forecast assumes that General Fund revenues will experience economic growth rates ranging from 0.6% to 2.6% from FY 2020 to FY 2022. Economic growth rates are defined as baseline revenue growth prior to any state policy changes. Absent any recession, the growth rates remain conservative and well below growth experienced in prior recoveries. The 0.6% growth projected for FY 2020 is driven by the expectation that the Estimates and Finals component of the Personal Income Tax will revert to an average level of collections compared to the record amount received in FY 2018 and the still elevated amount projected to be received in FY 2019.



Economic Growth Rates for General Fund Tax Revenues

The following table shows estimated growth rates in each tax type implied by the November 13<sup>th</sup> consensus revenue forecast. The growth rates represent changes over prior year collections. Declines in FY 2019 in the estimates and finals component of the Personal Income Tax and in the Inheritance and Estate Tax are relative to the extraordinary level of collections in FY 2018.

**ECONOMIC GROWTH RATES FOR PROJECTED TAX REVENUES**

As Estimated by OPM Based Upon the November 13, 2018 Consensus Revenue Forecast  
(Percent Change)

<u>Taxes</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Personal Income Tax - Withholding	4.0	2.3	2.4	2.4
Personal Income Tax - Estimates & Finals	-16.8	-8.0	2.2	2.2
Sales & Use Tax	2.0	2.4	2.3	2.5
Corporation Tax	3.7	2.6	3.2	2.6
Public Service Tax	0.0	2.4	2.4	2.4
Inheritance & Estate Tax	-16.6	1.8	2.8	2.9
Insurance Companies Tax	1.5	1.5	1.5	1.5
Cigarettes Tax	-4.6	-5.1	-4.9	-5.0
Real Estate Conveyance Tax	3.1	3.9	3.5	3.5
Alcoholic Beverages Tax	0.5	0.5	0.5	0.5
Admissions & Dues Tax	1.0	0.7	0.7	0.7
Health Provider	0.9	0.9	1.0	0.9

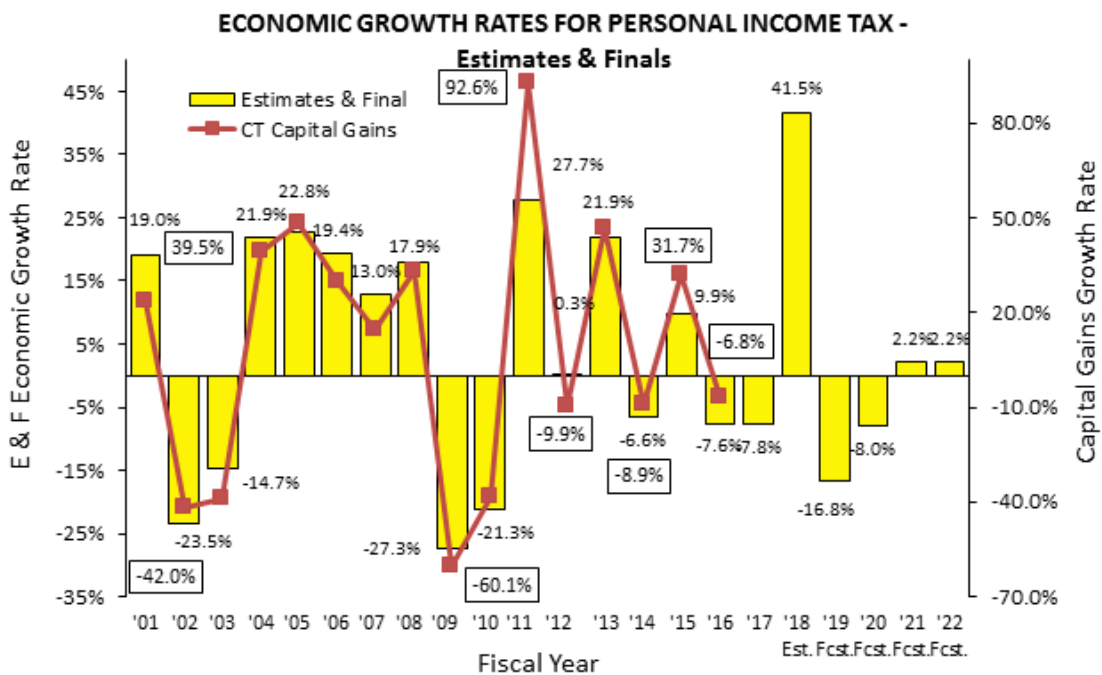
Personal Income Tax – Withholding

Personal Income Tax collections from paycheck withholding tends to be relatively stable in non-recessionary periods, reflecting changes in revenue as wages rise. Modest wage growth is projected during the upcoming biennium, and revenues are, in turn, expected to increase, but at a lower level.



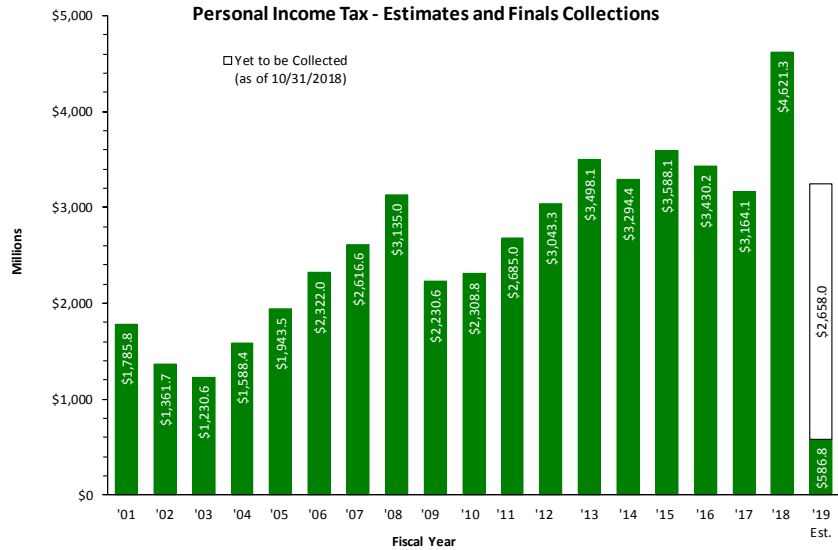
Personal Income Tax – Estimates and Finals Collections

The volatile estimates and finals component of the Personal Income Tax typically represents one-third of total income tax collections. Receipts from this revenue source are highly correlated with capital gains and, as a result, collections experience wide fluctuations year-to-year in response to market conditions and changes in tax policy. The graph at right depicts this correlation.



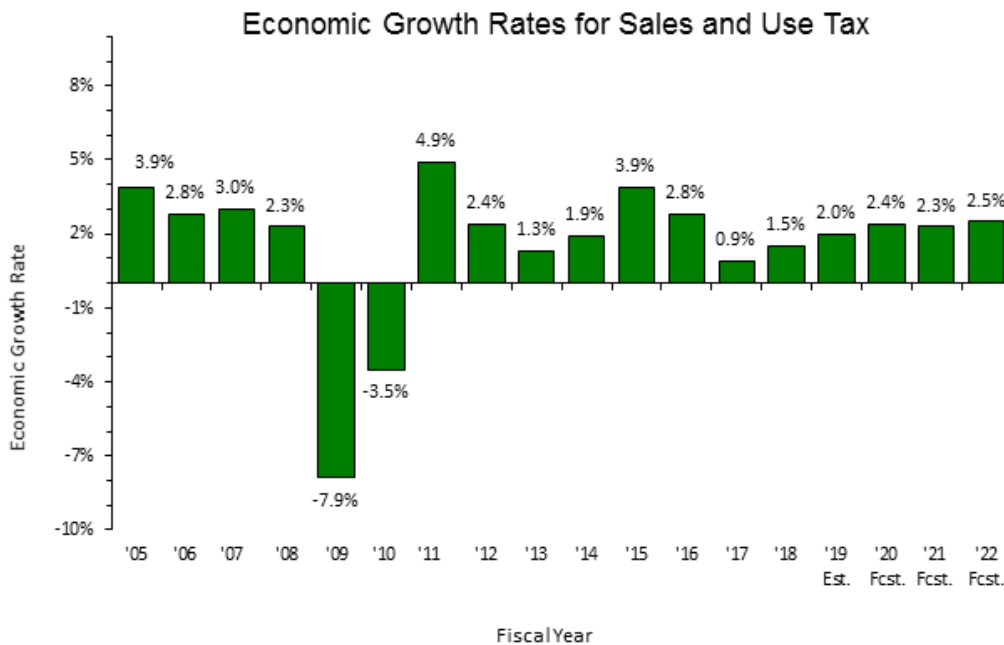
Note: Capital Gains are for the immediately preceding calendar year.

The current FY 2019 forecast calls for \$3,224.8 million in estimates and finals collections. Through October 31, the state has collected \$586.8 million, or 18% of the total forecasted amount. Over 30% of these collections are received in April when final tax returns are filed, concentrating volatility into the last quarter of the fiscal year. In FY 2009 alone, as the recession gripped the country, Connecticut’s estimates and finals collections fell by \$904.4 million. Excluding the impact of an enacted tax increase on millionaires, estimates and finals collections 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. FY 2018 collections are anticipated to be an outlier due to extraordinary collections resulting from repatriation of offshore hedge fund income and investor behavior in anticipation of the Tax Cuts and Jobs Act of 2017.



**Sales and Use Tax**

Revenue from the Sales and Use Tax is the second largest revenue source for the General Fund. The forecast for this tax projects growth in the mid 2% range over the next few fiscal years, as shown in the following graph. Each 1.0% change in the Sales and Use Tax growth rate results in a revenue change of about \$45 million.





## FY 2020 TO FY 2022 - SPECIAL TRANSPORTATION FUND OUTLOOK

OPM's estimates of "fixed cost drivers" in the Special Transportation Fund are as follows:

### PROJECTED GROWTH IN EXPENDITURES

#### FIXED COST DRIVERS

(Amounts Represent Year over Year Change)

<b>SPECIAL TRANSPORTATION FUND</b>	FY 2020 Increase over FY 2019	FY 2021 Increase over FY 2020	FY 2022 Increase over FY 2021
OTT - Debt Service	\$ 44,856,517	\$ 74,357,998	\$ 65,837,513
OSC - State Employees Retirement Contributions	36,523,058	12,524,000	13,149,600
<b>TOTAL - SPECIAL TRANSPORTATION FUND</b>	<b>\$ 81,379,575</b>	<b>\$ 86,881,998</b>	<b>\$ 78,987,113</b>

#### Revenue

The November consensus forecast estimates Special Transportation Fund revenues at \$1.8 billion in FY 2020, \$1.9 billion in FY 2021, and \$2.0 billion in FY 2022. The table below shows the detailed revenue estimates.

## PROJECTED REVENUES

Consensus Revenue Forecast - November 13, 2018

(In Millions)

### Special Transportation Fund

<u>Taxes</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Motor Fuels Tax	\$ 501.1	\$ 501.6	\$ 499.1	\$ 496.7
Oil Companies Tax	330.0	346.5	354.3	364.0
Sales & Use Tax	362.3	460.7	553.5	633.1
Sales Tax - DMV	86.8	87.6	88.5	89.4
Total Taxes	\$ 1,280.2	\$ 1,396.4	\$ 1,495.4	\$ 1,583.2
Less Refunds of Taxes	(13.6)	(14.3)	(15.0)	(15.8)
Total - Taxes Less Refunds	\$ 1,266.6	\$ 1,382.1	\$ 1,480.4	\$ 1,567.4
 <u>Other Sources</u>				
Motor Vehicle Receipts	\$ 252.5	\$ 254.4	\$ 256.4	\$ 258.4
Licenses, Permits, Fees	141.4	142.1	142.7	143.2
Interest Income	22.4	23.3	24.2	25.1
Federal Grants	12.1	12.1	11.8	11.0
Transfers From (To) Other Funds	(5.5)	(5.5)	(5.5)	(5.5)
Less Refunds of Payments	(4.9)	(5.0)	(5.2)	(5.0)
Total - Other Sources	\$ 418.0	\$ 421.4	\$ 424.4	\$ 427.2
 <b>Total - STF Revenues</b>	 <b>\$ 1,684.6</b>	 <b>\$ 1,803.5</b>	 <b>\$ 1,904.8</b>	 <b>\$ 1,994.6</b>

#### Economic Growth Rates for Special Transportation Fund Tax Revenues

Modest growth is anticipated over the next few years in the key taxes that support the Special Transportation Fund. The table below portrays estimated growth rates for the fund's major tax sources.

