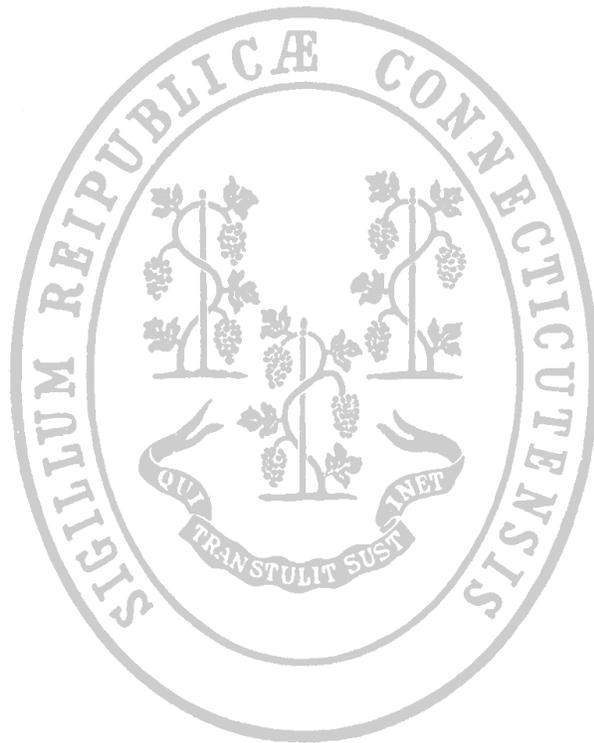


INTRODUCTION



Building Connecticut's Future

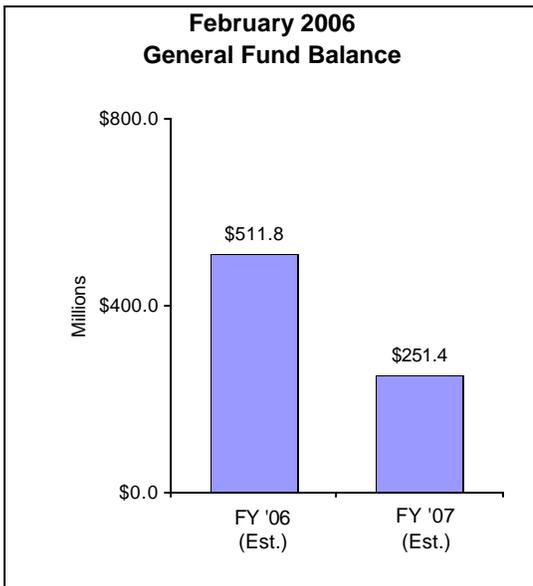
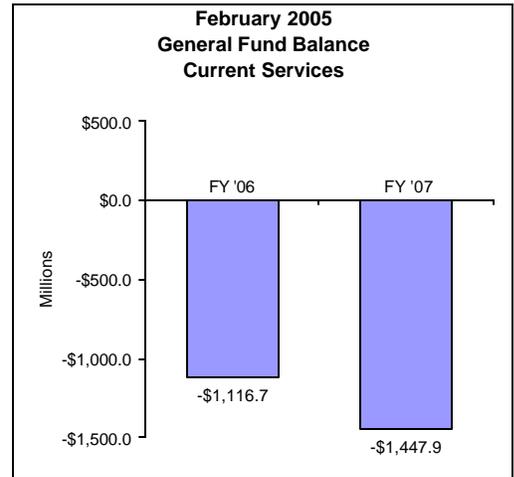
Introduction

"The time to fix the roof is when the sun's shining."

- President John Fitzgerald Kennedy

What a difference a year makes! Last year Governor Rell was proposing her first biennial budget, Connecticut was facing a \$1.1 billion General Fund deficit for FY 2005-06 and a \$1.4 billion General Fund deficit for FY 2006-07. Today as a result of the many sound decisions and, more importantly, as a result of the resilience of Connecticut's citizens, we are projecting a surplus of over \$500 million for FY 2005-06 and over \$250 million for FY 2006-07. Building on last years successes, Governor Rell now recommends structural improvements to the State's budget, such as building up the State's Rainy Day Fund and prepaying debt, but more importantly needed structural improvements for the State's economic vitality and quality of life.

Contained in the budget is a blueprint for building Connecticut's future. It will be a strong and vital future. New investments in transportation, a bold commitment to job creation, a continued emphasis on education, tools to combat urban violence, as well as real, unprecedented and immediate tax relief are just a few of the Governor's initiatives.



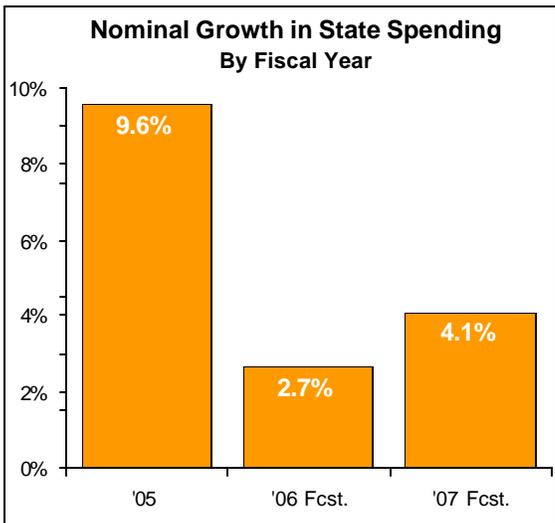
We must understand the world around us, our competitors and our customers. We must understand the needs of our citizens. Investments must be made not only in our infrastructure but also in our children by providing improved educational opportunities and safer streets.

Connecticut's tax structure must be rational, efficient and fair. It must attract businesses and those who create jobs to our state.

Governor Rell's plan provides a sturdy foundation for Connecticut's future. Connecticut has come through its recent fiscal crisis strong and ready to move forward. For the first time in several years Connecticut is in a position to revitalize its economy, improve its quality of life and strengthen its future.

These are bold and extensive initiatives particularly for a very short legislative session, but frankly there is no time to waste. Connecticut deserves decisive action free from partisanship or parochialism. In short, it is time to lead.

The FY 2006-07 Midterm Budget



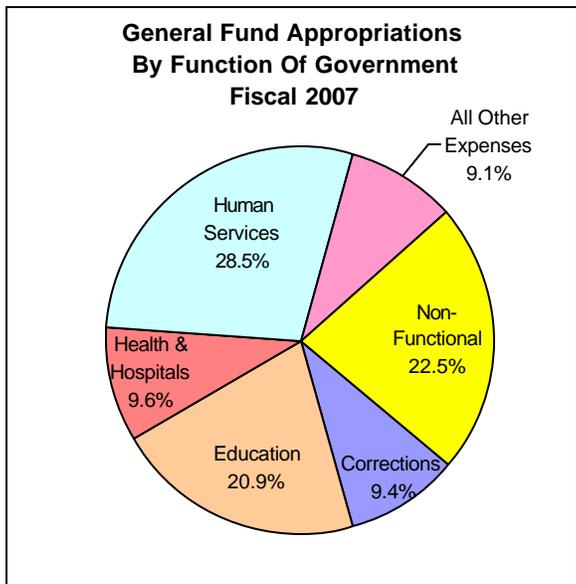
Governor Rell is proposing an all funds budget of \$16,052.2 million for FY 2006-07. The FY 2006-07 all funds proposal represents an increase of \$113.7 million, or seven tenths of one percent over the original appropriation for FY 2006-07. The Governor is proposing a General Fund budget of \$14,910.5 million for FY 2006-07 which is projected to result in a \$0.4 million surplus. The FY 2006-07 proposal represents an increase of \$165.5 million over the original appropriation for FY 2006-07, or just 1.1 percent.

Governor Rell made every effort to limit budgetary growth and to provide for needed tax relief in FY 2006-07. The overall growth rate for the Governor's midterm budget is only 4.1% over FY 2005-06 estimated spending levels. Technical adjustments to current services spending require the addition of \$114.2 million in all funds. Technical adjustments add \$92.8 million in the General Fund and another \$21.7 million in the Special Transportation Fund (STF).

Growth in the current services budget is concentrated in a few major areas. Rapidly rising energy costs required the addition of \$40 million, \$34 million in the General Fund and \$6 million in the STF. Approximately \$65 million is required to cover the anticipated impact of new collective bargaining agreements, of which \$57.2 million is in the General Fund and \$7.8 million is in the STF. Recalculations of requirements for fringe benefits, partially offset by reductions to debt service, result in the addition of \$28.4 million in the General Fund and \$4.7 million in the STF. Significantly, re-estimates of the funding requirements for the Department of Social

	Appropriated FY 07	Recommended FY 07
General Fund	\$14,745.0	\$14,910.5
Special Transportation Fund	1,018.0	1,053.4
Mashantucket Pequot & Mohegan Fund *	86.3	0.0
Soldiers', Sailors' & Marines' Fund	4.0	3.7
Regional Market Operating Fund	0.9	0.9
Banking Fund	16.8	16.8
Insurance Fund	22.7	22.5
Public Utility Control Fund	21.8	21.7
Workers Compensation Fund	21.0	20.7
Criminal Injuries Compensation Fund	2.0	2.0
Grand Total	\$15,938.5	\$16,052.2

* This grant will be funded from the General Fund.



Services provide for a reduction of \$54.4 million from the appropriated level in FY 2006-07.

Policy expansions on the expenditure side are offset with reductions. Net policy-related expenditure changes amount to less than \$1.0 million. Total expansions equal \$98.1 million, of which \$84.3 million are in the General Fund and \$13.7 million are in the STF. These expansions are more than offset by proposed expenditure reductions. Over \$99 million of expenditure reductions are being recommended, with \$95.8 million in the General Fund.

The midterm budget includes a marked increase in revenue projections over the original biennial budget that was adopted. FY 2005-06 revenues continued to surpass initial estimates and the national and state economy continued to expand at a

healthy pace. Overall, General Fund revenue projections for FY 2006-07 have been increased by just over \$410 million, primarily in the personal income tax and corporate income tax areas. However, the revenue estimates for FY 2006-07 remain conservative in that the personal income tax is expected to register growth of 5.7%, down from this year's projected growth of 9.9% and the sales tax is projected to grow by a modest 4.2%. The State's willingness to control its expenditures, coupled with

reasonable revenue growth, provides the opportunity for significant tax relief to our State's citizens which will total \$294.5 million in FY 2006-07 alone. The Governor's tax relief package includes:

- Elimination of the property tax on cars;
- 25% reduction of the public utilities gross receipts tax on electricity and gas;
- Elimination of corporate surcharge;
- Phase-out of the estate tax; and
- Jobs tax credit.

Tax Cuts			
Fiscal 2006-07 Impact			
(in millions)			
<u>Tax Cut</u>	<u>Consumers</u>	<u>Business</u>	<u>Total</u>
1. Repeal Property Tax on Automobiles	\$ 496.8	\$ -	\$ 496.8
2. Repeal Income Tax Credit for Property Taxes	(325.0)	-	(325.0)
3. Repeal 15% Corporation Tax Surcharge	-	32.2	32.2
4. Film Industry Tax Credit	-	5.0	5.0
5. Jobs Creation Tax Credit	-	2.0	2.0 *
6. Displaced Worker Tax Credit	-	4.5	4.5
7. Reduce Tax Rate for Gas & Electric Consumers by 25%	21.1	23.8	44.9
8. Phase-out Estate Tax by 2010	34.1	-	34.1
	\$ 227.0	\$ 67.5	\$ 294.5

* Jobs Creation Tax Credit fully annualizes at \$10 million

Preserving the FY 2005-06 Surplus

“Those who cannot remember the past are condemned to repeat it.”
 - George Santayana

At the end of FY 2000-01, the State of Connecticut had amassed a Budget Reserve Fund of \$594.7 million, an amount that was equal to 5% of General Fund expenditures as determined by statute. When revenues plummeted in FY 2001-02, the 5% proved to be wholly inadequate, requiring the State to completely deplete the Budget Reserve Fund (also referred to as the Rainy Day Fund) and borrow over \$300 million to fund the deficit. In addition, the State engaged in a multi-year course of tax increases, spending cuts and employee layoffs. Seeing how inadequate a 5% Rainy Day Fund proved to be, the General Assembly raised the statutory amount to 10% of General Fund expenditures.

Governor Rell’s proposed use of surplus honors this commitment which is essential to protect Connecticut taxpayers who depend upon the State for certain services. Inadequate planning leads to program instability which could be disastrous for our most vulnerable citizens.