## ECONOMIC GROWTH RATES FOR PROJECTED TAX REVENUES

As Estimated by OPM Based Upon the November 13, 2018  
Consensus Revenue Forecast  
(Percent Change)

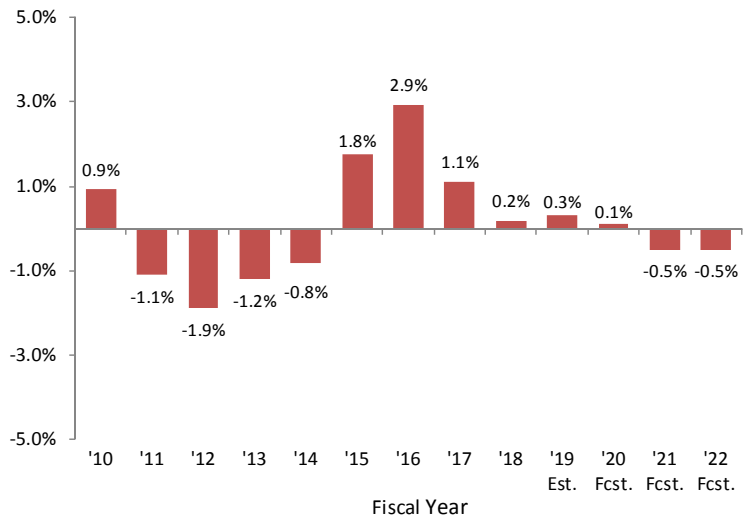
### Special Transportation Fund

<u>Taxes</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Motor Fuels Tax	0.3	0.1	-0.5	-0.5
Oil Companies Tax	4.8	5.0	2.3	2.7
Sales and Use Tax	2.0	2.4	2.3	2.5
Sales Tax - DMV	0.9	1.0	1.0	1.0

### Motor Fuels Tax

The Motor Fuels Tax represents the single largest revenue source for the Transportation Fund at 30.7% of total revenues in FY 2018. The tax includes 25 cents per gallon tax on gasoline fuel and 43.9 cents per gallon tax on diesel fuel. Nominal revenue growth of the Motor Fuels Tax since FY 2009 to FY 2018 has been only 1.0%, equivalent to less than 0.1% growth per fiscal year over the past 10 years. Growth in this revenue source is highly influenced by economic conditions, the price of motor fuels, and the fuel economy of the existing fleet. The last few fiscal years have shown positive growth in this revenue source, but this growth trend is not

**MOTOR FUELS TAX TRENDS**  
ECONOMIC GROWTH RATES OF THE MOTOR FUELS TAX



indicative of anticipated long-term prospects for the motor fuels tax. Instead, it is anticipated that growth will turn negative as consumer behavior changes when prices begin to rise and by greater use of alternatively powered vehicles, returning to rates seen before the 2008 recession. Since FY 2015, new revenue sources have been added to the Special Transportation Fund in order to address this lack of growth and reduce the Special Transportation Fund's reliance on a single slow growing revenue source. In FY 2018, motor fuels tax revenue was 30.7% of the total revenue deposited in the Special Transportation Fund, down from 47.9% in FY 2009.

## LONG-TERM OUTLOOK FOR THE SPECIAL TRANSPORTATION FUND

The near term health of the Special Transportation Fund (STF) is strong in large part due to various revenue enhancements and growth in the oil prices. Over the next four years the cumulative fund surplus will grow from an estimated \$313.0 million in FY 2019 to \$518.3 million in FY 2022. However, slow growth in the STF's major revenue sources, such as the motor fuels tax, will not be able to keep up with anticipated

growth in future construction costs and maintenance. Alternative revenue sources or financing will be needed to ensure the long-term health of the fund.

### SPECIAL TRANSPORTATION FUND - STATEMENT OF FINANCIAL CONDITION

(In Millions)

<b>Actual &amp; Projected Revenues</b>	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Motor Fuels Tax, Motor Vehicle Receipts, Licenses, Permits, Fees	\$ 894.8	\$ 895.0	\$ 898.1	\$ 898.2	\$ 898.3
Sales & Use Tax	327.5	362.3	460.7	553.5	633.1
Sales Tax - DMV	85.9	86.8	87.6	88.5	89.4
Oil Companies Tax	312.5	330.0	346.5	354.3	364.0
Federal Grants	12.2	12.1	12.1	11.8	11.0
Interest Income	17.7	22.4	23.3	24.2	25.1
Transfers from / (to) Other Funds	(5.5)	(5.5)	(5.5)	(5.5)	(5.5)
<b>Total Revenues</b>	<b>\$1,645.0</b>	<b>\$1,703.1</b>	<b>\$1,822.8</b>	<b>\$1,925.0</b>	<b>\$2,015.4</b>
Refunds	(14.9)	(18.5)	(19.3)	(20.2)	(20.8)
<b>Total Net Revenues</b>	<b>\$1,630.1</b>	<b>\$1,684.6</b>	<b>\$1,803.5</b>	<b>\$1,904.8</b>	<b>\$1,994.6</b>
<b>Projected Debt Service and Expenditures</b>					
Projected Debt Service on the Bonds	575.0	645.7	690.6	764.9	830.8
DOT Budgeted Expenses	639.9	683.5	705.0	721.7	721.7
DMV Budgeted Expenses	59.7	65.4	67.9	70.9	70.9
Other Budget Expenses	195.8	221.1	259.4	276.9	289.9
Program Costs Paid from Current Operations	11.5	13.6	21.0	21.0	21.0
Estimated Unallocated Lapses	0.0	(12.0)	(12.0)	(12.0)	(12.0)
<b>Total Expenditures</b>	<b>1,482.0</b>	<b>1,617.3</b>	<b>1,731.9</b>	<b>1,843.4</b>	<b>1,922.3</b>
<b>Excess (Deficiency)</b>	<b>148.1</b>	<b>67.3</b>	<b>71.6</b>	<b>61.4</b>	<b>72.3</b>
<b>Cumulative Excess (Deficiency)</b>	<b>245.7</b>	<b>313.0</b>	<b>384.6</b>	<b>446.0</b>	<b>518.3</b>
<b>Revised Debt Service Coverage Ratio</b>	<b>2.83</b>	<b>2.61</b>	<b>2.61</b>	<b>2.49</b>	<b>2.40</b>

Note: FY 2022 assumes growth in fixed costs only. Fixed costs includes debt service and state employees retirement contributions.

## THE ECONOMY

Connecticut's recovery from the Great Recession of the late 2000's continues. While the state reached full recovery in January 2018 of all private sector jobs lost during the recession, when public sector jobs are included the total job recovery rate stands at 89.9% as of September 2018. Connecticut's unemployment rate in September 2018 was 4.2%, compared to 3.7% nationally. Employment recovery varies significantly by region, from 131.4% in Hartford to 21.8% in Enfield. As of September 2018, three labor market areas in Connecticut have seen

<b>Job Recovery by CT Labor Market Area From Pre-Recession Peak to September 2018</b>	
Hartford	131.40%
New Haven	114.40%
Danbury	104.30%
Bridgeport-Stamford-Norwalk	83.30%
Danielson/Northeast*	62.50%
Norwich-New London-Westerly	44.60%
Torrington/Northwest*	38.20%
Waterbury	34.40%
Enfield*	21.80%
<b>Connecticut</b>	<b>89.90%</b>

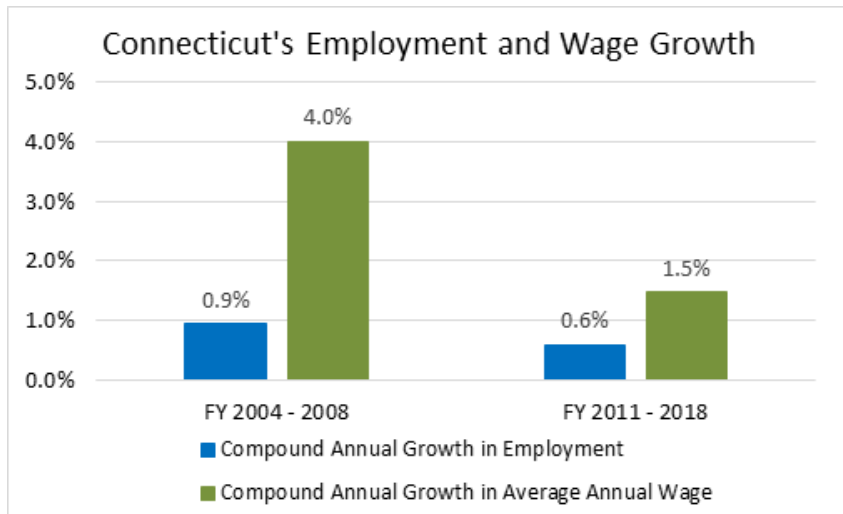
\* Not seasonally adjusted

Source: CT Dept. of Labor

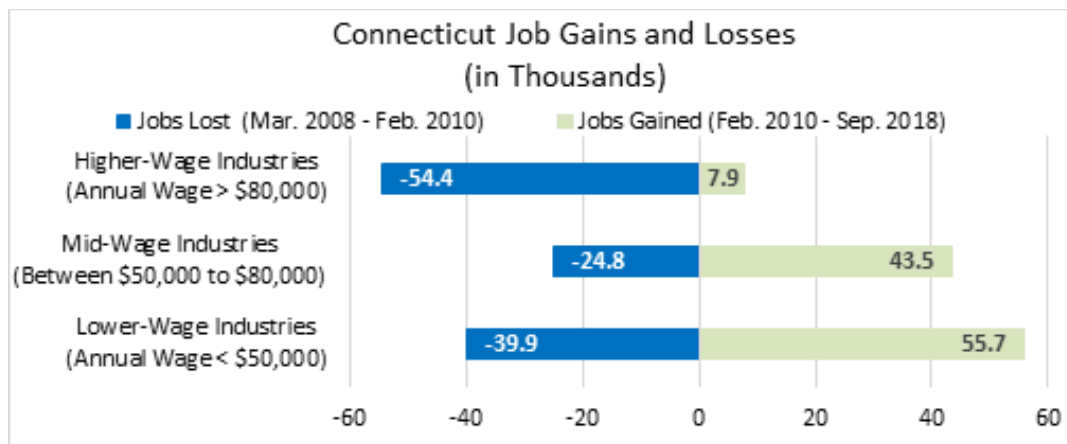
full job recovery from the recession: Hartford, New Haven, and Danbury.<sup>1</sup>

**Employment and Wages – Strong Recent Employment Recovery But Tepid Wage Growth**

Connecticut’s post-recession employment growth is roughly the same as it was pre-recession. However, average annual wages are growing at 1.5% per year in the post-recession period compared to 4.0% per year before the recession. In FY 2018, employment grew 0.3% while the average annual wage grew 1.8%.<sup>2</sup>



As of September 2018, Connecticut has recovered 89.9% of jobs lost during the recession. Employment growth since the recession has, however, been skewed toward lower-wage industries, especially when compared to the jobs lost during the recession.<sup>3</sup>



**Housing**

The housing market similarly remains below its pre-recession peak. Median prices on existing homes fell 12.2% from about \$323,629 in the second quarter of 2006 to about \$284,147 in the second quarter of 2018. Total home sales remain 42.9% below the pre-recession peak.

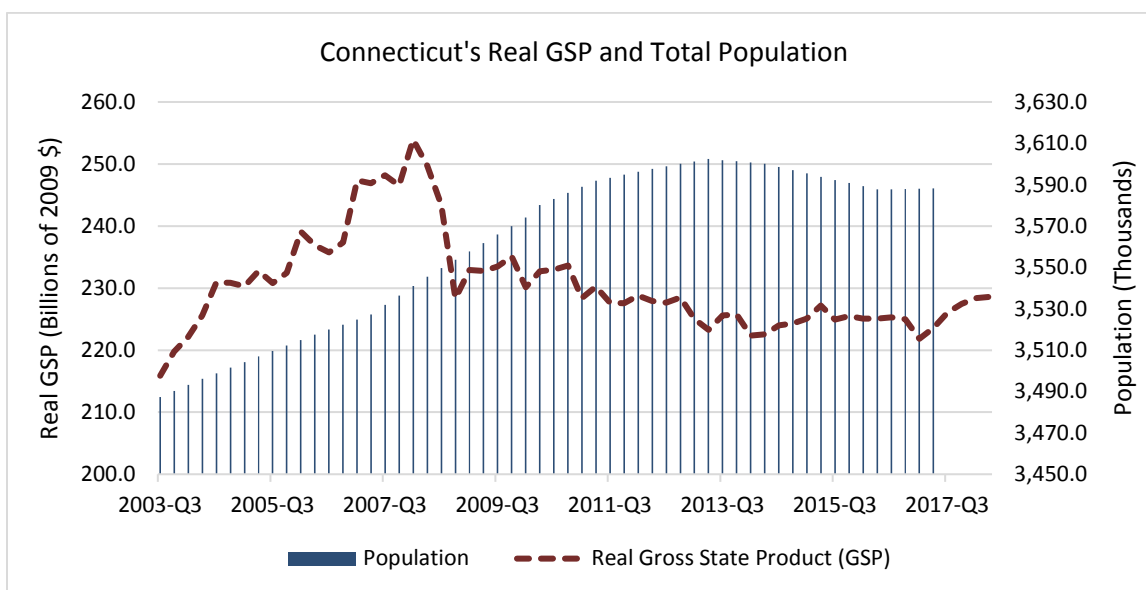
<sup>1</sup> Sources: IHS, Bureau of Labor Statistics.

<sup>2</sup> Source: IHS. Average annual wage is not adjusted for inflation.

<sup>3</sup> Source: Bureau of Labor Statistics. Higher-Wage Industries include: Management of Companies and Enterprises; Finance and Insurance; Professional, Scientific, and Technical Services; Information; Wholesale Trade; and Manufacturing. Mid-Wage Industries include: Real Estate and Rental & Leasing; Construction and Mining; Government; Educational Services; Transportation, Warehousing, and Utilities; and Health Care and Social Assistance.

### Gross State Product and Population

Connecticut's real gross state product (GSP), which is a measure of all goods and services produced in Connecticut, fell 9.3% during the Great Recession. As seen in the following graph, Connecticut's real GSP continued to fall even after the end of the recession and currently stands below 2004 levels. Connecticut's total population also fell by 0.4% between 2013 and 2016, but held steady in 2017.



The table below compares Connecticut's growth since the last recession to states in the region and to the national average. In essentially all indicators Connecticut is the slowest or one of the slowest in growth. In summary, Connecticut's economic recovery continues from the last recession, but we trail the region and the U.S.

Growth in Various Economic Indicators (2010 to 2017)					
	Employment*	Population	Home Sales	Home Prices	Real GSP
Connecticut	5.4%	0.2%	19.6%	0.8%	-3.3%
Maine	5.4%	0.7%	34.7%	17.1%	3.7%
Massachusetts	13.5%	4.5%	22.7%	26.5%	14.3%
New Hampshire	9.9%	2.0%	29.3%	20.5%	10.7%
New Jersey	8.7%	2.3%	37.9%	5.9%	5.6%
New York	12.5%	2.2%	13.4%	13.6%	8.9%
Rhode Island	9.3%	0.7%	31.5%	18.4%	4.9%
Vermont	5.9%	-0.3%	29.2%	11.6%	5.9%
United States	14.2%	5.2%	32.5%	43.3%	14.3%

\* Growth between 2010 to 2018

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, IHS

### Connecticut's Economic Projections

The following table shows projections for various economic indicators for Connecticut over the biennium. Growth in real GSP is projected to remain below 2% over the forecast period. However, personal income and wages and salaries growth showed some recent strength and is anticipated to remain close to 4% over the biennium and beyond. Connecticut's employment growth is projected to peak at 1.2% in FY 2019,

but then slow and decline by 0.2% in FY 2022. The unemployment rate, however, is expected to hold steady at approximately 4% over the forecast period. The state’s population remains flat through FY 2020, then slightly increases in the out-years by 0.1%.

<b>Connecticut Economic Indicators</b>						
(Year-Over-Year Changes)						
	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>
Real G.S.P.	-0.5%	1.7%	1.6%	1.7%	1.4%	1.3%
Personal Income	1.8%	3.6%	3.5%	4.1%	3.6%	3.7%
Wages & Salaries	0.4%	2.1%	3.0%	4.0%	4.0%	3.9%
Unemployment Rate	4.9%	4.5%	4.2%	3.9%	3.9%	4.1%
Total Employment	0.2%	0.3%	1.2%	0.6%	0.1%	-0.2%
Population	-0.1%	0.0%	0.0%	0.0%	0.1%	0.1%
U.S. C.P.I. - U	1.9%	2.2%	2.5%	2.3%	1.9%	2.3%

Source: IHS, as of 11/5/2018

These projections need to be tempered with the strong possibility of a national recession. Since 1945, on average, a recession occurs about every six years (from start to start). The last recession began in December 2007, which means the nation is currently 59 months past the national average for a recession to commence. In addition, the yield curve, which is the spread between the 10-year and 2-year treasury yield, has narrowed. An inverted yield curve is a strong indicator of a recession. The Federal Reserve has raised interest rates eight times since the last recession, and is anticipated to continue to do so. These factors in combination portend the possibility of a recession sometime during the next few years.

## SPECIAL TOPICS

The 2017 and 2018 legislative sessions saw enactment of several caps and limitations that will impact budgeting for FY 2020 – FY 2021 and subsequent biennia. These measures include adopting definitions that give effect to the constitutional spending cap, a limitation on how much revenue can be appropriated, and a measure that directs above-average collections from volatile revenue sources to the Budget Reserve Fund. A brief description of the caps and limitations follows.

### Spending Cap

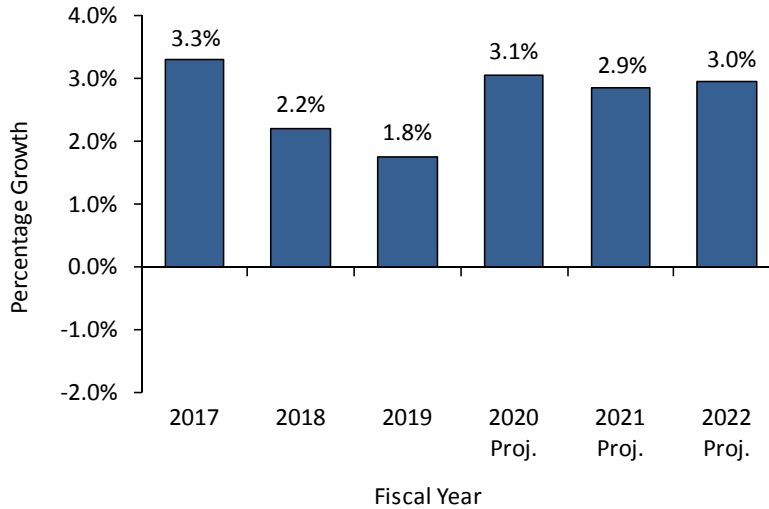
The state’s constitutional and statutory “spending” or “expenditure” cap is, in reality, a limit on the amount of appropriations the General Assembly can authorize in a given year. The cap limits growth in general budget expenditures to the greater of the average five-year increase in personal income or the increase in inflation.<sup>4</sup>

---

<sup>4</sup> "Increase in personal income" is defined as the compound annual growth rate of personal income in the state over the preceding five calendar years. "Increase in inflation" is defined as the increase in the consumer price index for all urban consumers, all items less food and energy, during the preceding calendar year. "General budget expenditures" are defined as expenditures from all appropriated funds, excluding the following: debt service; deposits to the Budget Reserve Fund; expenditures of federal funds; federally mandated or court ordered expenditures (in their first year); expenditures for federal programs for which the state receives federal matching funds (in their first year); payment of the unfunded liability for the state employee and judicial retirement systems through FY 2022; and payment of the unfunded liability for teachers through FY 2026.

Given the state’s low growth in personal income over the past few years, the core consumer price index is the limiting factor in FY 2018 and FY 2019. Personal income is projected to be the limiting factor in fiscal years 2020, 2021, and 2022. The enacted budget for FY 2019 is \$0.5 million below the cap. For FY 2020, a growth rate of three percent would allow capped expenditures to grow by approximately \$400 million over FY 2019 levels.

### CT Spending Cap Growth Rate



#### Revenue Cap

Public Act 17-2 of the June Special Session introduced a revenue cap that limits the amount of General Fund and Special Transportation Fund appropriations to a percentage of revenue for those funds. The appropriations limit will begin at 99.5% of estimated revenue in FY 2020 and phases down to 98% for FY 2026 and thereafter. Any resulting General Fund operating margin will help rebuild the rainy day fund and will also provide a buffer against drastic expenditure reductions and revenue increases if there is a sudden mid-year downturn in the economy.

Fiscal Year	Appropriations as % of Revenues
2020	99.50%
2021	99.25%
2022	99.00%
2023	98.75%
2024	98.50%
2025	98.25%
2026	98.00%

#### Revenue Volatility Cap

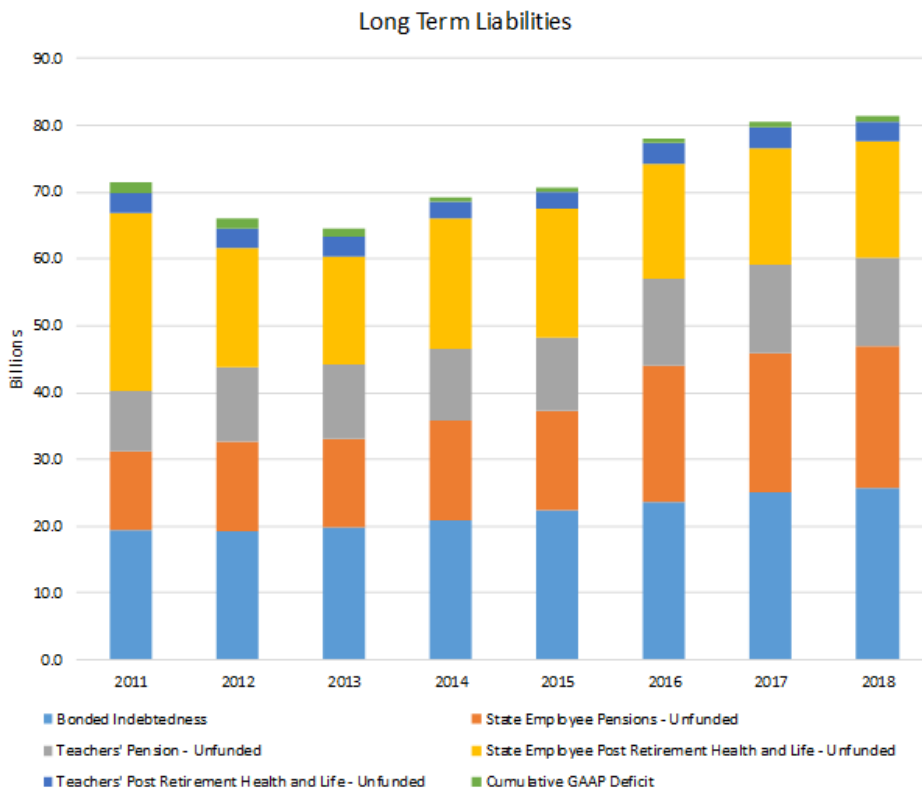
The revenue volatility cap directs any collections from the estimated and finals component of the Personal Income Tax plus the Pass-through Entity Tax that in total exceed a designated threshold (adjusted for inflation) to the Budget Reserve Fund. The transfer threshold is indexed to the five year compound annual growth rate in personal income and is estimated as shown in the table at right. See page 36 for a discussion of the Budget Reserve Fund.