Cost of Financing Budget Deficits (In Millions)								
Fiscal Year	Deficit	Debt Service						Total
		FY '04	FY '05	FY '06	FY '07	FY '08	FY '09	
2002	\$ 222.0	\$ 48.8	\$ 48.8	\$ 47.8	\$ 46.0	\$ 44.4	\$ -	\$ 235.8
2003	97.7	1.0	22.2	22.3	21.6	20.9	20.2	108.2
	\$ 319.7	\$ 49.8	\$ 71.0	\$ 70.1	\$ 67.6	\$ 65.3	\$ 20.2	\$ 344.0

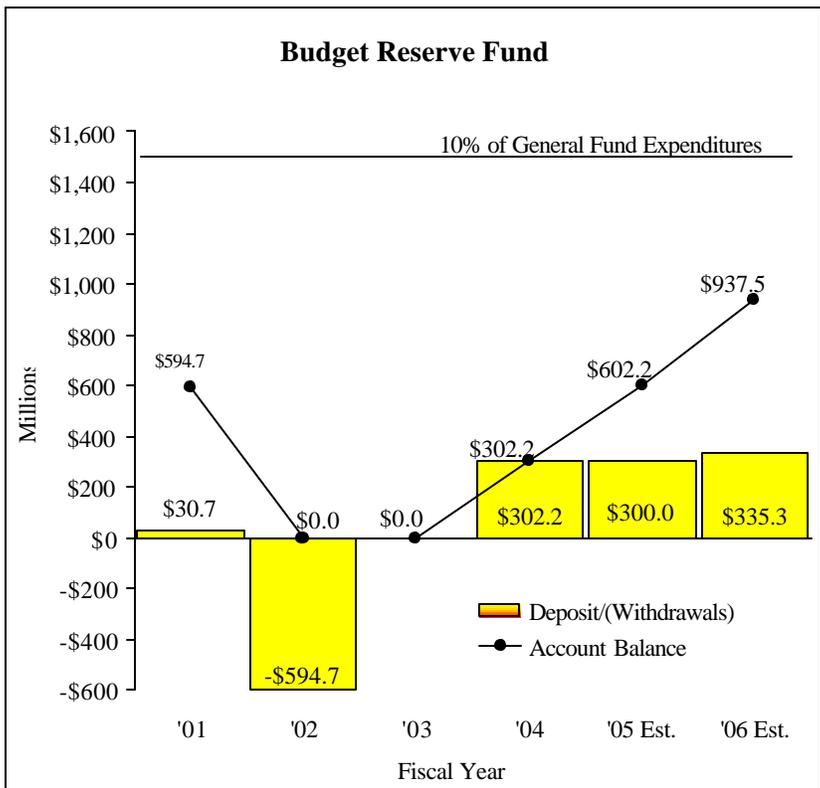
Governor Rell is steadfast in her commitment to set aside monies for debt retirement and to increase the state’s deposit into the Rainy Day Fund. This budget reflects her priorities in these areas. The Governor’s Midterm Budget anticipates that the FY 2005-06 surplus will be utilized in the following ways:

- Prefund the FY 2007-08 and FY 2008-09 Economic Recovery Note payments.** The state issued about \$320 million in deficit economic recovery for the deficits in FY 2001-02 and FY 2002-03. The state will have to make principal and interest payments on these notes through FY 2008-09. The FY 2005-07 biennial budget included \$137.7 million in FY 2004-05 surplus funding to prefund the two annual payments required during the biennium. Governor Rell proposes to continue this fiscally prudent policy of setting aside surplus monies to prefund this outstanding debt. The required payment is \$65.3 million in FY 2007-08 and \$20.2 million in FY 2008-09. A total of \$85.5 million is needed for the state to extinguish this obligation. This decision puts the State on a better footing to address outyear budgets.
- Carryforward \$91 million for FY 2006-07 expenditures.** Finally, the Governor’s budget proposes to carryforward \$91 million from the current fiscal year into FY 2006-07 to offset certain expenditures in the second year of the biennium. Of the total amount, \$50 million is in the Medicaid account, and

Use of the FY 2005-06 General Fund Surplus (in millions)	
Surplus as of January 20, 2006	\$ 511.8
Carry Forward of FY 2006 Lapses	
1. State Comptroller-Fringe Benefits	\$ (35.8)
2. Department of Revenue Services	(0.2)
3. Office of Policy and Management	(1.5)
4. Dept. of Admin. Serv. - Workers' Comp. Claims	(1.2)
5. Department of Mental Retardation	(1.5)
6. Department of Social Services	(50.0)
7. Department of Education	(0.5)
8. Council to Administer Children's Trust	(0.1)
9. Emergency Mgmt/Homeland Security	(0.2)
Total Carry Forward	\$ (91.0)
<u>Other Actions</u>	
Pre-fund the FY '08 & '09 Economic Recovery Notes	(85.5)
Surplus Remaining - Deposit to Rainy Day Fund	\$ 335.3

\$35 million is in the active State Employees Health Services account. An additional \$6 million in carryforwards is distributed between several agencies and accounts.

- Deposit \$335.3 million in the Budget Reserve Fund.** Although the State Comptroller has not yet certified the surplus for FY 2004-05, the current balance in the Budget Reserve Fund is estimated to be over \$600 million. This amount, though significant, is roughly the same amount that was depleted in a fiscal single year, 2002, during the last economic downturn, and over \$800 million less than the 10% maximum required under state statute to fully fund the Budget Reserve Fund. With the additional deposit of about \$335.3 million from the current fiscal year, the fund's balance would rise to almost \$940 million. This would be the largest single deposit into the Rainy Day Fund and would bring the overall level of the fund up to \$940 million or approximately 50% higher than it has ever been. Governor Rell's responsible approach will protect Connecticut's citizens in the event of future economic downturns.



The Expenditure Cap

The originally adopted biennial budget was \$24.3 million below the expenditure cap for FY 2005-06 and \$10.3 million below the expenditure cap for FY 2006-07. The Governor's proposed budget would fully extinguish the remaining room under the cap in the first year of the biennium while remaining \$12.2 million below the cap in FY 2006-07. Despite the increased appropriation of \$113.7 million a slight improvement in room under the expenditure cap in FY 2006-07 was achieved as a result of several factors. The primary factors were:

- **Faster personal income growth** -The originally adopted budget for FY 2006-07 anticipated a five year average growth in Connecticut personal income of 3.54%. Since that time, actual data has been received which now places the growth at 3.88%. This change resulted in slightly more than \$40 million in additional room under the cap.
- **Federal mandates and court orders** -Certain appropriation increases contained in this proposed budget are the result of federal mandates or court orders. These changes increased available room under the cap by approximately \$47 million.

- **Fully extinguishing FY 2005-06 available cap room** - The expenditure cap calculation for FY 2006-07 begins with the final appropriations for FY 2005-06. Fully utilizing remaining room under the cap in FY 2005-06 for various recognized deficiencies, has the effect of raising the base, or starting point for calculating the cap in FY 2006-07. This change resulted in slightly more than \$30 million in additional room under the cap.

Spending Cap Calculations					
For FY 2006 and FY 2007					
	FY 2005-06	FY 2005-06	FY 2006-07	FY 2006-07	
	Enacted	Revised	Enacted	Proposed	
	Budget	Budget	Budget	Budget	
Total All Appropriated Funds - Prior Year	\$ 14,613.8	\$ 14,613.8	\$ 15,282.9	\$ 15,313.1	
Less "Non-Capped" Expenditures:					
Debt Service	1,871.9	1,871.9	1,704.5	1,704.5	
Statutory Grants to Distressed Municipalities	<u>1,309.8</u>	<u>1,309.8</u>	<u>1,339.0</u>	<u>1,319.6</u>	
Total "Non-Capped" Expenditures - Prior Year	3,181.7	3,181.7	3,043.6	3,024.1	
Total "Capped" Expenditures	11,432.1	11,432.1	12,239.3	12,288.9	
Times Five-Year Average Growth in Personal Income	4.06%	4.06%	3.54%	3.88%	
Allowable "Capped" Growth	<u>464.5</u>	<u>464.5</u>	<u>433.8</u>	<u>476.7</u>	
"Capped" Expenditures	11,896.6	11,896.6	12,673.1	12,765.6	
Plus "Non-Capped" Expenditures:					
Extraordinary Spending - Provider Tax Program	244.0	244.0	-	-	
Debt Service	1,704.5	1,704.5	1,831.0	1,823.2	
Federal Mandates and Court Orders (new \$)	123.2	128.9	100.3	147.6	
Statutory Grants to Distressed Municipalities	<u>1,339.0</u>	<u>1,339.0</u>	<u>1,344.4</u>	<u>1,327.9</u>	
Total "Non-Capped" Expenditures	3,410.7	3,416.4	3,275.7	3,298.7	
Total All Expenditures Allowed	15,307.4	15,313.1	15,948.7	16,064.4	
Appropriation for this year	15,283.1	15,313.1	15,938.4	16,052.2	
Amount Total Appropriations are Over/ (Under) the Cap	\$ (24.3)	\$ (0.0)	\$ (10.3)	\$ (12.2)	

Reforming State Government

“States are not moral agents, people are, and can impose moral standard on powerful institutions”

- Noam Chomsky

In an effort to make state government more accountable and responsive to the needs of our citizens, Governor Rell has proposed in the past and continues now to seek ways to improve how state government operates. In a number of important areas, Governor Rell has provided the necessary leadership to initiate and effectuate long-overdue change.

Office of State Ethics

The Governor continues to promote and endorse clean and open government under her administration through the support of the new Office of State Ethics established by Public Act 05-183. The Governor's adjusted budget includes the necessary resources for the agency to run effectively and efficiently, while carrying out its mission after a period of ethical unrest in the state. The new Executive Director with a stronger agency will be better able to monitor the ethical activity of state entities and those private sector companies with whom they have a business relationship.

The new office has expanded to include a total of 19 positions, increasing the agency's staff by 3 positions while its total budget for FY 2006-07 will be about \$1.79 million, roughly a 32% increase over the FY 2005-06 appropriation. The new agency is provided with resources to emphasize both public education and ethical enforcement.

Campaign Finance Reform: State Elections Enforcement Commission

In conjunction with the establishment of the Office of State Ethics, the Governor has also called for the clean up of campaign finance in order to deter those elected to state offices and the General Assembly from catering to special interests and ignoring the true needs of the residents of Connecticut. Public Act 05-5 – An Act Concerning Comprehensive Campaign Finance Reform for State-Wide Constitutional and General Assembly Offices, which passed in the October Special Session, is the fruit of this renewed effort initiated by the Governor. Connecticut is now in the forefront of campaign financing in the nation.

Public Act 05-5 bans campaign contributions from state contractors and lobbyists and creates a voluntary system of publicly financing campaigns for every state office through the establishment of the Citizens' Elections Fund (CEF). The CEF is a non-lapsing account within the General Fund which is sustained by revenue the State collects from unclaimed property. With passage of this legislation, a program is established in which public grants are provided to qualified candidates ranging from \$25,000 for House Races to \$3 million for gubernatorial general-election campaigns. Eligibility for grant amounts is based on financial benchmarks, which each candidate must reach before drawing from the CEF. The estimated annual cost of the program is \$16 million.

In addition, the State Elections Enforcement Commission (SEEC), through Public Act 05-5, has been legislatively mandated and enabled to better organize itself as the election watchdog of the state by expanding the agency's power, responsibilities and resources, and has been charged with the administration and enforcement of the new program. As a few examples of the new responsibilities of the SEEC, the commission:

- Has become the campaign filing repository for all statewide and General Assembly candidates, Political Action Committees (PAC) and party committees;
- Is required to redesign and implement a new, improved and more efficient electronic filing program for campaign reporting;
- Will design and oversee a pilot program for public financing for candidates in 3 municipalities; and

- Will conduct several studies and report to the General Assembly.

Through the CEF, the SEEC will be provided with up to \$2 million in start-up funding in the first fiscal year of the program and \$1 million every fiscal year thereafter to carry out the provisions outlined in the Public Act.

Contracting Standards Board

On July 8, 2004 Governor Rell announced the formation of the Governor's Task Force on Contracting Reform. The Task Force was charged with reviewing and recommending improvements in the procedures used by the State of Connecticut to purchase goods and services, including establishing a strong and proactive structure to implement uniform procedures and practices; elevating the state's commitment to clear ethical standards and conduct; improving professional development opportunities for state employees; and strengthening the state's enforcement, investigatory and accountability capabilities.

During the 2005 Legislative Session, the Governor proposed the creation of a Contracting Standards Board. Unfortunately, the legislature attached provisions to this bill, placing unacceptable, overly burdensome limitations on the Executive Branch's ability to enter into contracts in order to conduct the business of the state and provide essential state services. With that, the Governor had no choice but to veto the bill.

However, the need still remained to make reforms in order to ensure that the state contracting process reflects the highest standards of integrity and a clean, consistent, and efficient process. Additionally, there still existed a need to address the state's vulnerabilities in the selection and procurement processes to completely eliminate improprieties, favoritism, unfair practices or ethical lapses in the future.

Considering these needs, the Governor issued Executive Order 7b. This directive established a Contracting Standards Board to accomplish the following:

- Develop a Uniform Procurement and Contract Code for state agencies to be submitted to the General Assembly by January 15, 2007. This Code will aim to:
 - ◇ Establish uniform contracting standards and practices among the various state contracting agencies;
 - ◇ Establish standards for leases and lease-purchase agreements and for the purchase, sale or transfer of other interests in real property;
 - ◇ Provide transparency in contracting and increase public confidence in the process;
 - ◇ Ensure all businesses and contractors are treated fairly; and
 - ◇ Maximize the use of small businesses and minority-owned businesses.
- Review and certify that a state contracting agency's procurement processes are in compliance with the code and assist agencies in complying with the uniform procurement code by providing training, guidance, models, advice and practical assistance to staff.
- Triennially, conduct audits of state contracting agencies to ensure compliance with the uniform procurement code, recertify each state agency's procurement processes and provide agencies with notice of any certification deficiency.
- Issue recommendations regarding the disqualification or suspension of contractors from bidding or proposing on state contracts to the extent required or permitted in accordance with applicable law.

Governor Rell is once again asking the General Assembly to enact the Contracting Standards Board into statute.

Transportation

“A train! A train! A train! A train! Could you, would you, on a train?”

- Theodore Geissel (Dr. Seuss)

Governor Rell has made transportation one of the key elements of her administration, focusing on issues which offer real options to commuters and assist in relieving gridlock on our highways and city streets, thereby enhancing the quality of life for our citizens as well as advancing air quality goals and promoting job growth.

Last year, Governor Rell recommended and the General Assembly approved a \$1.3 billion transportation initiative which included new rail cars and maintenance facilities for the New Haven Line, highway improvements, including priority congestion mitigation projects on Interstate 95, and new buses to support the development of new transit services.

Last year, the focus was on the transportation system's most pressing needs. This year the focus is on strategic transportation investments which further enhance the transportation system.