Fiscal Year	Revenue Volatility Threshold (in millions)
2019	\$ 3,196.8
2020	\$ 3,294.6
2021	\$ 3,388.5
2022	\$ 3,488.8

## LONG-TERM LIABILITIES

The long-term liabilities facing the state include obligations to fully fund the State Employees Retirement System and the Teachers Retirement System, pay for other post-employment benefits (OPEB), retire outstanding debt service costs, and close the cumulative GAAP deficit. The state’s current long-term obligations total \$81.1 billion, up 0.6% from FY 2017’s reported amount of \$80.6 billion. The table below depicts the components of these long-term liabilities, and a discussion of each follows.

<u>LONG-TERM OBLIGATIONS</u>	
(In Billions)	
Bonded Indebtedness – As of 8/31/18	\$25.5
State Employee Pensions – Unfunded as of 6/30/18	\$21.2
Teachers’ Pension – Unfunded as of 6/30/18	\$13.2
State Employee Post-Retirement Health and Life – Unfunded as of 6/30/17	\$17.4
Teachers’ Post-Retirement Health and Life – Unfunded as of 6/30/16	\$3.0
Cumulative GAAP Deficit – As of 6/30/18	\$0.8
<b>Total</b>	<b>\$81.1</b>



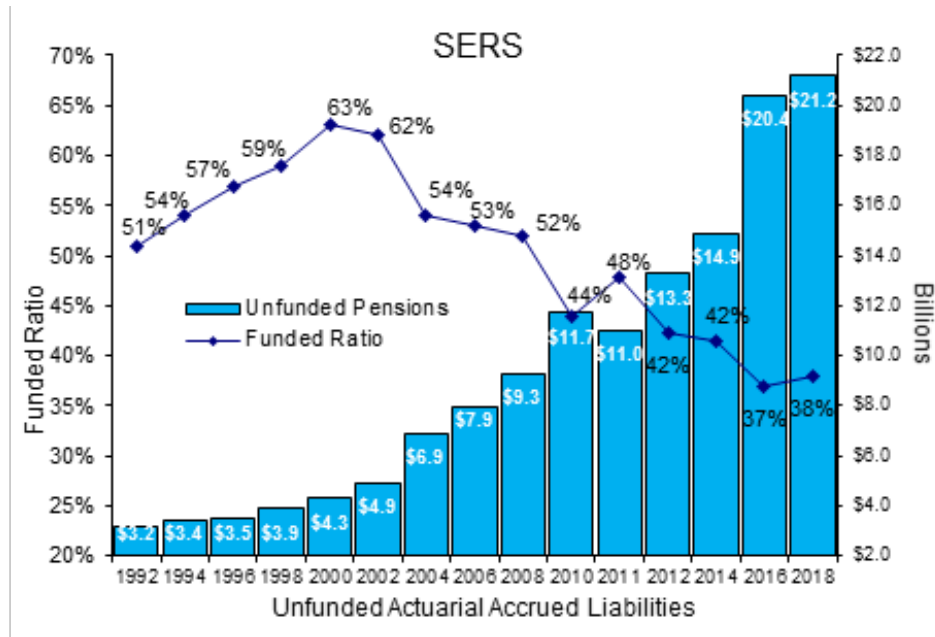
## PENSIONS

The state is the sponsor of two large pension systems, one for state employees and one for teachers (SERS and TRS), as well as several lesser retirement plans for judges, family support magistrates and compensation commissioners; and for probate judges and employees.

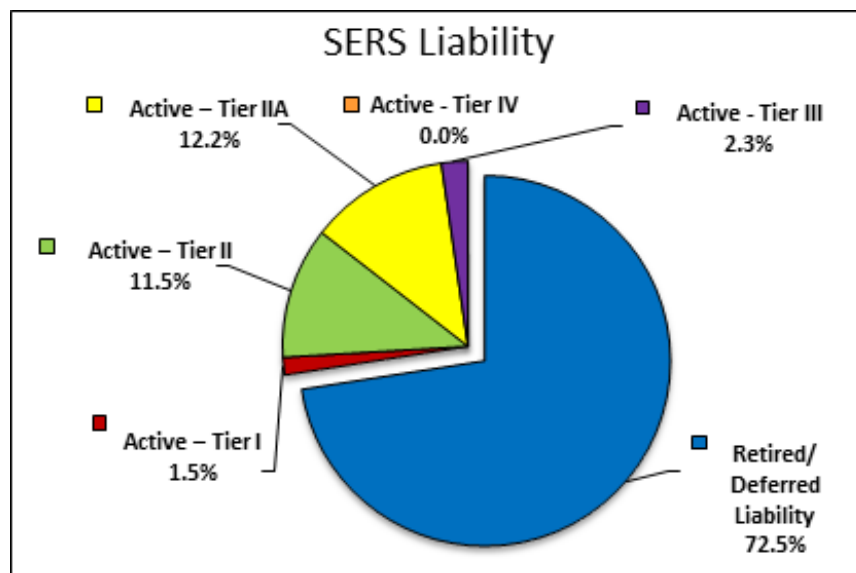


**State Employees Retirement System (SERS)**

The state’s SERS obligation at the end of FY 2018 totaled \$21.2 billion. The funded ratio has increased to 38%. The market value investment returns of 13.82% for 2017 and 7.12% for 2018 were greater than the 6.9% assumed rate, although the impact of these returns is smoothed over a five-year period to reduce volatility. The 6/30/2018 valuation recognized the increase in employee contributions of 1.5% of salary effective July 1, 2017 for all non-Tier IV members and the new Tier IV.



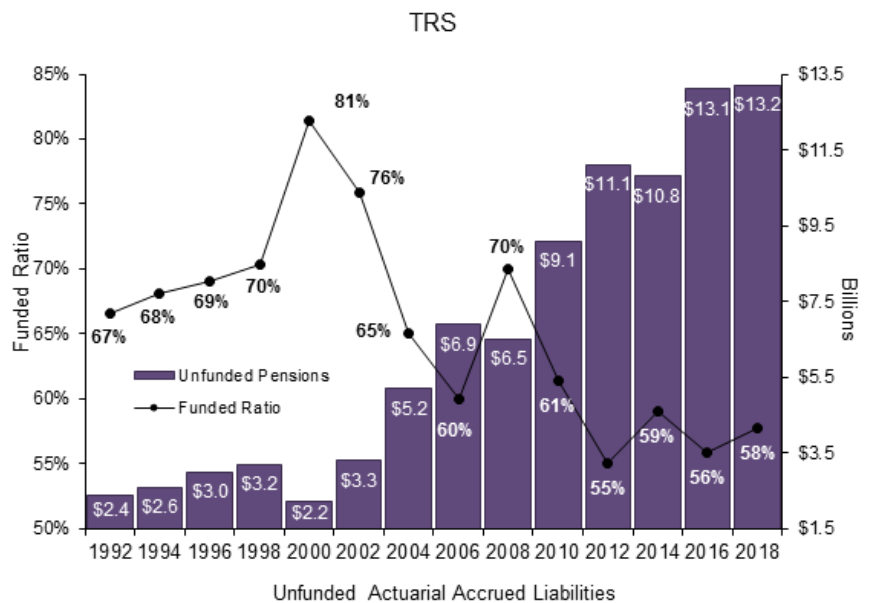
The total SERS liability is \$34.2 billion, with \$21.2 billion the unfunded portion of that liability. Most of the liability – 72.5% – is related to already-retired employees. The pie chart and table that follow show the proportions of liability attributable to active employees and retirees. The overwhelming majority of the state’s contributions in FY 2020 – 86.7% – is to address the unfunded actuarial accrued liability.



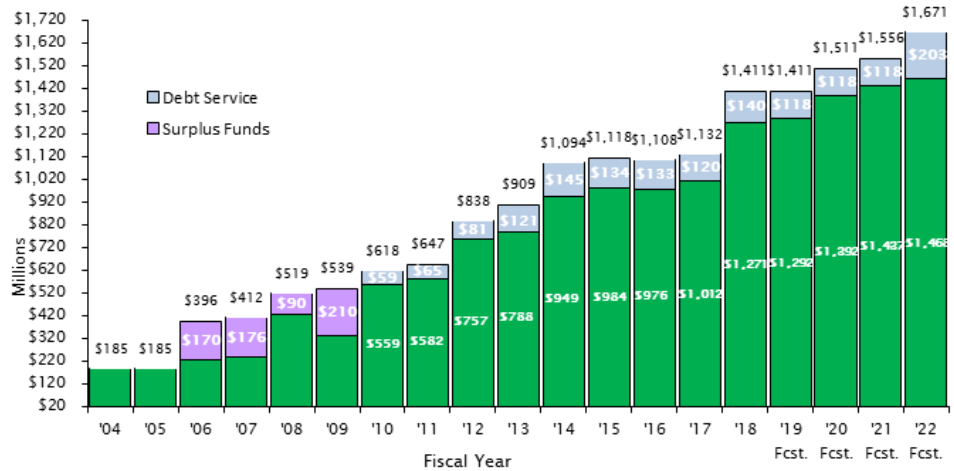
Liability Based on 6/30/18 Valuation (\$ in Thousands)		
Retired/Deferred Liability	\$24,813,844	72.5%
Active – Tier I Hazardous	1,162	0.0%
Active – Tier IB	501,017	1.5%
Active – Tier IC	20,777	0.1%
Active – Tier II Hazardous	729,335	2.1%
Active – Tier II Others	3,197,760	9.3%
Active – Tier IIA Hazardous	2,148,017	6.3%
Active – Tier IIA Others	2,013,223	5.9%
Active - Tier III Hazardous	154,906	0.5%
Active - Tier III Hybrid	372,891	1.1%
Active - Tier III Others	255,485	0.7%
Active - Tier IV Hazardous	845	0.0%
Active - Tier IV Hybrid	1,251	0.0%
Active - Tier IV Others	3,650	0.0%
<b>Total Accrued Liability</b>	<b>\$34,214,163</b>	
Actuarial Value of Assets	12,991,228	
<b>Unfunded Accrued Liability</b>	<b>\$21,222,935</b>	
Normal cost	\$235,397	
Amortization of UAL	\$1,537,971	
<b>FY 2020 Actuarially Determined Employer Contribution (ADEC)</b>	<b>\$1,773,368</b>	

### Teachers Retirement System (TRS)

The state's TRS obligations at the end of FY 2018 total \$13.2 billion. While market value investment returns were 14.41% in 2017 and 7.24% in 2018 – an average of 10.76% compared to the assumed rate of 8% – TRS employs a four-year asset smoothing approach which results in a two-year compound average return of 6.88%, resulting in a \$368 million loss. However, a minimal increase in unfunded actuarial liabilities and an increase in the funded ratio occurred, due primarily to lower than assumed COLAs and salary increases.



The following graph depicts the increase in contributions to the TRS. In FYs 2006 through 2009, contributions were supplemented by the use of surplus funds. The bars in the graph for FY 2010 and beyond include debt service on the \$2.3 billion pension obligation bonds issued on April 30, 2008 for the benefit of the Teachers' Retirement System. Contributions grew in FY 2018 and thereafter to reflect the impact of lowering the assumed rate of investment return to 8% from 8.5%.



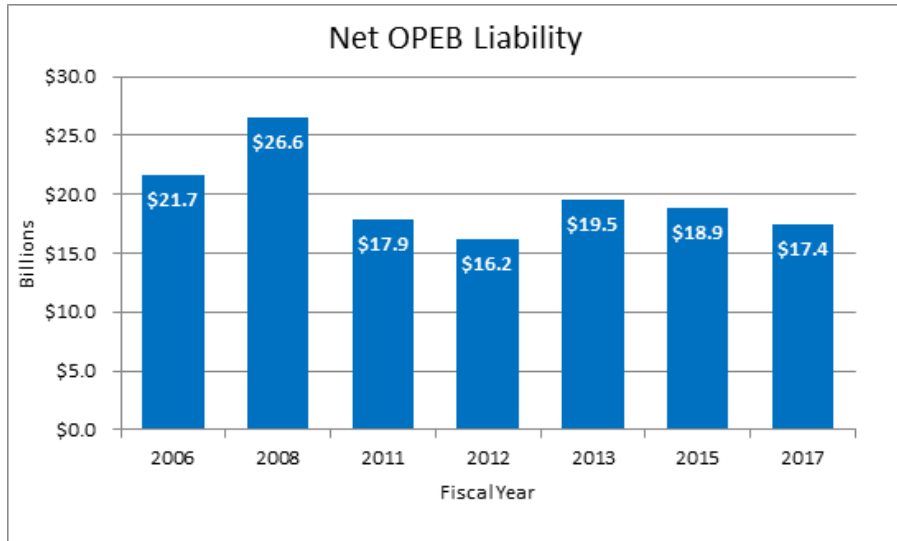
## OUTLOOK FOR SERS AND TRS

As noted above, the state is the sponsor of two large pension systems, one for state employees and one for teachers (SERS and TRS). Both systems are underfunded as a result of many decades of insufficient contributions to fund the promises made to generations of employees. Each system requires annual state contributions of over \$1 billion now, and those are each expected to rise to over \$2 billion or more in the coming years. Until recently, both systems were required to pay down virtually all of the unfunded liability by 2032, regardless of market performance in the meantime. In the last eight years, major changes have been made to SERS, including steep benefit cuts for newly hired employees, COLA reductions, increased contributions, lowering the investment return assumption and re-amortizing the unfunded liability over a longer period of time. As a result of these changes, the risk of insolvency in that fund is greatly diminished, and the fund is on a path – albeit a long one – to achieve full funding. The Teacher’s system, TRS, has not undergone similar changes, and there is risk of unsustainable increases in funding requirements over the next 10 years.

There are two reasons why changes like those implemented with SERS have not been put in place with TRS. First, TRS is a statutory pension, and changes would require legislative action. At least three separate legislatively-created commissions have undertaken or are in the process of studying potential policy options: the Teachers’ Retirement System Viability Commission, the Pension Sustainability Commission, and the Commission on Fiscal Stability and Economic Growth. The issues are complex, and the path to legislative consensus on a solution – including any recommendations by these commissions – is unclear. Second, pension obligation bonds were issued in 2008 to shore up TRS funding, and those bonds included a covenant that required actuarial contributions to the fund each year, and also may limit the action of the state with respect to revising amortization methods and periods. The bonds are not callable until 2025, so short of calling the bonds the State Treasurer and bond counsel have opined that the covenant provides little flexibility for implementing funding reforms in the near term. Failure to address the funding issues in TRS leaves the state exposed to annual increases amounting to hundreds of millions of dollars each year throughout the coming decade.

## OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Other post-employment benefits (OPEB) include non-pension related benefits for retirees such as health care, dental coverage and life insurance. Until FY 2010, benefits were budgeted on a “pay as you go” (PAYGO) basis, meaning that the state appropriated funds sufficient to pay for anticipated OPEB costs during the budget period. As with pension accounting, the PAYGO approach does not capture the current value of benefits promised during future periods, i.e., unfunded liabilities. The Governmental Accounting Standards Board requires states to report the unfunded liabilities for OPEB. The most recent OPEB valuation (as of June 30, 2017) shows the net OPEB liability decreased to \$17.4 billion.



Reforms negotiated in the 2011 and 2017 SEBAC agreements included:

- Transitioning Medicare eligible retirees to a Medicare Advantage plan with pharmacy coverage which is expected to save \$135 million on an annual basis;
- Increasing premium cost sharing and health care design changes for new retirees after October 1, 2017 and increasing again for new retirees after June 30, 2022;
- Increasing copays for non-HEP drugs from \$5 generic/\$20 preferred/\$35 brand to a four-tier system of \$5 preferred generic/\$10 non-preferred generic/\$25 preferred brand/\$40 non-preferred brand;
- Increasing the emergency room copay for non-emergencies from \$35 to \$250;
- Converting to a tiered provider network plan; and
- Increasing the number of years from ten to fifteen that health care eligible employees hired after July 1, 2017, must pay 3% of salary toward retiree health.

In FY 2008, the state began the process of setting aside funds in trust to address the OPEB unfunded liability. While not a full actuarial funding approach, setting aside funds now could begin a long-term transition to actuarial pre-funding of OPEB costs. The 2009 and 2011 SEBAC agreements introduced employee contributions, and now all state employees contribute 3% to the OPEB trust fund, with the state matching those employee contributions. The table at right depicts OPEB contributions by both employees and the state. As of September 30, 2018, the OPEB trust fund has a market value of \$919.3 million and is the fourth largest investment fund managed by the Treasurer’s Office after the State Employees Retirement Fund, Teachers’ Retirement Fund and the Municipal Employees Retirement Fund.

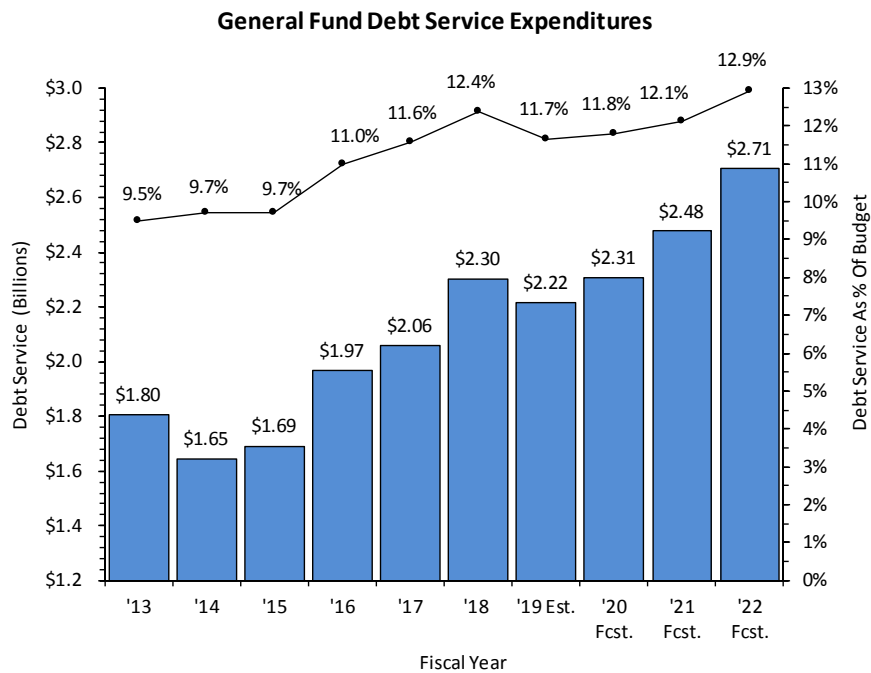
Fiscal Year	Employee Contributions	State Contributions	Total Contributions
2007-08	-	\$10.0	\$10.0
2008-09	-	-	\$0.0
2009-10	\$1.4	-	\$1.4
2010-11	\$21.6	\$14.5	\$36.1
2011-12	\$25.0	-	\$25.0
2012-13	\$27.5	-	\$27.5
2013-14	\$45.5	-	\$45.5
2014-15	\$93.3	-	\$93.3
2015-16	\$125.2	-	\$125.2
2016-17	\$120.8	-	\$120.8
2017-18	\$116.8	\$122.2	\$239.0
2018-19 est.	\$118.1	\$123.1	\$241.2
2019-20 est.	\$122.3	\$126.5	\$248.8
2020-21 est.	\$126.5	\$130.9	\$257.4
<b>Total</b>	<b>\$944.0</b>	<b>\$527.2</b>	<b>\$1,471.2</b>

Excludes investment earnings

\* In Millions

## DEBT SERVICE

The graph below shows debt service as a proportion of General Fund expenditures. Debt service has increased from just under 10% of the General Fund in fiscal years 2013 through 2015 to about 12% during the upcoming biennium.

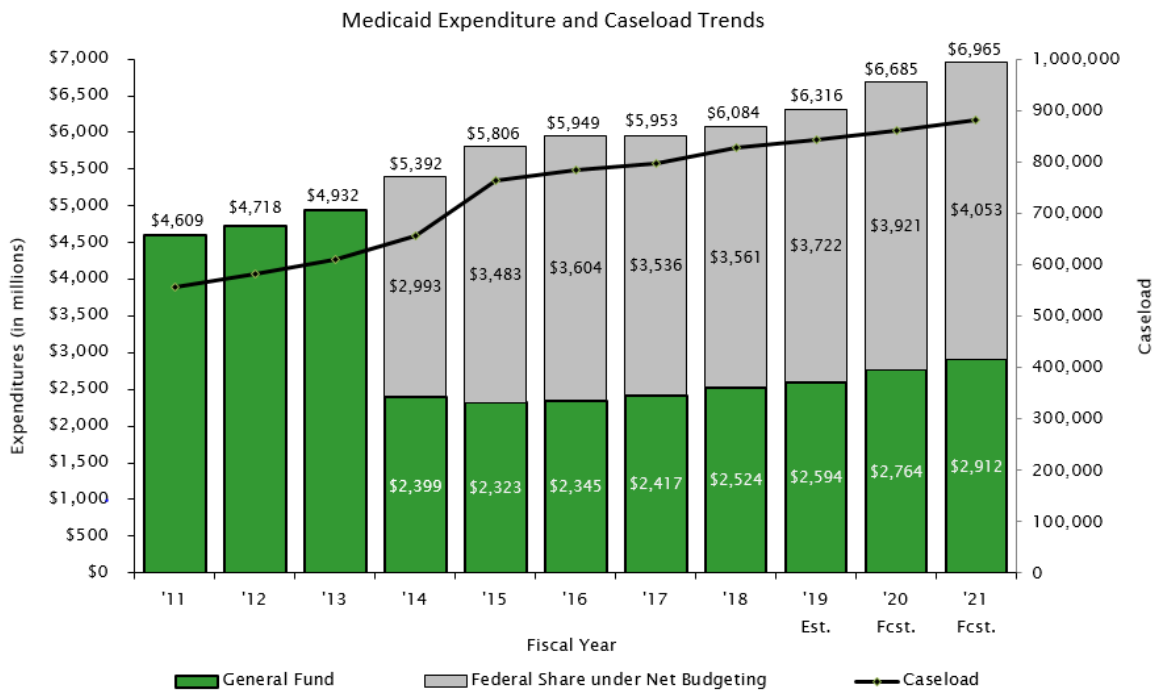


## MEDICAID

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 driven 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. As a result of this expansion, the HUSKY D caseload has grown from 46,156 in June 2010 to 99,103 in December 2013 to 257,374 in September 2018. Over the last five fiscal years, HUSKY D expenditures have increased from \$916.6 million in FY 2014 to \$1,629.9 million in FY 2018. Under the Affordable Care Act, these costs were 100% reimbursed by the federal government for calendar years 2014 through 2016, after which the federal reimbursement is phased down to 90% beginning in 2020, as shown in the table below.

Calendar Year	2014 – 2016	2017	2018	2019	2020+
Federal Reimbursement	100%	95%	94%	93%	90%

This reduction in federal reimbursement is expected to result in additional state costs of approximately \$36 million in FY 2020 and \$58 million in FY 2021. The graph below shows total program costs as well as state and federal shares of the total.