As part of this budget initiative, Governor Rell is proposing to build on last year's progress by adding another \$344 million in additional transportation capital improvements over the next seven fiscal years directed at promoting job growth. The \$344 million is expected to leverage over \$300 million in federal revenue to assist in these transportation improvements. Together, these initiatives represent the most significant state commitment to public transportation in over a generation. That commitment includes:

- Commuter Rail Service between New Haven, Hartford and Springfield, including connections between the rail line and Bradley International Airport;
- The New Britain Busway;
- Rail station and parking improvements on the New Haven Line and Shore Line East;
- Facility and service improvements on the New Haven Line's Danbury, New Canaan and Waterbury branch lines;
- Rehabilitation of up to forty locomotive pulled passenger coaches used on the branch lines; and
- Improved transit connections between rail stations and employment centers.

The initiative's focus on public transportation is intentional. While highways remain the largest part of the state's transportation system, developing and maintaining a sound public transportation system is essential to the state's long term social and economic health. These enhancements serve to make our highways less congested and safer, thereby providing for increased opportunities for job growth by making commuting options more available.

Each of these public transportation initiatives is based upon the recommendations of the Transportation Strategy Board which will be involved in monitoring the progress of the initiatives and advising the Governor and the Department of Transportation on their implementation.

Transportation Development Initiative

New Haven-Hartford-Springfield Rail Service

Governor Rell is proposing funding for both the capital improvements and operating costs necessary to establish commuter rail service between New Haven, Hartford and Springfield with a bus connection between the rail line and Bradley International Airport. The proposed service would include eight trains a day in each direction. Eight existing and three new stations (North Haven, Newington and Enfield) will be served. Support for transit oriented development along this corridor will be an important part of the initiative. A capital investment for this initiative is \$146 million and the annual operating subsidy will be \$8.5 million

beginning in FY 2010-11. In addition, federal funds of approximately \$16 million will be used.

New Britain Busway

Funding is provided for the final \$50 million of the state's share of the cost of the New Britain – Hartford busway. This is in addition to \$33 million of state funds previously provided for this project. The 9.4 mile busway will operate over active and inactive rail lines and provide both local and express service. Local routes will serve twelve stations in New Britain, Newington, West Hartford and Hartford. The busway will also serve commuter express buses from New Britain and beyond, providing commuters with an attractive alternative to driving by reducing travel times by avoiding highway congestion. By reducing the number of cars and buses traveling into and out of Hartford the busway will also help ease traffic congestion on I-84. The federal share of this project is \$253 million and there will be an annual operating subsidy of \$6 million beginning in FY 2009-10.

Branch Lines

\$45 million in capital funding and \$1 million in annual operating funds beginning in FY 2009-10 are provided to support improved facilities and increased service on the New Haven Line's Danbury, Waterbury and New Canaan branches. An estimated \$7 million in capital funds will be used to support construction of the signalization and train control systems which will improve safety and operations on the Danbury branch. The balance of the capital and operating funding will be used for facility and service improvements identified as part of the on-going studies of the three branch lines.

Rail Car Rehabilitation

Capital funding of \$25 million is provided for the rehabilitation of up to forty locomotive pulled passenger coaches currently used on the New Haven Line and its branches. As the new rail cars funded through last year's initiative arrive, additional coaches will be transferred to the New Haven-Hartford-Springfield commuter rail service.

Rail Station and Parking Improvements

\$40 million in capital funding is provided for rail station and parking improvements on the New Haven Line, the branch lines and Shore Line East.

Commuter Connections

Recognizing the importance of providing commuters with a means of getting from the train to their jobs, funding is provided to expand the Commuter Connections program which provides transportation between rail stations and employment centers. Operating funds will begin to be provided in FY 2007-08 in the amount of \$1 million growing to \$2 million in FY 2010-11.

West Haven Rail Station

\$11 million is provided for the state's share of the cost of a new New Haven Line rail station and parking facilities in West Haven. The state will work with the City of West Haven and Connecticut's Congressional delegation to secure federal funding for the balance of the construction cost. It is estimated that the State will receive \$44 million in federal funds.

Transit Oriented Development

The development of new mass transit options, like the New Haven-Hartford-Springfield commuter rail line and the New Britain busway, often offers the opportunity to leverage economic development by locating housing and businesses near rail/busway stations. That process, known as Transit Oriented Development, will be an

important part of both initiatives. It will also be a consideration in the development of new or improved rail facilities on the New Haven Line and Shore Line East. As part of the State's effort to encourage transit oriented development, those projects will be made eligible for Urban Act funding regardless of the communities where they are located.

Hartford Area Highway Infrastructure

Governor Rell is also proposing \$25 million in capital funding for highway improvements required to support economic development projects in the greater Hartford area. One potential use of those funds is the Rentschler Field development in East Hartford.

Financing Plan

Governor Rell proposes to pay for both the operating and capital costs of this initiative by increasing the transfer of Petroleum Gross Receipts Tax revenue from the General Fund to the Special Transportation Fund. The transfer will be increased by \$40 million in FY 2006-07 through FY 2009-10. It will be increased by an additional \$20 million in FY 2010-11 and thereafter. No tax increases are being proposed in order to pay for this initiative.

Support for Ongoing Operations

Funding for Bus Operations

The Governor's adjusted budget for FY 2006-07 includes a total increase of \$6.5 million for existing bus operations. \$3.5 million is needed to address rising fuel costs and \$3 million is provided to offset the loss of federal funds for programs such as Jobs Access Reverse Commute, a program which serves low income working individuals who need bus service out to suburban work sites from the inner cities. This subsidy supports bus service during second and third shifts and weekends. Most routes supported by this program are extensions of existing routes to previously unserved worksites and affect about 1.5 million passenger trips a year. New routes that have been established with Job Access funding include the Coastal Link between Norwalk and Milford, the M-Link between Middletown and Meriden, and the L-Route between Bloomfield and Manchester.

Increase Highway and Bridge Renewal Equipment

\$4 million was added to the Department of Transportation's equipment budget bringing the total to \$8 million in order to purchase needed highway and bridge renewal equipment. This will allow for a more appropriate replacement schedule for key pieces of equipment throughout the state.

As the equipment wears it becomes more expensive to operate and maintain, leading to more down time. Reliable and safe equipment is essential in maintaining the highway system during the winter months. Additionally, the Department relies on various other pieces of equipment such as aerial bucket trucks for bridge inspection, mowers to maintain proper driving visibility, sweepers, centerline paint machines and others to maintain safe driving conditions throughout the year.

The Governor recognizes these needs and has increased the Department's highway and bridge renewal equipment appropriation to aid in maintaining a safe and productive fleet.

Jobs

“The New England states face the confluence of several challenges that test their ability to compete...these include globalization, the decline of traditional industries and slow labor force growth.”

- Michael K. Thomas, New England Board of Higher Education

The most significant challenge facing Connecticut in the 21st century is the competition our State faces for jobs and the businesses that create jobs. Connecticut’s competition no longer comes just from our neighboring states but from all over the country and, indeed, all over the world.

The investments we have made in higher education as well as elementary and secondary education over the last decade will serve us well in maintaining our educated workforce. The Governor’s two transportation initiatives are integral and significant parts of making our state more desirable to businesses that seek to move here or remain here. But much more needs to be done and Governor Rell will not rest until Connecticut is once again solidly back in the job growth column.

To accomplish that, Governor Rell’s plan starts with wholesale restructuring of the government’s approach to attracting and retaining businesses. Because Governor Rell will personally take charge of the business of building Connecticut’s economic future, she provides for the new Office of Economic Development Policy within the Governor’s office. Through this office, she will coordinate the efforts of the new Connecticut Finance Collaborative which will be the successor organization of the Connecticut Development Authority, Connecticut Innovation Inc., and the Connecticut Health and Education Finance Authority.

By merging these authorities and providing direct gubernatorial leadership, the State can improve program coordination and provide more comprehensive services in an effort to attract businesses and create jobs.

The new Department of Business and Employment (DBE) will provide for the programs previously administered by the Department of Economic and Community Development (DECD) but with enhanced planning and programmatic features including:

- A new Office of National and International Commerce to market Connecticut to both United States and foreign businesses;
- Additional support for Housing and Community Development Planning to provide for better planning in conjunction with the concept of transportation oriented development; and
- The Connecticut Research Institute to improve existing capacity to collect and disseminate statewide data and develop economic policy initiatives.

The Governor provides for significant and positive changes in our business climate including:

- **Elimination of the Corporate Tax Surcharge** Estimated annual savings of \$47 million to businesses;
- **Energy relief tax cut** – 25% across the board cut in the Connecticut’s public utilities tax. This will save taxpayers \$44.9 million annually, more than 50% of which benefits business;
- **Job Creation Tax Credit** - Available to companies that create significant new qualified jobs in Connecticut. A company may obtain a tax credit equal to 25% of the estimated withholding tax paid by the employees in the new jobs;
- **Displaced Worker Credit** – Companies will be able to take a credit against their corporate tax for hiring workers previously displaced, and;
- **Film Industry Tax Credit** - Available against the companies’ corporate income tax based on 25% of their in-state production expenses including payroll.

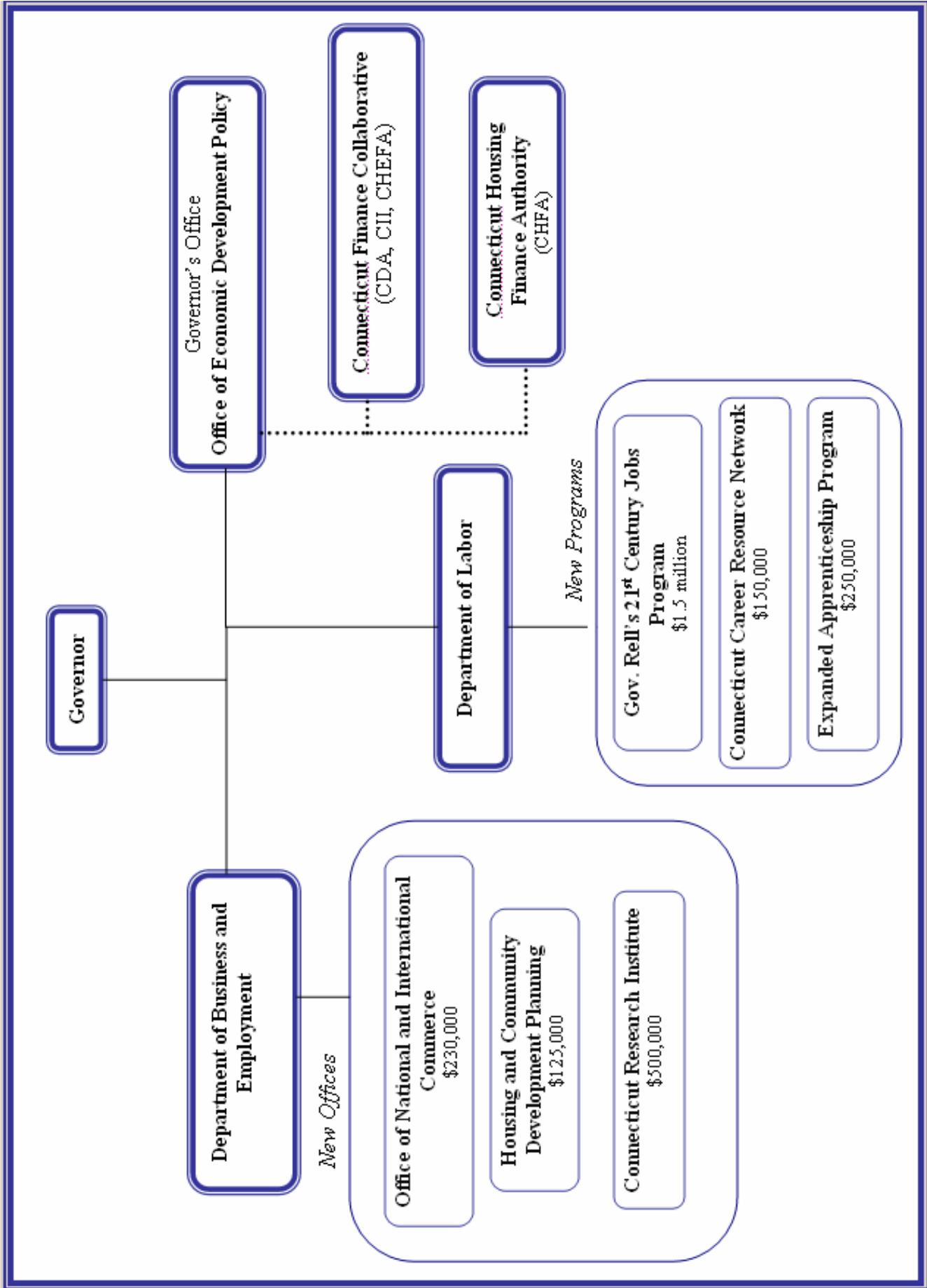
Governor Rell’s proposed budget includes several other jobs and workforce related initiatives in the Labor

Department (DOL) that will help keep Connecticut competitive. These include:

- \$1.5 million for Governor Rell's 21st Century Jobs Program an important program that will customize job training for employers (who will pay a 50% match for this opportunity);
- \$150,000 for the Connecticut Career Resource Network that will provide career specific public information to state students, teachers and guidance counselors, and;
- \$250,000 for an expansion of the Connecticut Apprenticeship program which provides guidance and mentoring for businesses using apprentices.

In addition to the DBE's and DOL's new programs, Governor Rell's budget for the Department of Higher Education includes a creative new loan forgiveness program to encourage college students to choose work in "high needs" fields in Connecticut. Of the \$3 million dedicated to this endeavor, half, or \$1.5 million, will be made available to students who plan on becoming math or science teachers, a shortage area. The DBE will decide what other fields will be included in this program.

Finally, Governor Rell is proposing to require economic impact statements on legislation. If implemented, this would require the Office of Fiscal Analysis, the non-partisan staff budget office for the General Assembly, to include economic statements on the fiscal notes they do for legislation. This is an important part of the economic puzzle that should be available before laws are enacted.



Energy

Department of Energy

This past year has witnessed the dramatic increase in all forms of energy costs straining the budgets of individuals, businesses, and governments. Due to increased demand worldwide, and natural and political influences on supply, the long-term trends in this area are at best fraught with uncertainty. In response to demands for a central clearinghouse for energy planning, research and oversight, Governor Rell is proposing a new State Department of Energy. This agency will be composed of new positions and positions transferred from the Office of Policy and Management (OPM) Energy Management and Policy Development unit. The new agency will assist the Governor in formulating a statewide energy policy and providing the means to implement that policy. It will use its planning, research and oversight functions to increase energy efficiency and reduce costs in both the private and public sectors. Market trends and issues facing the energy markets will be analyzed to assess the impact on the State's citizens and businesses. Interaction with the federal agencies such as the United States Department of Energy, Energy Information Administration and state entities will assist in creating a centralized energy plan for the State.

Energy Conservation

During the State's recent fiscal difficulties, the State budget transferred funds previously earmarked and always intended to spur energy conservation. The Governor proposes restoring full funding of the Energy Conservation and Load Management Fund by eliminating the \$12 million transfer of the earmarked money to the General Fund. This conservation fund will promote long term goals of conservation and energy management in ways that will improve the State's fiscal health and quality of life over the long term. These funds will now be available to help consumers and businesses undertake conservation measures to partially mitigate the dramatic rise in energy prices while simultaneously reducing our dependence on foreign energy sources. These changes, along with measures proposed on the expenditure side of the budget, are a recognition that as a state we must become more proactive in energy matters to assure our long-term economic health.

Properly Budgeting for Energy Costs

Governor Rell's Midterm Budget recognizes that state agencies are struggling to deal with soaring energy prices as they endeavor to continue to provide necessary and vital services to the state's businesses and citizens. In FY 1999-00, state agencies spent approximately \$51.7 million on energy-related costs. OPM currently estimates that this number will exceed \$100 million in FY 2005-06. In the past, the legislature and the Executive Branch chose to make up the difference by appropriating funds from prior year's surpluses. No permanent adjustment was made to the base appropriations to reflect the reality of higher energy costs. In FY 2005-06, \$18 million of FY 2004-05 surplus money was distributed to agencies to offset increases in the cost of energy. Yet, there is still projected additional energy-related needs of approximately \$21.6 million. Governor Rell is proposing to add \$40 million in her Midterm Budget, \$34 million in the General Fund and \$6 million in the Special Transportation Fund, to address this structural problem.

Energy Tax Relief

This past year has witnessed the dramatic increase in all forms of energy costs straining the budgets of individuals, businesses, and governments. Not since the energy crisis days of the 1970s has America seen such a jump in prices. Furthermore, the long-term trends in this area do not appear favorable. Government needs to be a part of the solution and, where taxes are part of the reason for high energy prices, the State needs to do what it can to reduce taxes which, in effect, can lower the cost of energy. In order to mitigate, to some extent, these rapid increases in energy costs, the Governor proposes a 25% across-the-board cut in the state's public utilities tax beginning July 1, 2006. This change will lower everyone's electric and gas bills throughout the state, saving businesses and consumers an estimated \$44.9 million in FY 2006-07 alone while making our economy more competitive. More than 50% of these savings will benefit Connecticut's businesses.

The Governor is also proposing the extension of the sales tax free period on energy efficient residential weatherization products until June 30, 2006.

Public Utilities Tax Proposed Change in Rates			
	Current Rate	Proposed Rate	%
Residential			
Gas	4.000%	3.000%	-25%
Electric	6.800%	5.100%	-25%
<u>Commercial</u>			
Gas	5.000%	3.750%	-25%
Electric	8.500%	6.375%	-25%

Elimination of the Car Tax

Consider! Real and immediate property tax relief.

Each year in 169 municipalities throughout the state, assessors spend countless hours creating a grand list of motor vehicles, tax collectors send out thousands of bills, taxpayers write out thousands of checks to pay property taxes on motor vehicles only to have the State of Connecticut then give a partial credit to many of them for part of the amount that they paid in tax in the first place. Only in Government!

This does not even account for the frustration and aggravation that occurs when taxpayers move or a car is sold and a glitch in the system or an error on the part of either government or an uninformed taxpayer causes a bill to go unpaid resulting in a taxpayer being unable to register a motor vehicle. To say the system is inefficient and somewhat circular is quite an understatement. Municipal tax collectors throughout the State will tell you that they spend a disproportionate amount of time and resources collecting the car tax in relation to the percentage of municipal revenue it generates.

Consider! If you own and drive a:

2003 Ford Taurus Wagon 4D SE

Bridgeport property tax bill	\$309
New Canaan property tax bill	\$103

Difference: \$206

A taxpayer in Bridgeport pays a tax bill that is 3 times higher than a taxpayer in New Canaan pays for the same car.

2002 Toyota Camry Sedan 4D SE

Norwich property tax bill	\$292
Lyme property tax bill	\$138

Difference: \$154

A taxpayer in Norwich pays a tax bill that is slightly more than twice the tax that a taxpayer in Lyme pays for the same car.

2005 Ford Explorer Wagon 4D XLT

Plymouth property tax bill	\$607
Kent property tax bill	\$246

Difference: \$361

A taxpayer in Plymouth pays a tax bill that is nearly 2 ½ times higher than a taxpayer in Kent pays for the same car.

Consider Further!

A taxpayer in Greenwich pays \$273 in property taxes for a 2005 Mercedes-Benz Sedan 4D C240 (AWD).

A taxpayer in Waterbury taxpayer pays \$278 in property taxes for a 2000 Chevrolet Cavalier L-4 2D Convertible.

Does it make sense for a Greenwich taxpayer to pay \$5 less in property taxes per year for a new Mercedes than a Waterbury taxpayer pays for a 6-year old Chevy?

Under Governor Rell's proposal beginning July 2006, no Connecticut resident will ever again have to pay this inequitable, regressive and frustrating tax.

The Governor's proposal will save a typical family in New Britain \$828 per year in property taxes, assuming the family has two mid-priced sedans: a 2003 Camry and a 2001 Honda Accord. If a family with these vehicles resides in:

Torrington, the savings is \$591 per year;
Stamford, the savings is \$643 per year;
New Haven, the savings is \$768 per year; and
Hartford, the savings is \$1,098 per year.

And the savings begin this July!

And Consider Even Further!!

Since FY 1992-93 the State of Connecticut has received over \$3.4 billion from the state's Indian Tribes. Of this amount, almost \$2.1 billion or 62% of the total, has been used to fund various General Fund expenditures. Yet, year after year the citizens of our state ask where does all that casino revenue go? Governor Rell is finally going to provide a clear and direct response to that question – eliminating your car tax!

Beginning with the upcoming July 2006 property tax due date the tax will be eliminated. Specifically, the program will exempt the property tax due on privately-owned Connecticut-registered cars and motorcycles, as well as those vehicles that individuals lease on a long-term basis. This is a bold step to eliminate a regressive tax, which will make the state of Connecticut a much more attractive place to live while reducing the financial burden on the average working family in the state. Payments of property tax on exempt vehicles would be eliminated, beginning with what would be the July payment of 2006. The proposal does not include unregistered automobiles, business-owned vehicles, or vehicles which are recreational in nature. .

Governor Rell's proposal provides for a mechanism that replaces this municipal revenue stream by transferring to each municipality funding necessary to replace the lost revenue. In fact, most municipalities will be better off since the Governor has constructed a fund using as a basis a 100% collection rate though many municipalities, particularly the larger cities experience a significantly lower collection rate. Moreover, the Governor's plan relieves the municipalities of a significant and unnecessary administrative burden.

The Governor proposes to create a Casino Assistance Revenue or CAR grant by intercepting 100% of Indian gaming funds received by the State. In order to fully fund this program, a relatively small portion of additional revenue will be temporarily intercepted until the casino revenue grows to a point where it pays for 100% of the replacement funds. This additional intercept would be phased out as casino revenue grows. Any additional growth in casino revenue would continue to inure to the benefit of the towns proportionate to the original CAR grant, thereby providing additional property tax relief in the future. The Governor's plan also returns to the original promise of using the Indian gaming funds for property tax relief.

Cities, towns, and other taxing districts will receive the CAR grant from the state's casino revenue to offset the revenue loss due to the exemption. The cost of this initiative is \$497 million in FY 2006-07. In order to pay for

this proposal, first all Indian Gaming Payments derived from the state's two casinos, \$435.6 million in FY 2006-07 will be placed in the CAR fund and used to reimburse towns. A second intercept will also take place as a transition payment to make up the difference between the cost of the proposal and the Indian Gaming Payments. This is expected to be a \$61 million transfer from General Fund revenue in FY 2006-07. This intercept is expected to decline over time as the casino revenue grows. The original Mashantucket Pequot and Mohegan Fund grant will be maintained but transferred to the General Fund in its entirety and renamed Supplemental Municipal Aid.

This program is affordable due to the combination of natural revenue growth as a result of improving economy and the elimination of the property tax credit on the personal income tax, which this fiscal year provides no more than \$350 in relief per taxpayer (or household) and next year, no more than \$400. This redirecting of the current property tax credit contributes \$325 million of revenue in 2007. The vast majority of taxpayers will benefit significantly from this program because the total amount of tax relief included in this program is over 50% greater than that was encompassed by the prior property tax credit program.

In summary, the Governor eliminates an inefficient, inequitable and regressive tax; provides a replacement revenue stream to keep municipalities whole; eliminates bureaucracy and frustration inherent in this system and most importantly provides for significant property tax relief for virtually all Connecticut taxpayers.

Fiscal Year	Indian Gaming Revenue	Expected G.F. Transfer	Total	CAR Payments to Towns
2007	\$ 435.6	\$ 61.2	\$496.8	\$ 496.8
2008	448.7	48.1	496.8	496.8
2009	472.1	24.7	496.8	496.8
2010	486.3	10.5	496.8	496.8
2011	500.9	-	500.9	500.9

The Estate Tax

Last session the General Assembly, in an effort to bolster revenues, passed a Uniform Gift and Estate tax measure which placed Connecticut squarely within the minority of states that continue to impose estate and gift taxes. Moreover, the estate tax as passed, contained a significant anomaly commonly referred to as a cliff. Under the law as passed, the estate of a Connecticut resident who dies with an estate of \$2,000,000 owes no tax but the estate whose assets are valued at \$2,000,001 owes \$99,600. This obvious inequity diminishes confidence in Connecticut's tax system, serves to drive productive residents out of state as they reach retirement age and dissuades others from settling here in the first place.

Estate Tax Phase-Out (in millions)	
Income Year	Exemption Level
2005	\$ 2.0
2006	\$ 4.1
2007	\$ 5.1
2008	\$ 7.1
2009	\$ 10.1
2010	No Tax

Governor Rell provides for an immediate elimination of the so called cliff and an immediate doubling of the amount of an estate that is exempt from the estate and gift tax from \$2 million to \$4.1 million. These changes will make Connecticut among the most competitive of the eighteen states that have chosen to implement an estate tax. Under the Governor's plan the estate tax would be phased out until it is completely eliminated by 2010. The exemption level would be raised to \$5.1

million in 2007 and \$7.1 million in 2008 and \$10.1 million in 2009. At each stage the tax would be constructed in a manner that would eliminate the undesirable cliff effect. When eliminated in 2010, Connecticut would join the 32 other states that have chosen not to tax estates. More importantly Governor Rell's plan will make us competitive with such taxpayer friendly states like Florida, South Carolina and Arizona, where many of our retired citizens relocate in order to protect their estates for the benefit of their loved ones.

<u>States with No Estate Tax</u>	
1. Alabama	18. Missouri
2. Alaska	19. Montana
3. Arizona	20. Nevada
4. Arkansas	21. New Hampshire
5. California	22. New Mexico
6. Colorado	23. North Dakota
7. Delaware	24. Oklahoma
8. Florida	25. Pennsylvania
9. Georgia	26. South Carolina
10. Hawaii	27. South Dakota
11. Idaho	28. Tennessee
12. Indiana	29. Texas
13. Iowa	30. Utah
14. Kentucky	31. West Virginia
15. Louisiana	32. Wyoming
16. Michigan	
17. Mississippi	

Public Safety

“Ensuring public safety is one of government’s highest responsibilities.”
 - Governor M. Jodi Rell

The Governor’s adjusted budget contains major initiatives and maintains several existing commitments to ensure that Connecticut continues to move forward in enhancing the safety of its citizens.

Combatting urban violence

Governor Rell's position is that “...as leaders, we are charged with protecting public safety, as well as with the duty of seeking out root causes and developing solutions to this crisis.” The recent alerts to rising criminal activity in Connecticut’s urban cities have impelled the Governor to initiate a new Urban Violence Initiative that uses a multi-prong approach to coordinate state and local efforts into a comprehensive law enforcement, prosecutive and social services strategy. The Governor’s Budget provides the following resources to implement the urban violence initiative:

Division of Criminal Justice

CGS section 51-279b requires the Chief State's Attorney to establish a Racketeering and Continuing Criminal Activities Unit within the Division of Criminal Justice (DCJ). This unit is currently composed of one prosecutor. The Governor’s adjusted FY 2006-07 Budget provides \$400,000 to support an additional 6 staff and associated operating expenses. These funds will equip the unit to address urban violence in Connecticut utilizing a vertical prosecution strategy, whereby a team of prosecutors and inspectors work on criminal cases from the earliest stage, prior to an arrest, through all court proceedings and post-conviction.

Vertical prosecution was one of the most important elements of the successful strategy employed in the 1990s to attack gang violence in the cities and has also been successful in the prosecution of domestic violence and elder abuse cases. With these resources, DCJ will undertake coordinated, extensive investigations and more effective prosecution to achieve a better, safer Connecticut.