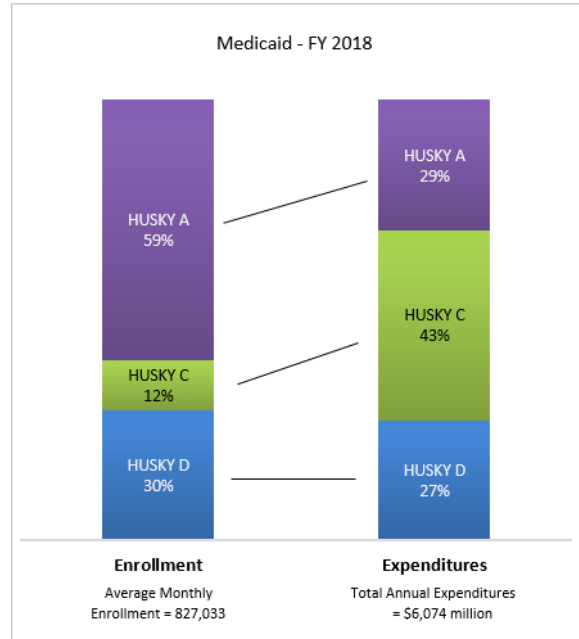


Beginning with the budget adopted in 2013, the Medicaid account in the Department of Social Services was “net appropriated.” A total of \$2,768.7 million was removed from both budgeted revenues and appropriations to accomplish this transition in FY 2014.

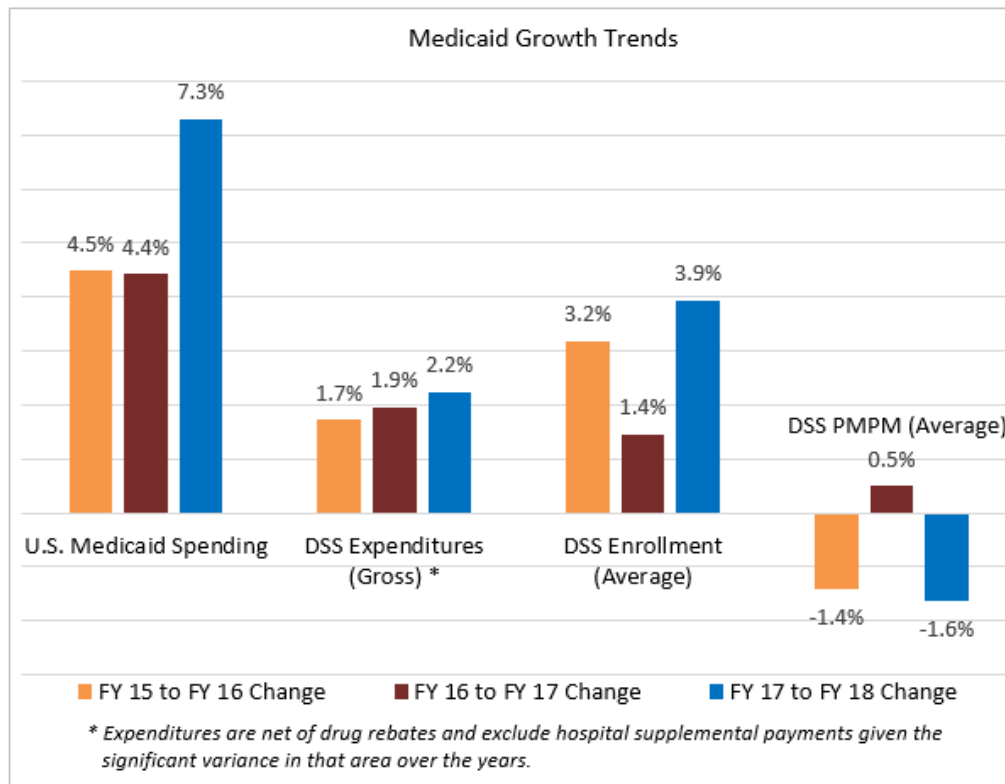
Expenditures have been adjusted to include funds transferred to DSS from DMHAS for behavioral health services which qualify for Medicaid reimbursement. Expenditures exclude hospital supplemental payments given the significant variance in that area over the years.

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 medical, behavioral health, and dental services;
- use of data analytics to improve care;
- activities designed to improve access to and use of preventative primary care;
- efforts to integrate medical, behavioral health, long-term services and supports and social services;
- initiatives designed to “re-balance” spending on long-term services and supports (shifting from institutional to community-based care); and
- efforts to promote the use of health information technology.



In contrast to almost all other Medicaid programs across the nation, Connecticut Medicaid uses a self-insured, managed, fee-for-service approach rather than a managed care arrangement. It is one of the very few Medicaid programs with relatively steady expenditures on a per member, per month (PMPM) basis, as shown in the graph below.



# MUNICIPAL AID

State aid to municipalities comes from a variety of sources: appropriated funds, bond funds, revenue intercepts, and transfers from non-appropriated funds. The table below shows major statutory aid to municipalities. Pursuant to CGS Sec. 4-71b, the Office of Policy and Management is required to publish town-by-town estimates of these grants by August 15<sup>th</sup> after the budget is enacted. The most recent publication can be found at [https://www.ct.gov/opm/cwp/view.asp?a=3019&q=383212&opmNav\\_GID=1807](https://www.ct.gov/opm/cwp/view.asp?a=3019&q=383212&opmNav_GID=1807).<sup>5</sup>

## STATE AID TO OR ON BEHALF OF LOCAL GOVERNMENTS

(in Millions)

<u>General Government</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
State Owned PILOT	\$ 56.0	\$ 71.7	\$ 71.1	\$ 71.7
College & Hospital PILOT	105.9	159.3	159.3	159.3
Mashantucket Pequot & Mohegan Grant	49.9	58.1	58.1	58.1
Town Aid Road Grant <sup>1</sup>	60.0	60.0	60.0	60.0
LoCIP <sup>1</sup>	35.0	30.0	30.0	30.0
Grants for Municipal Aid Projects <sup>1</sup>	60.0	60.0	60.0	60.0
Regional Performance Incentive Grants	-	-	-	-
MRSF: Select PILOT <sup>2</sup>	-	-	-	147.6
MRSF: Councils of Government <sup>2</sup>	-	-	-	7.0
MRSF: Motor Vehicle Tax Grants <sup>2</sup> (Municipal Transition)	30.7	-	-	29.6
MRSF: Municipal Revenue Sharing Grant <sup>2</sup>	36.8	-	-	172.1
Municipal Stabilization Grants	37.8	-	-	-
Municipal Restructuring	27.3	7.3	7.3	7.3
Municipal Restructuring: Debt Service	20.0	45.7	56.3	54.7
Misc. General Government Grants	29.0	29.7	29.7	29.7
<b>Subtotal - General Government</b>	<b>\$ 548.4</b>	<b>\$ 521.7</b>	<b>\$ 531.8</b>	<b>\$ 887.1</b>
<u>Education</u>				
Adult Education	\$ 20.4	\$ 22.4	\$ 22.5	\$ 22.5
Education Cost Sharing	2,016.7	2,052.5	2,086.9	2,117.4
Magnet Schools	326.5	328.3	330.5	330.5
Special Education - Student Based	140.6	202.9	209.2	209.2
Local School Construction <sup>1</sup>	450.0	450.0	450.0	450.0
Misc. Education Grants	180.4	208.3	209.8	209.8
<b>Subtotal - Education</b>	<b>\$ 3,134.6</b>	<b>\$ 3,264.3</b>	<b>\$ 3,308.9</b>	<b>\$ 3,339.4</b>
<u>Local Teachers' Retirement</u>				
Retiree Health Service Cost	\$ 14.6	\$ 26.0	\$ 29.8	\$ 34.3
Retirement Contributions	1,292.3	1,392.2	1,437.4	1,467.8
Debt Service - Pension Obligation Bonds	118.4	118.4	118.4	203.1
<b>Subtotal - Local Teachers' Retirement</b>	<b>\$ 1,425.3</b>	<b>\$ 1,536.6</b>	<b>\$ 1,585.7</b>	<b>\$ 1,705.2</b>
<b>Total - Aid to Municipalities</b>	<b>\$ 5,108.2</b>	<b>\$ 5,322.6</b>	<b>\$ 5,426.4</b>	<b>\$ 5,931.6</b>

1. Bonded authorizations are at the discretion of the State Bond Commission. Outyear projections assume that authorizations remain at current levels for bonded grants.

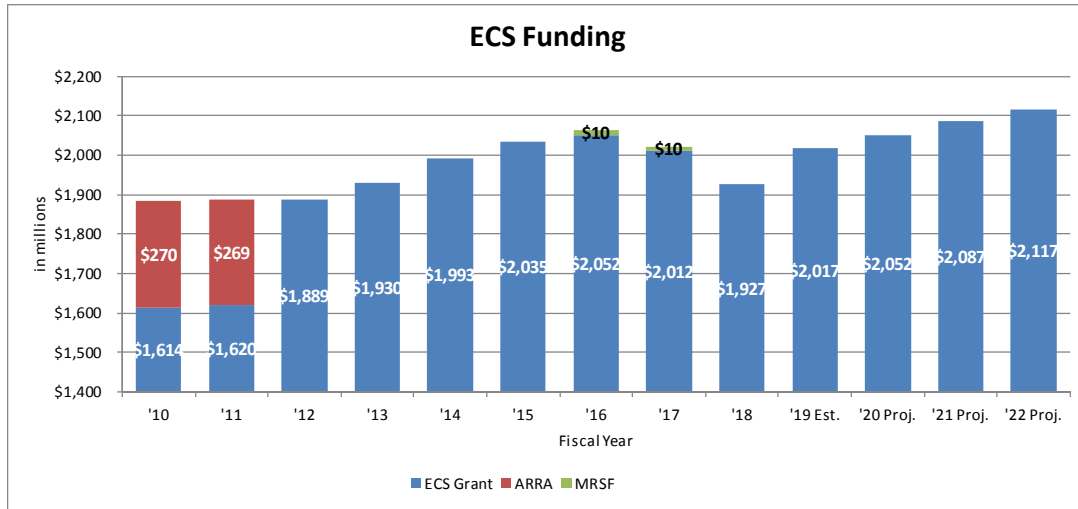
2. Outyear projections for Municipal Revenue Sharing Fund (MRSF) grants are based on statutory formulas. Please note that revenue to MRSF has been suspended until FY 2022, so there is no available funding for these statutory formulas in FY 2020 or FY 2021.

<sup>5</sup> Additionally, one-page financial summaries for each municipality can be found at: [https://www.ct.gov/opm/lib/opm/budget/municipal\\_statistical\\_and\\_formula\\_aid\\_information.pdf](https://www.ct.gov/opm/lib/opm/budget/municipal_statistical_and_formula_aid_information.pdf).



Education Cost Sharing Grants

The Education Cost Sharing Grant (ECS) is the state’s major education grant, designed to equalize the ability of towns to finance local education costs. The graph below shows past and projected levels of ECS funding; projections are based on the current formula.



**STATE WORKFORCE**

Long-Term Staffing Trends

The number of state employees in the executive branch of state government has been reduced dramatically over the past few budget cycles. At the end of FY 2018, there were 26,177 permanent full-time employees being paid from appropriated funds in the executive branch (excluding higher education). Even though the June 2018 figure includes hundreds of positions that were transferred from the UConn Health Center to the Department of Correction, it is still 3,379, or 11.4%, lower than the number at the end of calendar year 2010. To take a longer

Executive Branch Staffing (excludes Higher Education)  
Appropriated Funds



perspective, this means that, when adjusted for changes in state population, executive branch agencies have fewer staff than at any time since the 1950s. This trend is the result of significant efforts to achieve attrition, as well as some minimal number of layoffs that occurred from time to time. This workforce reduction has resulted in significant budget savings.

## 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.

- While several appropriations bills for federal fiscal year 2020 were signed into law before the beginning of the federal fiscal year on October 1<sup>st</sup>, a number of key appropriations measures still have not been enacted, leaving some government operations funded via a continuing resolution (CR) that expires December 7, 2018. The post-election period will prove critical for achieving consensus on funding for programs covered by the CR.
- Notable areas that received federal funding increases include the Student Support Block Grant (6%), adult education (4%), the Maternal and Child Health Block Grant (4%), health centers (4%), and Head Start (2%). In contrast, given the national employment picture, federal support for state administration of unemployment compensation programs is reduced by 5%.
- Several key federal programs are subject to mandatory sequestration (cuts) of 6.2% in FFY 2019, including the Social Services Block Grant, Housing Trust Fund, Vocational Rehabilitation, Promoting Safe and Stable Families, the Prevention and Public Health Fund, and a portion of highway funding.
- The TANF program must be reauthorized, and the current continuing resolution extends program funding until December 7<sup>th</sup> at FFY 2018 levels. Components of the program that are impacted include TANF, the TANF contingency fund, and the mandatory/matching portion of the Child Care Development Fund. Congress may consider an extension of the current program, perhaps for a year, but the level of funding and program parameters are subject to change, particularly in the House which has proposed changes to work requirements, outcomes, and limits on how states spend funds.
- New federal opioid legislation creates both challenges and opportunities for states. The policy implications of this recently-passed legislation are currently being reviewed by OPM and the state agencies.
- While the prospects of a government shutdown are less likely than in the last several years, some work remains to be completed to keep all federal government operations funded after December 7<sup>th</sup>.