URBAN VIOLENCE INITIATIVE	
	FY 2007
Division of Criminal Justice	
Racketeering & Continuing Criminal Activities Unit	\$ 400,000
Department of Public Safety	
State and Municipal Urban Violence Task Force	\$ 520,000
Office of Policy & Management	
Municipal Violent Criminal Activity Prevention Grant	\$ 4,250,000
Department of Mental Health and Addiction Services	
Career-based Mentoring for High Risk Inner City Youth	\$ 200,000
Department of Children and Family Services	
New Community Diversion Boards	\$ 550,000
TOTAL URBAN VIOLENCE INITIATIVE	\$ 5,920,000

Department of Public Safety

The Governor’s FY 2006-07 adjusted budget provides \$520,000 to create a state and municipal Urban Violence Task Force to combat violent crime in Connecticut’s major cities. A team of state troopers and two officers each from the major cities will focus on "Hot Spots" of crime and violence by gathering intelligence, conducting undercover investigations and implementing large scale arrests and sweeps. These efforts will be in addition to patrol saturation of the targeted areas for order maintenance, traffic citations and to discourage various illegal street sales. The resources identified will provide a monthly stipend of \$2000 per officer to the respective municipalities to cover the overtime costs associated with the loss of the assigned officer. Funds are also provided for costs associated with the troopers assigned to the task force.

Office of Policy and Management

The Governor's FY 2006-07 adjusted budget provides \$4.25 million to establish a program within the Office of Policy and Management (OPM) to provide grants to municipalities targeted toward preventing violent criminal activity involving young people in urban areas. The three largest cities, Bridgeport, Hartford and New Haven, would be eligible to apply for Urban Violence Reduction grants of \$750,000 each. Waterbury and New London each would be eligible for grants of \$500,000. A pool of grant funds of \$1,000,000 will be made available to the remaining urban areas.

Eligible municipalities will be allowed to design programs, working with their community organizations to develop ideas with the highest potential for benefit in their community. These programs are expected to supplement current efforts and offer real opportunities to reduce violent criminal activity.

Health and Human Services

Other urban violence initiatives in the Health and Human Services arena have been included in the Governor's FY 2006-07 Budget including:

- Career-based mentoring for high risk inner city youth and model youth violence initiatives; and
- New Community Diversion Boards.

Urban violence is by no means strictly a law-enforcement issue. It often involves children. It is time to take action to address the myriad and complex challenges that are faced in our urban communities. The Governor's budget fully lays out her plan of action. These initiatives are Connecticut's next step in achieving this goal.

Juvenile Justice Programs

The Governor's adjusted budget includes nearly \$1.94 million in the Judicial Branch to continue various federally funded juvenile programs with General Fund dollars. These funds support 12 residential beds and 449 slots for juveniles requiring specific program needs as follows:

- \$1.25 million for the Court Diversion Initiative for girls for two 6 bed programs in Waterbury and New Haven providing respite, assessment, stabilization and court diversion for girls from Families with Service Needs and with high risk for continued court involvement or detention serving 280 girls per year;
- \$187,000 in funding for Multi-Systemic Therapy for Juvenile Offenders to support 225 slots through contracts with community service providers covering 14 court locations statewide. This includes clinical services with medical oversight to children at risk for recidivism and who are in need of intensive intervention; and
- \$499,000 in funding for Juvenile Risk Reduction Centers for 224 slots located in New Haven, New London, Hartford and Bridgeport providing center-based services delivering cognitive behavioral treatments which emphasize skill acquisition for medium risk populations.

Statewide Narcotics Task Force Local Officer Incentive Grant Program

The Local Officer Incentive grant program attempts to reduce fiscal impediments to local police departments partnering with the Statewide Narcotics Task Force (SNTF) and federal law enforcement agencies. A monthly stipend of \$1200 per officer is provided to the municipality to supplement overtime expenses that result from the assignment of officers to the SNTF. The joint narcotics law enforcement activities focus on street level drugs and trafficking but also touch upon other criminal areas such as gang related activity and firearms. Since its inception in 1977, the SNTF has confiscated over \$1.3 billion worth of drugs from Connecticut's communities. The Governor's FY 2006-07 adjusted budget provides \$238,800 to continue the program at the

existing \$1200 stipend level to ensure this critical activity remains to benefit Connecticut's citizens and communities.

Tougher Penalties and State of the Art Monitoring for Sex Offenders

Governor Rell has recently announced her proposal for tougher penalties for sexual offenses against children. A critical component of the Governor's legislative proposal calls for increased minimum mandatory sentencing for individuals convicted of certain sex crimes against children age 13 and younger. Lifetime registration and lifetime monitoring will be required for those convicted of multiple counts of sexual assault in the second degree, enticing a minor or promoting a minor in an obscene performance. The proposal increases the tools available to the State for monitoring offenders upon their release with Global Positioning System (GPS) technology.

There are approximately 1,481 sex offenders currently under supervision by the Court Support Services Division (CSSD) of the Judicial Branch. The Governor's FY 2006-07 adjusted budget includes nearly \$1.3 million for CSSD to hire 15 Probation Officers and lease 250 passive GPS units. These resources will allow CSSD to provide more intensive supervision of high-risk offenders through this technology. The program will be targeted in the 5 urban cities and certain area offices where the majority of sex offender cases are assigned, thereby attempting to make the greatest impact in the most cost efficient manner.

The increased ability to track an offender also makes it possible to put a higher risk offender in the community, allowing the Department of Correction to reduce the incarcerated population. The Governor's recommended budget for DOC includes funding of \$197,153 to provide 2 additional Parole Officers and an additional 30 passive GPS units for increased follow-up and more intensive supervision.

The Governor is also proposing changes that would authorize state probation and parole officials to order GPS monitoring for released offenders convicted of lesser sex crimes who they feel pose a heightened risk. The risk assessment approach is the current model used by CSSD for determining the condition of sex offender supervision. It allows the officer, in conjunction with the treatment provider, to analyze the relevant data and make an appropriate supervision recommendation. Together these changes comprise a comprehensive set of reforms to improve the safety of Connecticut's children.

Criminal Justice Information System

Connecticut's Criminal Justice Information System (CJIS) comprises the following major applications: the Offender Based Tracking System, the Automated Fingerprint Identification System, the Connecticut On-Line Law Enforcement Communications Teleprocessing System and the Mobile Data Communications System, known as CAPTAIN. The state's investment of approximately \$49.7 million in bond funds for CJIS technology serves to increase protection of the public by achieving integration and interoperability of law enforcement and justice information. The Governor's recommended budget provides \$2.3 million in CJIS operating funding.

The Offender Based Tracking System (OBTS) provides near real time data on offenders from arrest, through adjudication and custody, until release from supervision. This information is available to both state and local law enforcement and criminal justice agencies as a single resource to track and manage any one offender. When fully completed, arrest, bail, court case, criminal history, correction custody, probation, parole, and sex offender data will be provided to all criminal justice agencies. Consultants, supported by the CJIS bond funds, currently provide OBTS project management and system integration services. The Governor's FY 2006-07 adjusted budget provides \$485,000 to transition from reliance on consultants to state IT personnel reducing costs by approximately \$2 million annually. The Governor's FY 2006-07 adjusted budget also provides \$452,000 for the OBTS application support and maintenance.

The Connecticut Online Law Enforcement Communications Teleprocessing (COLLECT) System provides criminal history information, wants and warrants and other relevant information to state and local law

enforcement and criminal justice agencies throughout Connecticut. COLLECT is being extensively upgraded to operate in an efficient, state of the art manner with greater query capabilities including data from the FBI and other states for officers approaching public safety situations. The Governor's adjusted budget supports this vital resource by including approximately \$1 million for licensing software renewals, contracted system maintenance and system bandwidth costs for COLLECT. The Department of Public Safety is required per CGS 7-281a to provide access to COLLECT to municipal police departments without charge and a small contingency of \$51,500 has been set aside to cover these requests.

The Automated Fingerprint Identification System (AFIS) is a computerized system for encoding, storing, searching and matching fingerprints. The new AFIS, compatible with national standards, became operational in late 2004. The AFIS supports the receipt of electronic fingerprints from devices in law enforcement agencies enabling identifications from State and FBI records, within minutes. The Governor's FY 2006-07 adjusted budget provides funding for ongoing maintenance for the new AFIS. In addition funding of \$150,000 has been provided to eliminate the current backlog of 142,500 criminal fingerprint cards upon completion of the AFIS interface to the Master Name Index/Computerized Criminal History system. The end result is a more complete criminal history database and streamlined process for criminal and applicant background checks. Together these state of the art systems further improve our ability to effectively fight crime.

Regional Fire Training Schools

Thousands of Connecticut firefighters dedicate their lives to protecting the people of this state. Connecticut has nine regional fire training schools located in Derby, Fairfield, Middletown, New Haven, Stamford, Torrington, Willimantic, Windsor Locks, and Wolcott. The regional fire schools' main focus is on delivery of fire and rescue, hazardous materials, and other emergency services related training to these firefighters.

The Governor is recommending an additional bond authorization of \$10 million in the FY 2006-07 Midterm Budget to continue construction, renovations and property acquisition to upgrade and replace these aging facilities. This is in addition to a prior authorization in the amount of \$10 million for Regional Fire Schools throughout the state. Projects underway from the current funds include the following:

- Design and construction of renovations and improvements at the New Haven Regional Fire School;
- Acquisition of property to replace the inadequate leased facilities in Willimantic; and
- Construction of a Class A Burn Building and support facility at the Connecticut Fire Academy in Windsor Locks for the joint use by the academy and the Hartford County Regional Fire School.

In addition to the \$10 million bond authorization, funds are also provided to support the annual lease cost to the Department of Transportation for the 1.6 acres of land in compliance with the Federal Aviation Administration.

Department of Motor Vehicles

In an urgent response to the Avon Mountain tragedy in July of 2005, the Governor immediately ordered the Department of Motor Vehicles (DMV) to increase the number of Commercial Vehicle Safety Inspectors in the state to more effectively monitor all inter- and intra-state commercial fleet activity. Through this addition, the state is able to provide more frequent confirmation of both the safety and proper operation of commercial vehicle fleets. The Governor's adjusted budget for FY 2006-07 continues to take into account the safety of Connecticut's residents by providing over \$400,000 to DMV. for the additional inspectors.

The Governor's commitment in this area does not end here. Additional security measures are recommended to improve the operations of the DMV. The Governor's adjusted budget provides approximately \$600,000 in funding to:

- Upgrade and improve document integrity proofing stations at each branch;
- Upgrade the telecommunications at each of the branch locations to increase speed in the recovery of information as well as provide security against cases of fraud;

- Ensure compliance with federal mandates thereby preventing any deficiencies which could result in the loss of federal highway construction funding for the state; and
- Increase staff levels in the Internal Audit unit in order to meet the required workloads associated with thorough and adequate reviews of the Driver License, Non Driver Photo ID's and Commercial Vehicles Safety Inspections programs.

The Governor's initiatives to improve driver license security and commercial vehicle safety measures call for greater resources and expanded manpower to achieve an adequate volume of inspections, audits and fulfillment of the mandate placed upon the Department of Motor Vehicles. In addition, the Governor wants to ensure that the convenience of the customer remains a top priority by including \$730,000 for branch expansions. Funds are provided to hire additional part-time positions to ease congestion at the busiest full-time branches, namely Norwalk, Norwich, Hamden, Waterbury, Bridgeport, and Wethersfield. In addition, the Governor is expanding services at the Northwest/Winsted, Putnam, Willimantic and Stamford satellite branches by adding one additional day per week.

The Governor's capital budget also includes an additional \$17 million in bond funding for FY 2006-07, in addition to \$10 million which was previously authorized, to fund continuing improvements to the information systems of the Department through the Real-Time Online Registration (RTOL) and the Reengineering of the Regulation of Driver (Re-ROD) Programs. These systems aim to streamline the access of information and provide for the integration of stand-alone department systems.

Child Protection Registry

In an effort to improve the safety of Connecticut's children, Governor Rell is proposing legislation to create a Child Protection Registry. Parents and schools will be able to protect minor children by registering electronic contact points with the Department of Consumer Protection. Contact points would include e-mail addresses, instant message identities, wireless telephones, pagers, and fax numbers. Persons would be prohibited from sending any message to registered contact points that advertise or link to advertising for any product or services that a minor is prohibited by law from purchasing, viewing, possessing, participating in, or otherwise receiving. The program provides for fines and penalties as well as damages under civil action for violations under the proposed legislation. The adjusted budget provides \$100,000 in funding for this initiative.

Registering Homemaker Companions

Currently there is no oversight of those providing homemaker services (such as assistance with personal hygiene, cooking, household cleaning, laundry and other household chores) and/or companion services on a non-medical, in-home basis. To ensure the safety of Connecticut's elderly and disabled population, the Governor's legislative package requires the registration of homemaker-companion agencies, the establishment of a \$300 application and annual renewal fee and a criminal history records check for current or prospective employees. Funding is provided for four positions in the Department of Consumer Protection to run the program and two positions in the Department of Public Safety to conduct criminal background checks.

Criminal Justice Planning Division

In the 2005 session, the legislature provided \$200,000 in funding and 6 positions in order to promote a more effective and cohesive state criminal justice system. Public Act 05-249 established a new office and identified the duties thereof. Section 61 of Public Act 05-3 of the June Special Session transferred the funds and positions to the Office of Policy and Management and established the new division within OPM. The Governor's budget maintains support of this initiative.

Collection and Analysis of DNA Samples

In compliance with Public Act 03-242, effective October 1, 2003, the Department of Public Safety began the

collection of DNA samples of all individuals convicted of a felony or misdemeanor for inclusion in the forensic laboratory data bank. Currently, four federal positions are aiding the lab in addressing both the backlog of samples to be collected and analyzed for entry into the DNA databank and regular evidentiary DNA cases from police departments and troops awaiting DNA analysis. The Governor's adjusted budget provides approximately \$258,000 to pick-up the four expiring federal positions, adds one new position to mitigate the backlog and funds the cost of required DNA kits.

Education

The solution to adult problems tomorrow depends in large measure in how our children grow up today."

- Margaret Mead, American Anthropologist (1901-1978)

Job creation and retention is one of the more pressing goals in Connecticut. According to Connecticut's State Department of Labor (DOL) report, *Connecticut's Industries and Occupations, Forecast 2012*, Connecticut's future job growth is not expected to be as robust as national job growth. Projected job growth will be in "professional and technical occupations" where post-high school training and high levels of technical skills will be de rigeur.

Connecticut's challenge, therefore, is to make sure tomorrow's workers have the education they, and our economy, need to succeed. Of equal importance, to chart the course for Connecticut's economic future, the State will need to embrace a whole new way of "carrying out" its economic development so the workers of tomorrow will have the life-affirming and quality jobs that will be required for Connecticut to thrive well into the 21st century.

Investing in the Early Education of Young Children

"Unless the educational level of African Americans and particularly Hispanics can be raised, over the next 20 years, when the economy will require an increasing number of workers with skills learned in college, the country will experience a significant growth in the population that has not graduated from high school... In the past, educational inequality was a problem primarily for those individuals who ended up with low levels of education; increasingly it will be a problem for everyone."

– Thomas Bailey, George & Abby O'Neil Professor of Economics and Education and Director of the Institute on Education and the Economy

The future health of Connecticut's economy depends on its ability to create more college and post-secondary school graduates. By 2012, almost half of the state's new jobs will require post-high school training. As baby boomers retire, more of the workforce will be from minority groups. Unfortunately, even with Connecticut's statewide academic success, there are still significant achievement gaps between the state's white and minority students. In order for the state's economy to prosper in the future, this achievement gap must be eliminated.

With the assistance of the Early Childhood Education Cabinet, Governor Rell considered various strategies to increase academic achievement for disadvantaged students. The data from the Perry Preschool Project illustrated how quality preschool programs could create positive social, academic and economic outcomes for poor and minority youngsters. This study found that at age 40, after a quality preschool experience, the students were more likely than their peers to:

- Have avoided committing crimes;
- Have graduated from high school;
- Have held onto a job ;and
- Have earned higher salaries.

As the Perry Preschool study demonstrates, preschool, while not a panacea for all of the social ills of poverty, is a critical part of a strategy to address these problems and prepare disadvantaged youngsters for school. The Early Childhood Education Cabinet, which Governor Rell chairs, embraced this vision. Governor Rell believes that preschool will help children born in poverty to emerge from economic disadvantage to become vibrant and dynamic workers in tomorrow's economy.

Providing every disadvantaged youngster with a preschool slot cannot be accomplished in the short term. From a practical view, creating the physical and personnel infrastructure necessary for the approximately 18,000 children who do not have access to preschool, will need to be phased in. By concentrating on the almost 4,000 children in the state's poorest and most academically challenged communities, Governor Rell's budget will begin the process of creating more preschool slots for the state's neediest children. Governor Rell's proposed budget will:

- Increase, the number of inner city children in preschool by 500;
- Add funding for five more communities to add preschool programs;
- Stabilize the financial situations of state-funded child care centers; and
- Initiate the creation of a true kindergarten assessment tool.

In addition to increasing the number of preschool slots from about 7,000 to about 7,500, Governor Rell's preschool initiatives also address quality issues. Too often, preschools are plagued by high turnover (average 15% annually) caused by low wages (\$24,000 average annual salaries for workers in private settings) and other working condition issues. In the budget, Governor Rell has included \$4 million to increase the per child School Readiness slot subsidy from \$7,750 to \$8,025. Additionally, the budget includes \$400,000 in scholarship funding to help preschool workers improve their childcare credentials. With this additional funding, preschool finances should become more stable, wages for employees could increase, and the worker credentialing could improve. All of these changes should improve preschool quality.

Although there is anecdotal evidence that a significant number of children do not arrive ready to learn in kindergarten, Connecticut does not have an assessment tool available to measure children's kindergarten readiness. Within Governor Rell's budget, there is \$400,000 to begin the process of creating a kindergarten readiness tool. This tool will assess the academic, social and developmental skills necessary for children to succeed in kindergarten.

Another key component of Governor Rell's commitment to improve educational quality is her continuing, and increasing, financial investment in alternative public school options such as magnet and charter schools. Next year, almost \$120 million will be spent on these innovative schools, which are concentrated primarily in urban locations. Approximately 20,000 children, many of them from disadvantaged backgrounds, will attend schools with unique programming designed to help them succeed academically.

For Charter Schools, Governor Rell is recommending approximately \$1.7 million for the expansion of seats for those schools that have natural grade growth. If these schools have more than six grades, the current school enrollment ceiling of 300 students will be allowed to increase to 400 students. Next year, this change will allow the Charter Schools to educate about 215 more urban students.

With more children, especially children who reside in the state's poorest communities, in quality preschool, Magnet and Charter school programs, it is expected that the achievement gap will narrow and that more disadvantaged children will achieve academic proficiency, graduate from high school, matriculate in college and become the productive workers that our state's future economy needs.

It is clear that an educated workforce will be needed if Connecticut is to thrive economically. While financing the Early Childhood Initiative is critical, it is only the first step in the education continuum. This financing continuum includes numerous education grants, from the Education Cost Sharing grant, the state's largest grant, to much smaller grants. To create a clear education financing strategy, Governor Rell has appointed a Commission on Education Finance (CEF). By the end of this calendar year, CEF is expected to present a series of recommendations about how to improve the manner in which the state finances its education programs. Financing education and assuring that Connecticut's students receive a first class education is vital to the state's economic future.

HIGHER EDUCATION

Keeping with her commitment to ensure an educated state workforce of the future, Governor Rell has invested wisely in both the operations and infrastructure of the state's public higher education colleges and universities. Since Governor Rell took office, the University of Connecticut (UCONN), Connecticut State University (CSU), and the Community Technical Colleges (CTCs) have all had about 7.5% increases in their block grants. These generous increases have accompanied significant investments in capital projects throughout the public higher education system.

GENERAL OBLIGATION BOND ALLOCATIONS			
In \$ Millions	Actual SFY '05	Estimated SFY '06	Recommended SFY '07
UCONN	\$100.00	\$79.00	\$89
CSU	\$80.00	\$44.00	\$131
CTCs	\$70.00	\$62.00	\$101
TOTAL	\$250.00	\$185.00	\$321.00

During this time, both CSU and the CTCs have had significant increases in their annual bond authorizations. From FY 2004-05 to FY 2006-07, CSU's bond authorizations increased by almost 64% and the CTCs went up by almost 43%. UCONN's authorizations increased \$10 million from FY 2005-06 to FY 2006-07.

Significant higher education projects that are expected to be submitted to the State Bond Commission this year include:

- \$45.4 million for expansion of Housatonic Community-Technical College in Bridgeport.
- \$3.25 million for ongoing development of Norwalk Community-Technical College.
- \$2.7 million for improvements to Asnuntuck Community-Technical College in Enfield.
- \$9.1 million for design of an \$83 million new Fine Arts Center at Western Connecticut State University in Danbury.
- \$18.3 million for a new parking garage at Eastern Connecticut State University in Willimantic.
- \$2 million to design various improvements at Southern Connecticut State University in New Haven.
- \$1.9 million for design of a new \$22 million classroom building at Central Connecticut State University in New Britain.
- \$75 million for construction of a consolidated campus for Three Rivers Community College in Norwich.
- \$89 million for the University of Connecticut per the 21st Century UCONN program.

In addition to the budget's continuing investment in the operating and capital programs for the constituent units of higher education, Governor Rell's budget also targets additional funding for

HIGHER EDUCATION OPERATING BUDGET CHANGES				
In \$ Millions	Actual SFY '05	Estimated SFY '06	Recommended SFY '07	% Change 05-'07
UCONN	\$197.00	\$205.00	\$212	7.7%
CSU	\$138.00	\$144.00	\$148	7.5%
CTCS	\$127.00	\$134.00	\$137	7.5%
TOTAL	\$462.00	\$483.00	\$497.10	7.6%

an innovative program for students who want to study and later work in Connecticut, particularly in fields where there is a shortage of workers (such as math and science teachers). The Department of Higher Education budget includes \$3 million dedicated to this endeavor, half of which, or \$1.5 million, will be made available to students who plan on becoming math or science teachers. The new Department of Business and Employment will decide what other fields would be included in this program.

Continuing Our Commitment to Connecticut's Neediest Citizens

"Giving frees us from the familiar territory of our own needs by opening our minds to the unexplained worlds occupied by the needs of others."

- Barbara Bush

Meeting the Needs of DMR Clients

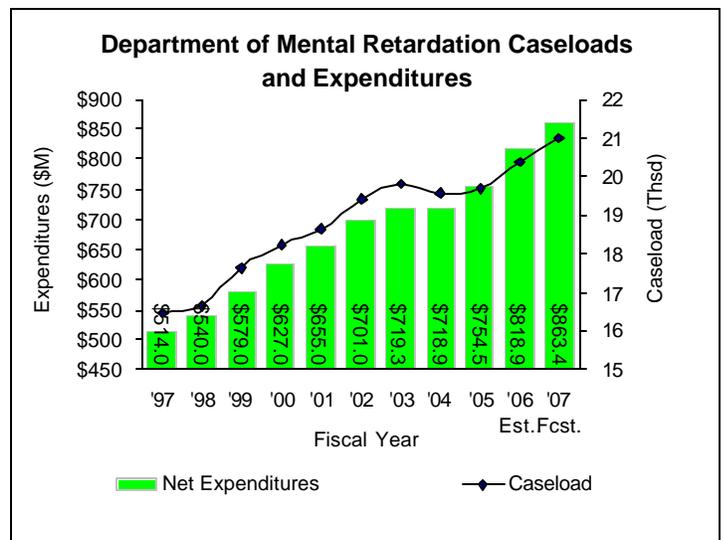
Governor Rell is continuing her multi-year commitment to meeting the needs of hundreds of families and clients waiting for services from the Department of Mental Retardation (DMR).

Continuation of the Wait List Initiative

The Governor's budget continues the funding to serve additional clients, allowing 150 new cases to be served from the Waiting List in FY 2006-07. Funding of \$12.7 million in FY 2006-07 will help DMR maintain the settlement agreement under the *ARC CT v. Connecticut* lawsuit.

Providing Resources for High School Graduates and Ageouts

Persons with mental retardation living at home are eligible to participate in their local public school program until they graduate or turn 21. Their participation in these day activities not only contributes to their educational experience but also allows their parent or caregiver to maintain employment in order to support the family. Funding for children with mental retardation who require special day and/or residential programs is provided by the Local Education Agency (LEA) and the Department of Children and Families (DCF). When these clients reach a certain age, usually 21, and "age out" of those particular systems, funding must be provided to DMR to continue day and/or residential programming. For FY 2006-07, the Governor proposes adding \$2.1 million so that these important services can be delivered to individuals who are aging-out of current placement programs.



Providing More Appropriate Services

DCF administers a voluntary services program for children at risk of formal commitment to DCF. Because some portion of the children served by DCF in the voluntary services program have mental retardation in addition to a behavioral health diagnosis, the two agencies agree that those children may be served more appropriately by DMR's provider network. To implement this initiative in the biennial budget, \$11.8 million was transferred from DCF to DMR for FY 2005-06 with \$13.1 million to be transferred in FY 2006-07. The Governor proposes that an additional \$3.6 million currently budgeted under DCF be reallocated in FY 2006-07 to reflect the transfer of responsibility to DMR for directly serving additional individuals in the DMR service network.

Investing in Behavioral Health

The Governor is continuing her commitment to strengthen behavioral health services in the State. Several

initiatives are already moving forward, including the Behavioral Health Partnership and the Supportive Housing initiative. In addition, a number of new initiatives are being proposed by the Governor.

Behavioral Health Partnership

Nationwide, many states are struggling with ensuring access to care for acute behavioral health conditions and the inability to provide enhanced services. While Connecticut's Medicaid Managed Care program has been extremely successful since its start in the mid-1990s, additional work is needed to appropriately address the area of behavioral health care.

Under Governor Rell's continued leadership, the DCF and the Department of Social Services (DSS) began the process, effective January 1, 2006, of restructuring the existing managed care system, leading to a better coordinated, more efficient managed health care system for children with behavioral health care needs. Behavioral health services will be handled through the Behavioral Health Partnership, an innovative collaboration to reduce service system fragmentation and implement more community-based programs. This restructuring will result in a distinct behavioral health service for the approximately 310,000 individuals enrolled in managed care under DSS' HUSKY program as well as children in DCF's Voluntary Services Program.

Supportive Housing "Next Steps" Initiative

Last year, Governor Rell proposed a major investment to expand supportive housing in Connecticut by 500 units. Supportive housing combines affordable rental housing with individualized health, support and employment services and has been shown to be a cost-effective solution to chronic homelessness. For the 2005-07 biennium, Governor Rell proposed funding 350 units through property development and another 150 units through existing, privately owned apartments. The initiative was funded at \$1.6 million in FY 2005-06 and \$6 million in FY 2006-07, with the annualized cost estimated at \$12 million. The Governor has maintained funding for all 500 units in her budget proposal.