## EFFORTS TO PRESERVE OR MAXIMIZE FEDERAL REVENUE<sup>6</sup>

The state continues to make federal revenue maximization efforts a priority. Numerous Medicaid state plan amendments have been submitted or are in the process of being submitted to the federal government, and initiatives not requiring federal approval are being operationalized by impacted state agencies. In the current fiscal year and through the biennium, new federal revenue could be realized from these initiatives beyond normal increases in federal Medicaid reimbursement associated with growth in caseload and utilization. An interagency workgroup meets monthly to discuss revenue opportunities and implementation issues.

Some of the major revenue-maximization and -retention initiatives being explored or under development include:

- Supplemental payments for physician underpayments at UConn Health Center in recognition that Medicaid and other third party payers do not cover the entire cost of care at Dempsey Hospital;
- Administrative process changes to help ensure Medicaid claims on behalf of the Department of Developmental Services are not lost because clients miss eligibility determination deadlines;

---

<sup>6</sup> This section fulfills the reporting requirement found in subsection (c) of Sec. 4-31d, CGS.

- Reviewing possible opportunities to cover health care for justice-involved individuals under the Medicaid program;
- Examining the implications of the new federal opioid bill on the state’s Medicaid program, including whether development of an 1115 waiver is needed to permit coverage of certain substance use disorder treatment services currently ineligible for Medicaid reimbursement;
- Examining the implications of the new federal Family First Prevention Services Act for the state’s claims for federal Medicaid, TANF and IV-E reimbursement; and
- Licensure change for the state’s healthcare facility for veterans in Rocky Hill.

While much effort goes into maximizing revenue, equal or greater effort goes into preserving existing sources of federal reimbursement. The federal 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.

## SPECIAL COMMISSIONS STUDYING FISCAL AND PENSION ISSUES

During the 2017 and 2018 legislative sessions, a number of special legislatively-created commissions and panels were authorized and tasked with studying significant fiscal and pension topics. A brief recap of the commissions, their mandates and work products follows.

### Commission on Fiscal Stability and Economic Growth (CFSEG)

Created by Section 250 of Public Act 17-2, June Spec. Sess., this commission was tasked with developing and recommending policies to achieve state government fiscal stability and promote economic growth and competitiveness within the state. A report was issued on March 1, 2018, but the Legislature did not adopt the commission’s recommendations; instead, a series of additional commissions and reviews of the report were adopted (detailed below).<sup>7</sup> The report is available at:

[https://www.cga.ct.gov/fin/tfs/20171205\\_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180301/Final%20Report%20with%20Appendix.pdf](https://www.cga.ct.gov/fin/tfs/20171205_Commission%20on%20Fiscal%20Stability%20and%20Economic%20Growth/20180301/Final%20Report%20with%20Appendix.pdf).

### Teachers’ Retirement System Viability Commission

Created by Section 59 of Public Act 17-2, June Spec. Sess., this commission was charged with developing and implementing a plan to maintain the financial viability of the Connecticut Teachers' Retirement System. A report was issued on March 19, 2018, and is available at:

[https://www.ct.gov/opm/Lib/opm/Budget/Special\\_Reports/CT\\_TRS\\_Viability\\_Commission\\_Report\\_FINAL\\_03192019.pdf](https://www.ct.gov/opm/Lib/opm/Budget/Special_Reports/CT_TRS_Viability_Commission_Report_FINAL_03192019.pdf).

---

<sup>7</sup> The Office of Policy and Management was tasked with issuing a Request for Proposals (RFP) for a national consultant to review and make recommendations regarding efficiency improvements in revenue collection and agency expense that would result in a savings of at least \$500 million. The consultant’s report was to be submitted by February 1, 2019, to the Appropriations and Finance committees. No funds were appropriated to pay the consultant, so proposals in response to the RFP are being held for potential consideration by the next Governor and legislature.

#### Pension Sustainability Commission

Authorized by Section 180 of Public Act 17-2, June Spec. Sess., this commission was asked to study the feasibility of placing state capital assets in a trust and maximizing those assets for the sole benefit of the state pension system. A report is due by January 1, 2019. The commission's work is available at:

[https://www.cga.ct.gov/fin/taskforce.asp?TF=20180710\\_Pension%20Sustainability%20Commission](https://www.cga.ct.gov/fin/taskforce.asp?TF=20180710_Pension%20Sustainability%20Commission)

#### Commission to Study CFSEG Recommendation Regarding TRS

Section 58 of Public Act 18-81 called for a commission to conduct a study of the proposal made by the Commission on Fiscal Stability and Economic Growth for reform of the Teachers' Retirement System. To date, appointments and co-chairpersons have not been finalized. The act requires a report to be submitted to the Appropriations Committee by January 1, 2019.

#### Panel Study of CFSEG Tax Rebalancing Proposal

Section 56 of Public Act 18-81 required formation of a panel to study and make recommendations regarding the proposals by the Commission on Fiscal Stability and Economic Growth concerning the rebalancing of state taxes without raising net new taxes. To date, appointments and co-chairpersons have not been finalized. The act requires a report to be submitted to the Finance, Revenue and Bonding Committee by January 1, 2019.

# BONDING

## PROJECTED BOND AUTHORIZATIONS, ALLOCATIONS AND ISSUANCE

The table below depicts projected bond authorizations, allocations and issuance through FY 2023.

### FIVE YEAR BOND PROJECTIONS

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
<b>Bond Authorizations</b>					
General Obligation Bonds	\$ 1,133,162,050	\$ 1,500,000,000	\$ 1,500,000,000	\$ 1,500,000,000	\$ 1,500,000,000
Bioscience Collaboration Program	12,525,000	10,565,000	10,570,000	-	-
Bioscience Innovation Fund	15,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Connecticut Strategic Defense Investment Act	-	9,096,428	9,446,428	9,621,428	9,796,428
UConn Next Generation	200,000,000	291,600,000	186,200,000	101,400,000	98,000,000
CSUS 2020	95,000,000	126,000,000	-	-	-
Special Tax Obligation Bonds	1,574,424,392	1,506,000,000	800,000,000	800,000,000	800,000,000
Clean Water Fund Revenue Bonds	350,300,000	200,000,000	200,000,000	200,000,000	200,000,000
<b>Total Bond Authorizations</b>	<b>\$ 3,380,411,442</b>	<b>\$ 3,668,261,428</b>	<b>\$ 2,731,216,428</b>	<b>\$ 2,636,021,428</b>	<b>\$ 2,632,796,428</b>
<b>Bond Allocations</b>					
General Obligation Bonds	\$ 2,308,860,000	\$ 2,109,000,000	\$ 2,161,500,000	\$ 2,215,500,000	\$ 2,271,000,000
Special Tax Obligation Bonds	1,300,000,000	1,300,000,000	1,300,000,000	750,000,000	750,000,000
Clean Water Fund Revenue Bonds	175,000,000	175,000,000	175,000,000	175,000,000	175,000,000
<b>Total Bond Allocations</b>	<b>\$ 3,783,860,000</b>	<b>\$ 3,584,000,000</b>	<b>\$ 3,636,500,000</b>	<b>\$ 3,140,500,000</b>	<b>\$ 3,196,000,000</b>
<b>Bond Issuance</b>					
General Obligation Bonds	\$ 1,900,000,000	\$ 1,944,000,000	\$ 1,993,000,000	\$ 2,043,000,000	\$ 2,094,000,000
Special Tax Obligation Bonds	750,000,000	750,000,000	1,000,000,000	1,200,000,000	1,200,000,000
Clean Water Revenue Bonds	250,000,000	-	250,000,000	-	250,000,000
UConn Next Generation	200,000,000	291,600,000	186,200,000	101,400,000	98,000,000
<b>Total Bond Issuance</b>	<b>\$ 3,100,000,000</b>	<b>\$ 2,985,600,000</b>	<b>\$ 3,429,200,000</b>	<b>\$ 3,344,400,000</b>	<b>\$ 3,642,000,000</b>
<b>Debt Service</b>					
General Fund	\$ 2,216,811,986	\$ 2,307,129,895	\$ 2,476,232,999	\$ 2,706,565,622	\$ 2,982,217,309
Transportation Fund	645,723,716	690,580,233	764,938,231	830,775,744	926,910,573
<b>Total Debt Service</b>	<b>\$ 2,862,535,702</b>	<b>\$ 2,997,710,128</b>	<b>\$ 3,241,171,230</b>	<b>\$ 3,537,341,366</b>	<b>\$ 3,909,127,882</b>

#### 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 automatic authorizations in accordance with C.G.S. Section 10a-109g.

CSCU 2020 automatic authorizations in accordance with C.G.S. Section 10a-91e.

Bioscience Collaboration Program automatic authorizations in accordance with C.G.S. Section 32-41z.

Bioscience Innovation Fund automatic authorizations in accordance with C.G.S. Section 32-41dd.

Connecticut Strategic Defense Investment Act automatic authorizations in accordance with C.G.S. Section 32-4o.

Special Tax Obligation Bonds include \$749.8 million in FY 2019 and \$706 million in FY 2020 previously authorized in section 232 of P.A. 15-1, June special session.

##### Bond Allocations

GO Bond allocations in accordance with C.G.S. Section 3-20(d)(2):

"For the calendar year commencing January 1, 2017, and for each calendar year thereafter, the State Bond Commission may not authorize bond issuances or credit revenue bond issuances of more than two billion dollars in the aggregate in any calendar year. Commencing January 1, 2018, and each calendar year thereafter, the aggregate limit shall be adjusted in accordance with any change

in the consumer price index for all urban consumers for the preceding calendar year, less food and energy, as published by the United States Department of Labor, Bureau of Labor Statistics." Amounts adjusted to a calendar year basis.

GO Bond allocations include all automatic authorizations described above.

##### Bond Issuance

GO bond issuance in accordance with C.G.S. Section 3-21(f)(1):

"On and after July 1, 2018, the Treasurer may not issue general obligation bonds or notes pursuant to section 3-20 or credit revenue bonds pursuant to section 3-20j that exceed in the aggregate one billion nine hundred million dollars in any fiscal year. Commencing July 1, 2019, and each fiscal year thereafter, the aggregate limit shall be adjusted in accordance with any change in the consumer price index for all urban consumers for the preceding calendar year, less food and energy, as published by the United States Department of Labor, Bureau of Labor Statistics."

##### Inflation

CY 2018	2.3%
CY 2019	2.5%
CY 2020	2.5%
CY 2021	2.5%
CY 2022	2.4%

Source: IHS Economics, Bureau of Labor Statistics

## 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 and Hartford Contract Assistance 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:

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Revenues 11/13/2018 Consensus	\$15,862,300,000	\$15,572,600,000	\$15,773,800,000	\$15,579,000,000
Multiplier	1.6	1.6	1.6	1.6
100% Limit	\$25,379,680,000	\$24,916,160,000	\$25,238,080,000	\$24,926,400,000
Bonds Subject to Limit	\$22,661,976,165	\$22,542,596,122	\$23,044,291,936	\$23,044,767,158
Debt Incurring Margin	\$2,717,703,835	\$2,373,563,878	\$2,193,788,064	\$1,881,632,842
Percentage of Limit	89.29%	90.47%	91.31%	92.45%
Margin to 90% Limit	\$179,735,835	\$(118,052,121)	\$(330,019,936)	\$(611,007,158)

FY 2019 represents the actual debt incurring margin. The estimates for FY 2020 through FY 2022 assume that all existing bond authorizations continue and that \$1.5 billion of new bond authorizations are enacted each year. As shown in the table above, the General Assembly will be required to limit new bond authorizations and/or repeal existing bond authorizations to comply with the debt limitation.