For the 150 existing units, a Request for Qualifications (RFQ) for services in the units was issued in July 2005 by the Department of Mental Health and Addiction Services, in collaboration with the Department of Social Services. Awards were made to 19 service providers; in addition, 39 DSS rental assistance certificates were awarded to 7 organizations. For the 350 newly developed units, an interagency workgroup has developed a Memorandum of Understanding and is releasing a Request for Proposals (RFP) in February 2006 for the first 150 of the 350 units to be developed. This initiative will create stability for vulnerable populations, decrease their use of acute and expensive health and mental health services and set them on the road to a productive life.

Adult Mental Health Initiatives

The Governor's budget also continues \$5 million in funding for many new mental health community initiatives begun in FY 2005-06 that aid in the discharge of individuals from inpatient care, where appropriate, and provide intensive supports for those at risk of admission/readmission. These include the "Second Initiatives" programs originally funded with Community Mental Health Strategy Board money, the creation of a special discharge fund to support community services for difficult to place clients, additional contracts with general hospitals for acute care services and \$135,000 to develop an interactive, comprehensive web-based inventory of services to assist individuals with locating services.

In addition, \$4.3 million is included to annualize the costs related to including assertive community treatment teams and community support services under the state's Medicaid program.

The budget also provides \$2.1 million in the General Assistance Managed Care account to support a

projected increase in caseload of 3.3%.

To continue the very successful Transitional Case Management Program previously funded through a federal Justice Assistance Grant, \$400,000 is being recommended in the Governor's budget. This program provides case management services for offenders with substance abuse disorders transitioning from correctional facilities to the Hartford and Waterbury areas.

Two positions are also recommended to support the development and implementation of a client information system (funded from a new \$4.7 million bond authorization). This system will be designed to maintain patient safety by reducing the possibility of medical and medication errors, thereby enhancing the quality of care and assuring continued compliance with the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

Rate Increases for Long-Term Care Facilities, Residential Care Homes and Private Providers

In order to continue to strengthen the state's long term care system and the private provider network, the Governor is proposing additional increases in these areas.

Through Governor Rell's leadership, effective this past July, the federal Centers for Medicare and Medicaid Services (CMS) approved the nursing facility user fee, commonly referred to as the Nursing Home Provider Tax. This initiative allowed Connecticut to maximize federal funding while providing a substantial rate increase to both nursing homes and other health care providers. While the provider tax allowed for rate adjustments in FY 2005-06, the appropriation provided no inflationary increases for FY 2006-07. With operating costs continuing to increase as homes struggle to serve our most vulnerable and, elderly population, Governor Rell is proposing that rates for nursing homes, Intermediate Care Facilities for the Mentally Retarded and Residential Care Homes be increased 2% effective October 1, 2006. Approximately \$19.1 million has been budgeted for this rate increase in FY 2006-07.

The Governor's budget also builds on last year's increases for private providers by including an additional \$17.1 million for a 2% cost of living increase beginning in October 2006. This initiative will be funded with \$9.1 million in new appropriations, as well as \$8 million in contingency needs funding that had been appropriated from the 2005 fiscal year surplus.

Combined with last year's initiative, Governor Rell's proposal represents an unprecedented 6% increase for these dedicated providers within a 15 month period.

Maximizing the Use of State Dollars

Despite the high surpluses of the current year, the Governor continues to recognize the need to stretch our state dollars to maximize the services provided. Specifically, the Governor is: (1) proposing to implement a premium assistance initiative under the HUSKY A program, whereby the state can take advantage of coverage already provided by employers; (2) continuing to wrap around the federal benefits provided under the Medicare Part D prescription drug program; (3) picking up a federal grant under the Children's Trust Fund in order to generate significantly more revenue; and (4) improving self-sufficiency of families by strengthening the state's child support enforcement laws.

Premium Assistance

The Governor proposes implementing a premium assistance strategy for HUSKY A families, which will allow Connecticut to utilize state Medicaid funds to help families purchase health insurance from their employers. Currently, there are a substantial number of state assisted clients receiving full HUSKY A benefits who are employed but who choose not to participate in their employer sponsored health plans due to high co-pays, premiums or other cost sharing requirements. Under this initiative, DSS will develop a "wrap around" program that will coordinate coverage between the Medicaid program and private insurance plans, assuring

no loss of benefits and no change in coverage. A premium assistance program would reduce Medicaid expenditures by ensuring employers contribute to health care coverage for the HUSKY A population, thereby maximizing the efficiency and effectiveness of the state's precious health care dollars.

Under federal rules, states may establish and modify a premium assistance program under Section 1906 of the Social Security Act by amending the existing Medicaid state plan. While no waivers are currently anticipated, federal rules require that states must ensure that Medicaid clients who participate in a premium assistance program receive the same benefits as other Medicaid clients.

Due to the complexity of this initiative, implementation is expected to occur in FY 2007-08 with client enrollment staggered throughout the year. The budget assumes costs of \$500,000 in FY 2006-07 for administrative efforts needed to implement the program, with projected savings in FY 2007-08 of \$5.0 million.

Medicare Part D

The new Medicare Part D program was established under the federal Medicare Prescription Drug, Improvement and Modernization Act of 2003. For the first time, prescription drug coverage became available to all seniors and individuals with disabilities who are eligible for benefits under the Medicare program effective January 1, 2006.

To ensure that ConnPACE enrollees are not negatively impacted by Medicare Part D, Governor Rell proposed, and the legislature approved, legislation last year that provided for a ConnPACE wraparound of the Part D benefit. As a result, no ConnPACE recipient will pay more for medications than the current \$16.25 co-pay and \$30 annual registration fee. (Depending on a client's income and asset level, an enrollee may actually pay less than the traditional ConnPACE co-pay.) With 17 Medicare Part D prescription drug plans and 44 different options to choose from, DSS has been tirelessly working to ensure that clients will be enrolled in the plan that best meets their prescription needs.

Under Medicaid, there are an estimated 66,250 low-income persons who are considered "full benefit dual eligibles" in that they are eligible for full medical benefits under Medicaid and they also qualify for Medicare. To ensure no break in coverage, full duals were auto-enrolled by the federal Centers for Medicare and Medicaid Services (CMS) into a number of Medicare Part D prescription drug plans effective January 1, 2006. These full duals will receive Part D covered drugs through Medicare, while Medicaid will continue to cover drugs not covered by Part D, such as certain over-the-counter drugs.

This past December, the Governor signed into law legislation passed by the General Assembly in special session that supplements the federal Medicare drug benefit for clients of Medicaid and ConnPACE. The legislation continues the accustomed level of medication coverage and out-of-pocket costs for Medicaid and ConnPACE clients, covering federally-prescribed co-payments to ensure that these vulnerable populations continue to have access to their vital medications. To help smooth the transition of drug coverage from Medicaid and ConnPACE to the new Medicare benefit, the legislation also set aside \$5 million to cover drugs not covered by the Medicare prescription drug plans. While the actual implementation of Medicare Part D beginning January 1, 2006, has proven to be problematic with respect to the coordination between Centers for Medicare & Medicaid Services (CMS), the prescription drug plans, the pharmacies and the state, Governor Rell has taken the lead to ensure that Medicaid and ConnPACE clients receive the medications they need. During this initial implementation period, the Governor has authorized DSS to pay pharmacies directly when federal Medicare eligibility problems would otherwise prevent the state's low-income elderly and people with disabilities from getting their prescription drugs. DSS is continuing to work closely with CMS officials to resolve the eligibility problems, which are being experienced across the nation as states transition their pharmacy assistance clients to the new federal program.

In order for the federal government to finance the new Part D prescription benefit, federal law calls for a "phased down state contribution" (often referred to as the "clawback") under Medicaid. The clawback is the state's monthly payment to the federal government to defray a portion of the Medicare drug expenditures for

full benefit dual eligibles whose Medicaid drug coverage is now assumed by Medicare Part D. In Connecticut, the clawback amount is projected at \$51.5 million in FY 2005-06 and \$138.6 million in FY 2006-07.

Children's Trust Fund

The Children's Trust Fund program, Nurturing Family Network, provides support and parent education services to first time families with newborns who are identified as being at risk of abuse and neglect. Although these types of services could be claimed as a Medicaid expense, these funds are currently used as a match for a federal leverage grant and cannot be simultaneously claimed for federal reimbursement under Medicaid. To address this issue, the Governor's budget includes \$225,000 in FY 2006-07 to replace the federal leverage grant, which will allow the state to receive \$2.6 million in additional revenue. In future years, annual state expenditures of \$300,000 will allow the state to receive \$3.5 million in federal revenue per year.

Strengthening Child Support Enforcement

Governor Rell is proposing to strengthen the state's ability to ensure that parents provide the necessary financial and medical support to their children. The Department of Social Services administers the state's child support enforcement program in cooperation with the Office of the Attorney General and the Judicial Branch.

To improve the self-sufficiency of families through increased financial and medical support, the Governor is proposing legislation which will:

- Enhance the state's ability to locate and investigate non-custodial parents by authorizing access to cell phone and financial records;
- Increase the amount of money going directly to families by mandating that payments of all forfeited bonds be distributed consistent with federal law and prohibiting HUSKY contribution orders if the non-custodial parent is low-income;
- Expedite receipt of funds by clients by requiring the implementation of electronic funds transfer;
- Increase collections by reducing the significant backlog of *capias* orders through various changes;
- Enhance equity by applying the same requirement of support for high school students regardless of whether they are living with a parent or another custodial party and including assets in the determination of support obligations of incarcerated obligors;
- Ensure consistency in the law by authorizing recovery of genetic testing costs from all fathers who are not low-income and applying the 3-year limit on past-due support to all cases where paternity is established and the child is born out-of-wedlock; and
- Ensure that an obligor does not benefit from a criminal act against the child or custodial party by prohibiting the modification of an order if the obligor is incarcerated for a crime committed against the child or custodial party.

Focus on Prevention

Given the long-term benefits of preventive services, the Governor is proposing several initiatives to strengthen preventive services in the state including immunizations, newborn screening, dental initiatives and elderly nutrition services.

Over \$1.9 million in new funding is being recommended under the Department of Public Health (DPH) to assure compliance with recent recommendations by the Advisory Committee on Immunization Practices (ACIP). A new, more effective combination vaccine will be purchased and distributed to comply with the call for the routine immunization of adolescents aged 11-18 for Pertussis. This new vaccine has cost implications of \$346,950. Another \$1.6 million will support the routine immunization against Meningococcus for children age 11, while continuing the vaccination of college entrants; a practice formerly funded by a Medco settlement that is about to run out.

An additional \$155,000 is being recommended to support increased costs for newborn screening activities incurred by DPH. Costs have increased dramatically with the addition of the Tandem Mass Spectrophotometer which can perform 42 tests with one blood sample. Before the purchase of this new machine, screens were added through legislative change and DPH had the capacity to test for 8 newborn conditions. This new technology replaced outdated methodologies changing the way the tests were performed ensuring better accuracy in the form of truer positives and fewer false positives.

This additional testing resulted in additional findings of infants at risk for metabolic or genetic diseases and necessary referrals for follow up care. A total of \$124,000 is being recommended to support the costs of additional referrals to genetic disease counselors resulting from the increase in the numbers of genetic disease tests being performed.

In order to strengthen the existing program of dental care for children on HUSKY, Governor Rell is proposing two new dental initiatives. The first, "Access for Baby Care" (ABC) Program will be implemented on a pilot basis with \$1.85 million in funding in FY 2006-07. It is expected that access to dental care will increase under this initiative as the child's current pediatrician would examine an infant at regular intervals before the age of three and apply topical fluoride varnishes. Those children who require dental care would be referred to the dentist for restorative work. The topical fluoride would not only protect the primary teeth but would be added into the developing adult teeth so that when the child's adult teeth come in they would be more resistant to tooth decay. As part of this pilot program, the mother and child would also be taught better oral hygiene practices.

The second initiative being proposed by Governor Rell would allow as a Medicaid and State Children's Health Insurance Program (SCHIP) (HUSKY) covered service, sealant placement on eight posterior teeth (premolars) that are not currently covered. Sealants prevent tooth decay which, if not treated, can progress to more extensive disease. The American Dental Association supports the use of sealants as an effective means of promoting good public health. Additional funding necessary to support this initiative is estimated at \$1.1 million in FY 2006-07.

Another important area of concern is the provision of nutrition services for the state's elderly. The Elderly Nutrition Program provides nutritionally balanced meals, as well as nutrition education, to individuals age 60 years and older and their spouses. The Governor's budget includes an additional \$500,000 to offset recent federal reductions and provide additional funds to address rising food costs, fuel costs and the increased demand for these services as the older adult population continues to grow.

Serving Connecticut's Children

Considerable new funding is being proposed by Governor Rell for the Department of Children and Families (DCF). In total, the FY 2006-07 budget will provide a net increase of \$24.7 million for new and expanded programs for our children. This funding is necessary for the state to successfully exit from the *Juan F.* consent decree, to provide necessary funding for the *Emily J.* settlement agreement, and to initiate several new programs for children who become involved with the Juvenile Justice System.

The Juan F Consent Decree

In order to continue the progress that has been made under the *Juan F.* consent decree, additional funding is recommended in the Governor's Budget for abused and neglected children.

- The main budget initiative for DCF is the development of new group homes. These facilities will provide a home for DCF involved children in their communities with the provision of clinical services. A total of 155 beds should be operational by the end of FY 2005-06 with another 91 beds being developed in FY 2006-07.
- Funds are also provided for DCF to restructure their Emergency Shelter Services. It is anticipated that smaller community based assessment centers will provide more clinically appropriate services for this population of children and youth who are demonstrating increased intensive and complex clinical issues.
- DCF will initiate a new program of Intensive Family Reunification. The program will work with families during the initial case evaluation period to stabilize the home, allowing for immediate safe reunification. It is anticipated that participation in this program will prevent extensive foster care placement of many children resulting in savings to the State and a better outcome for the family.
- Additional funds of \$500,000 are provided to increase Intensive In-Home Services beyond the \$600,000 increase already in the budget for FY 2006-07.