## BONDING CAPS

During the 2017 legislative session, limitations on bond allocations, allotments and issuances were enacted. These limitations are described below and summarized in the table at the end of this section.

- **Allocation Cap:** This cap imposes a limit on State Bond Commission general obligation bond allocations for each calendar year. The cap amount is indexed to inflation. The inflation-adjusted cap for calendar year 2018 is \$2.036 billion.
- **Allotment Cap:** This cap limits allotments issued by the Governor's Office each fiscal year. The cap amount is indexed to inflation. General obligation bonds issued as part of CSCU 2020 or UConn 2000 are exempted from the cap. The cap for FY 2019 is \$1.9 billion.
- **Issuance Cap:** This cap limits bond issuances by the Treasurer's Office each fiscal year. The cap amount is indexed to inflation. General obligation bonds issued as part of CSCU 2020 or UConn 2000 are exempted from this cap. The cap for FY 2019 is \$1.9 billion.

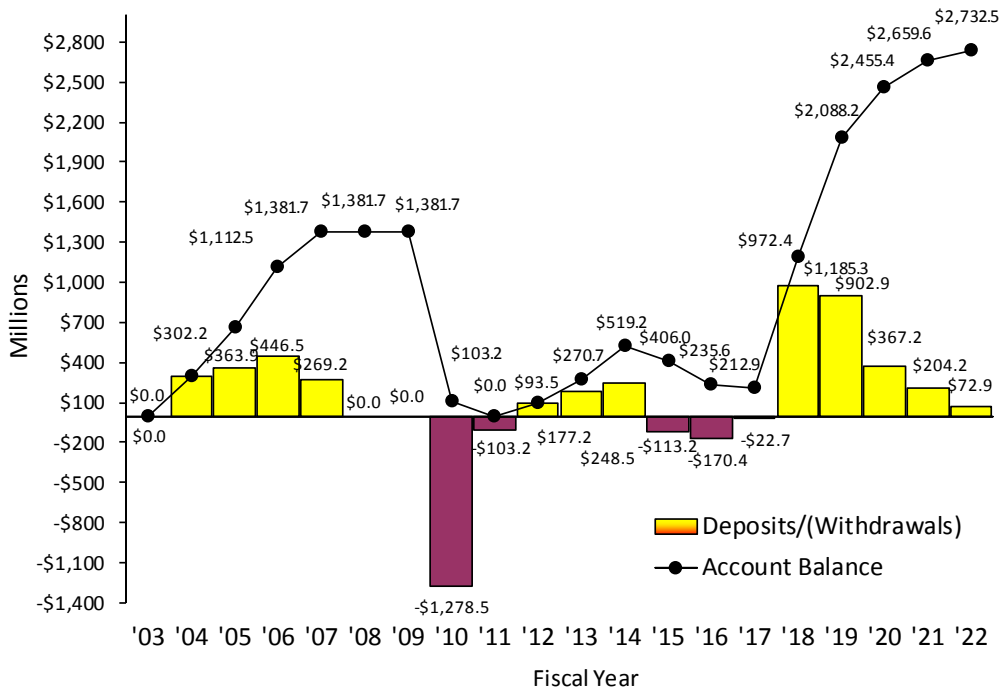
### Connecticut's Bonding Caps

		<b>Statutory Debt Limit</b>	<b>Bond Allocation Cap</b>	<b>Bond Allotment Cap</b>	<b>Bond Issuance Cap</b>
1.	<b>Cap Amount</b>	\$25.380 Billion (1.6 X GF Taxes)	\$2.036 Billion	\$1.9 Billion	\$1.9 Billion
2.	<b>Applies to</b>	GO Issued & Authorized	GO Debt	GO Debt	GO Debt
3.	<b>Onus</b>	Treasurer	Bond Commission	Governor	Treasurer
4.	<b>Exemptions</b>	Refunding debt, revenue bonds, TIFs and ERNs	None	CSCU 2020 and UConn 2000 GO Debt*	CSCU 2020 and UConn 2000 GO Debt*
5.	<b>Index</b>	None	U.S. CPI less Food & Energy	U.S. CPI less Food & Energy	U.S. CPI less Food & Energy
6.	<b>Period of Cap</b>	Fiscal	Calendar	Fiscal	Fiscal
7.	<b>Start Date</b>	July 1, 1957	January 1, 2017	July 1, 2018	July 1, 2018
8.	<b>Subject to Bond Covenant</b>	Yes	Yes	Yes	Yes
9.	<b>C.G.S.</b>	3-21(a)	3-20(d)(2)	3-21(f)(2)(B)	3-21(f)(1)(A)
10.	<b>Escape Clause</b>	Per Bond Covenant	Per Bond Covenant	Per Bond Covenant	Per Bond Covenant
11.	<b>History/Projection</b>				
	FY/CY 2017	\$24.832 Billion	\$2.0 Billion	NA	NA
	FY/CY 2018	\$24.879 Billion	\$2.036 Billion	NA	NA
	FY/CY 2019	\$25.380 Billion	\$2.135 Billion	\$1.9 Billion	\$1.9 Billion
	FY/CY 2020	\$24.916 Billion	\$2.188 Billion	\$1.944 Billion	\$1.944 Billion
	FY/CY 2021	\$25.238 Billion	\$2.243 Billion	\$1.993 Billion	\$1.993 Billion
	FY/CY 2022	\$24.926 Billion	\$2.243 Billion	\$2.043 Billion	\$2.043 Billion

\*Public Act 18-178 Section 16 included exemptions for refunding debt, short term notes and Transportation General Obligation debt authorized in section 41 of Public Act 18-178. These additional exemptions have been questioned by the State's bond counsel and as of September 21, 2018 are not considered to be valid.

## BUDGET RESERVE FUND AND POTENTIAL USES OF SURPLUS

After the accounts for the General Fund have been closed at the end of each fiscal year, Connecticut statute directs the Comptroller to deposit any unappropriated General Fund surplus in the Budget Reserve Fund (BRF, a.k.a. Rainy Day Fund) until the fund reaches an amount equal to 15% of net General Fund appropriations. The graph below depicts historical operating deposits to and withdrawals from the Budget Reserve Fund. If the budget for the FY 2020 and FY 2021 biennium is balanced without drawing from the BRF, and assuming adherence to the revenue volatility cap and the cap that limits the amount of revenue that can be appropriated, the BRF will reach its statutory cap at the end of FY 2021.



Outyear forecast assumes state enacts balanced budgets that adhere to revenue and volatility caps. Balance reaches 15% in FY 2021, resulting in deposits to SERS/TRS of \$194.4m in FY 21 and \$350.5m in FY 22.

### Reforms Enacted Over the Last Biennium

Several recent legislative changes impact the Budget Reserve Fund. Public Act 17-2 of the June Special Session implemented, and Public Act 18-81 later amended, a revenue volatility cap which directs collections from any volatile revenue sources above a certain threshold to the Budget Reserve Fund. (See page 19 for more about the revenue volatility cap.) The volatility cap resulted in transfers of \$1,471.3 million to the rainy day fund in FY 2018 and an anticipated \$648 million in FY 2019, resulting in substantial — and much-needed — improvement in the state’s reserves. This will serve the state well during future economic downturns.

Public Act 17-2 of the June Special Session also introduced a revenue cap that limits the amount of General Fund appropriations to a percentage of General Fund revenue. The limit will begin at 99.5% in fiscal year 2020 and phases down to 98% for fiscal year 2026 and thereafter. (See page 19 for more about the revenue cap.) The resulting operating margin will help add to the rainy day fund in good years and provide



a buffer against drastic expenditure reductions or revenue increases when there is a sudden mid-year downturn in the economy.

#### Use of Budget Reserve Fund

Statutorily, the Budget Reserve Fund may only be expended:

- To fund a deficit in the immediately preceding fiscal year;
- By transfer of the General Assembly if any consensus revenue forecast projects a decline in General Fund revenues in the current biennium of one per cent or more;
- By transfer of the General Assembly if the April 30<sup>th</sup> consensus revenue forecast projects a decline in General Fund revenues in the ensuing biennium of one percent or more from the current year; or
- By transfer of the General Assembly if the BRF equals 5% or more of current year appropriations of the amount in excess of the 5% for the payment of unfunded past service liability of the SERS and TRS pension systems which are in addition to any regular contributions.

#### Discussion of Possible Uses of Surplus Funds

Under current law (CGS Sec. 4-30a), unappropriated surpluses are committed to the Budget Reserve Fund until the maximum 15 percent authorized by law. Other possible uses of surplus funds could include:

- Reducing the unfunded liability of the State Employees Retirement Fund;
- Reducing the unfunded liability of the Teachers' Retirement Fund;
- Reducing bonded indebtedness;
- Reducing the unfunded liability for Other Post-Employment Benefits; or
- Providing funds for higher education matching grants as per sections 10a-8c, 10a-77a, 10a-99a, 10a-109c, 10a-109i, and 10a-143a of the Connecticut General Statutes.

## 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 2016 data. Corporation business tax credits are projected using income year 2013-2015 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.

### Projected Total Amounts of Tax Credits Claimed (In Thousands)

	FY 2018 <u>Est.</u>	FY 2019 <u>Proj.</u>	FY 2020 <u>Proj.</u>	FY 2021 <u>Proj.</u>	FY 2022 <u>Proj.</u>
<b><u>Personal Income Tax Credits</u></b>					
Property Tax	\$ 65,700	\$ 67,700	\$ 125,000	\$ 128,000	\$ 131,000
Earned Income Tax Credit	115,000	118,300	121,800	125,500	129,300
Connecticut Higher Education Trust (CHET)	10,000	10,300	10,600	10,900	11,200
Angel Investor	<u>3,000</u>	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Personal Income Tax</b>	<b>\$ 193,700</b>	<b>\$ 199,300</b>	<b>\$ 257,400</b>	<b>\$ 264,400</b>	<b>\$ 271,500</b>
<b><u>Business Tax Credits</u></b>					
Fixed Capital	67,000	67,000	67,000	67,000	67,000
Film Industry Production <sup>(1)</sup>	56,500	58,000	60,000	61,500	63,500
Film Industry Digital Animation <sup>(1)</sup>	15,000	15,000	15,000	15,000	15,000
Film Industry Infrastructure <sup>(1)</sup>	22,000	22,500	23,500	24,000	25,000
Electronic Data Processing <sup>(1)</sup>	44,500	46,000	47,500	49,000	50,500
Research and Experimental Expenditures	22,500	23,000	23,500	24,500	25,000
Research and Development Expenditures	27,000	27,500	27,500	41,000	41,000
Urban and Industrial Reinvestment <sup>(1)</sup>	23,000	23,500	24,000	24,000	24,500
Housing Program Contribution <sup>(1)</sup>	10,000	10,000	10,000	10,000	10,000
Historic Rehabilitation <sup>(1)</sup>	3,000	3,000	3,000	3,000	3,000
Human Capital	3,500	3,500	3,500	3,500	3,500
Machinery and Equipment	1,000	1,000	1,000	1,000	1,000
All Other Credits <sup>(1,2)</sup>	<u>35,000</u>	<u>40,500</u>	<u>40,500</u>	<u>40,500</u>	<u>40,500</u>
<b>Total Business Tax Credits</b>	<b>\$ 330,000</b>	<b>\$ 340,500</b>	<b>\$ 346,000</b>	<b>\$ 364,000</b>	<b>\$ 369,500</b>
<b>Total Projected Amount Claimed</b>	<b>\$ 523,700</b>	<b>\$ 539,800</b>	<b>\$ 603,400</b>	<b>\$ 628,400</b>	<b>\$ 641,000</b>

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

(2) Includes Sales Tax abatements per PA 16-1 of the September Special Session in FY 2019 and FY 2020.