The Emily J Settlement Agreement

The Governor's budget recommends funding all provisions of the *Emily J.* Settlement Agreement approved by the General Assembly in the 2005 session. An additional \$3.5 million is recommended in DCF to expand the initial Hartford based programs statewide. The State commitment to the *Emily J.* Settlement agreement in DCF will total just over \$6.0 million.

In the Judicial Branch, the Governor's budget includes \$1.84 million for compliance with the *Emily J.* Settlement Agreement. These funds will ensure that mental health services will improve both in the community-based girls' detention facilities and alternatives to detention community-based facilities.

This additional funding will allow the Judicial Branch to provide the following:

- Additional mental health clinician hours will enhance group programming for substance abuse treatment and gender specific issues;
- Presence of licensed mental health professionals at daily meetings on all children admitted;
- Mental health training for Juvenile Detention Officers and Classification and Program Officers;
- Development of mental health evaluation processes for every child in detention;
- Expanded medical treatment, particularly to female detainees, reflective of a greater need of

- comprehensive health care; and
- Equalization of nursing services statewide.

Other Improvements to the Juvenile Justice System

As part of the Governor's Initiative to Combat Urban Violence, funds are recommended in DCF to establish two new Community Diversion Boards in Bridgeport and New Haven, and to fully fund the Community Diversion Board in Hartford. These Boards hold children accountable for their actions by requiring restitution to their victims as well as addressing the needs of children by providing mental health and/or substance abuse services.

In addition, several programs are being recommended to better serve DCF clients that are involved in the Juvenile Justice System.

A total of \$1.0 million is recommended for additional Intensive In-Home services for children and youth involved in the Juvenile Justice System. DCF anticipates 100 Family Functional Therapy (FFT) slots would be purchased to serve 250-300 children and youth a year.

Juvenile Justice Community Supports will fund two initiatives:

- The Educational Reentry Programs will establish a partnership with the schools and community service providers, to offer comprehensive educational transition, reintegration and support services for delinquent 12-17 year olds to prevent truancy, suspensions and expulsion. Funds are recommended for two programs, one starting in July 2006 and one starting in January 2007, with each program serving 45 children on an annual basis. Specific services consist of education advocacy, education assistance, after-school programming and Community Collaborative programs.
- The School-Based Juvenile Delinquency Program will establish a Balanced and Restorative Justice (BARJ) Program that encompasses community safety, individual accountability and skill development. The goal of the program is to reduce recidivism and increase pro-social behaviors. Specific services consist of substance abuse prevention, life skills/employment and community service/peer leadership.

The Governor's Budget also recommends new programs to serve girls involved in the Juvenile Justice System. Programs that deal with gender specific issues of trauma have been found to be most effective in serving girls.

- To serve the most troubled girls in the Juvenile Justice (JJ) system a small, self-contained, secure state run facility will be developed.
- In the major geographical areas of the state:
 - Three new group homes will be developed to serve 4-6 girls each which will augment one current home; and
 - New Specialized Treatment Foster Care slots are being recommended to serve approximately 12 JJ girls across the state in addition to one current program.

Funds are provided in the Judicial Branch to continue three federally funded juvenile programs with General Fund dollars. These programs include two six bed programs for Court Diversion Initiative for Girls, 225 slots for Multi-Systemic Therapy for juvenile offenders, and 224 slots in Juvenile Risk Reduction Centers.

To continue with plans to replace the Connecticut Juvenile Training School with smaller community based facilities, \$5 million in bond funds are recommended to initiate the planning and acquisition of new Treatment, Reintegration and Education Centers (TREC). In addition, \$1 million in bond funds are recommended to build a small, self contained, secure, state facility for these girls.

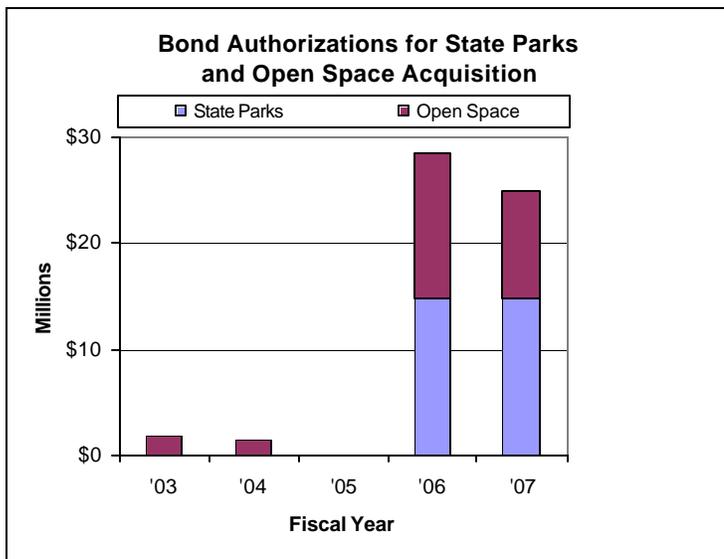
Valuing our Environment

Governor Rell is continuing the state's obligation to preserve and enhance our environment and to maintain our state parks. The enacted FY 2006-07 budget includes \$15 million in bond funds to enhance and repair facilities and grounds at our state parks and \$10 million to continue our commitment to preserve open space.

Governor Rell is also proposing legislation to establish a Connecticut State Park Foundation. The purpose of the foundation will be to facilitate the creation of public/private partnerships that are designed to support the state park system.

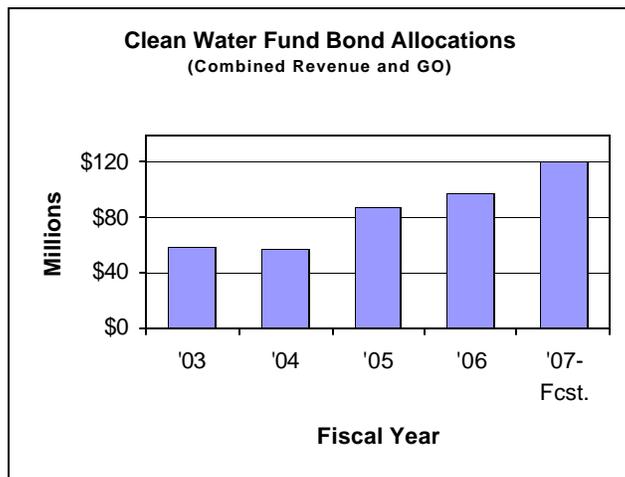
The Connecticut State Park Foundation Council will be established to administer the foundation. The council will be composed of the commissioners of the Departments of Environmental Protection and Public Works, the executive director of the Commission on Culture and Tourism, and eight additional members appointed by the governor. The council shall solicit and accept funds and in-kind services, on behalf of the Connecticut State Park Foundation. Funding will be used for programs and projects that support the infrastructure and operations of Connecticut's state parks and forest recreation areas.

To further enhance our continuing efforts to maintain Long Island Sound and our lakes and rivers as clean and viable systems for animal habitats and recreational purposes, \$100 million in revenue bonds and \$20 million in general obligation bonds through the Clean Water Fund are



available for FY 2006-07. Following Governor Rell's recommendation in January the State Bond Commission allocated \$87 million in Clean Water Funds, representing the largest single commitment to a clean rivers, lakes, and Long Island sound in four years. Governor Rell's approach has been, and will be, to provide the necessary resources to the Department of Environmental Protection and insist that clean water projects be funded strictly on their merits

The enacted budget for FY 2006-07 also includes more than \$11 million in bond funds for various Department of Environmental Protection programs, as recommended by Governor Rell.



Capital Investments

CGS section 3-21 provides that before the General Assembly may pass any bonding bill, and before the State Bond Commission can authorize issuing any new bonds, the State Treasurer must certify that it will not cause the State to exceed the debt limit. The debt limit is 1.6 times General Fund tax receipts or revenue estimates.

Governor Rell is recommending an increase in General Obligation (GO) bond authorizations, in addition to those already enacted by the General Assembly, in the amount of \$130.7 million for FY 2006-07. The increase will bring the total amount of FY 2006-07 GO authorizations to \$1,430.4 million.

The Governor's recommended midterm budget adjustments will keep the state well below the 90 percent statutory bond limit. Including this capital budget submission, the state's debt incurring margin is estimated to be more than \$4 billion as of July 1, 2006 or about 77 percent of the overall cap.

The Governor is also recommending an increase in Special Tax Obligation Bond authorizations of \$70 million for FY 2006-07 for strategic transportation projects. These projects include the New Britain-Hartford Busway, the New Haven-Hartford-Springfield Commuter Rail Line, as well as bus service between the new line and Bradley International Airport. Projects along the New Haven Line include a new West Haven rail station, branch line improvements, parking improvements and rehabilitation of rail coaches. Special Tax Obligation Bond Authorizations for FY 2006-07 will total \$344.4 million. In addition, the Governor proposes reconfiguring the multi-year authorizations for the New Haven line rail cars to take advantage of economies of scale.

School construction authorizations for FY 2006-07 are \$675 million. This is the result of the continued demand at the local level, especially in large urban centers, the magnet school program and inclusion of the Connecticut Technical High School System in the program as well as the continued impact from the school construction financing conversion. The school construction authorizations amount to nearly half of the total GO authorizations for FY 2006-07.

Authorizations for the Community-Technical College System will be increased by \$3.8 million to \$101.7 million for FY 2006-07. The Connecticut State University System authorizations are \$131.2 million for FY 2006-07.

Total education-related authorizations for FY 2006-07 are \$921 million, or 64 percent of total GO authorizations.

Other significant FY 2006-07 GO bond authorizations enacted include \$20 million for the Small Town Economic Assistance Program, \$10 million for Farmland Preservation, \$15 million for State Parks, \$20 million for the Clean Water Fund, \$10 million for Open Space, and \$20 million for the Housing Trust Fund. The FY 2006-07 authorizations also include \$100 million of revenue bonds for the Clean Water Fund. At the Governor's recommendation, the Bond Commission allotted \$87 million of Clean Water Fund bonds (GO and Revenue) representing the largest single commitment to clean water in over four years.

Capital Initiatives

The Governor's proposed additions to the GO bond authorizations include:

- \$25 million for remedial improvements at York Correctional Institute in Niantic;
- \$10 million in additional funding for the Regional Fire Training Schools;
- \$17 million in additional funding for the upgrade of information systems for the Department of Motor Vehicles;
- \$25 million to recapitalize programs under the new Connecticut Finance Collaborative;
- \$4.7 million for the Department of Mental Health and Addiction Services for the development of a Hospital Information System;
- \$3.8 million in additional funding for construction of a consolidated campus for Three Rivers Community College;

BUILDING CONNECTICUT'S FUTURE

- \$5 million to initiate the planning and acquisition of new Treatment, Reintegration and Education Centers (TREC); and
- \$1 million to build a small self contained, secure, state run facility for the girls involved in the Juvenile Justice System.

MUNICIPAL AID

Governor Rell proposed budget includes a measure that will result in groundbreaking tax relief for Connecticut's motor vehicle owners with the creation of the Casino Assistance Revenue (CAR) grant. At the same time, she is including major expenditure increases to help educate Connecticut's youngsters. Together, the budget for municipal aid combines an ethos of increased education related expenditures along with lower taxes. From FY 2004-05 to FY 2006-07, overall municipal aid will have increased by over 29%.

Beginning with the upcoming July 2006 personal property tax payment, the tax due on privately-owned Connecticut-registered cars and motorcycles, as well as those vehicles that individuals lease on a long-term basis, will be eliminated. This is an innovative step to eliminate a regressive tax, which will make the state of Connecticut a much more attractive place to live, while reducing the financial burden on the average working family in the state. Municipalities and other taxing districts will receive a CAR grant from the state's casino revenue to offset the revenue loss due to the exemption. This initiative will put \$497 million into taxpayers' pockets without a municipal revenue loss.

While the most important change in the FY 2006-07 municipal aid budget is the CAR initiative, there has been significant growth in education aid. From FY 2004-05 to FY 2006-07, after years of capped and limited growth, the state's education grants are projected to grow about 7.6%.

Specifically from FY 2005-06 to the recommended budget, Governor Rell's budget has increases of about \$25 million in education related grants, including the following:

- \$4 million for Governor Rell's Early Childhood Initiative to increase the number of preschool slots for the state's neediest youngsters; and
- \$9.9 million for magnet schools and \$2.5 million for the OPEN Choice voluntary school choice program as Governor Rell continues her commitment to reduce racial isolation and increase the quality of urban education

As part of the vehicle property tax program, Governor Rell is proposing to transfer funding for the Mashantucket Pequot and Mohegan Grant to the General Fund where it will be renamed the Supplemental Municipal Aid grant. The formula for this grant will remain the same.

A more detailed outline of municipal grants is available in the "Estimates of State Formula Aid to Municipalities."

SUMMARY OF ESTIMATED FORMULA GRANTS TO MUNICIPALITIES			
Grant Program	Fiscal 2005	Estimated Fiscal 2006	Recomm. Fiscal 2007
	\$In Millions		
State-Owned PILOT	72.5	77.9	78.1
College & Hospital PILOT	105.9	111.2	111.2
Supplemental Municipal Aid *	85.0	86.3	91.1
Town Aid Road Grant	20.0	28.0	28.0
LoCIP	30.0	30.0	30.0
Miscellaneous General	19.1	19.3	20.8
Machinery & Equipment	50.7	52.8	53.9
Casino Assistance Revenue Grant	0.0	0.0	496.8
Sub-total - General Government	383.2	405.5	909.9
Public School Transportation	43.1	48.0	48.0
Non-Public School Transportation	3.3	4.0	4.0
Adult Education	16.9	19.6	19.6
Education Cost Sharing	1,563.0	1,619.5	1,626.5
Magnet Schools	67.9	85.5	95.4
Special Education - Student Based	67.1	88.8	90.6
Special Education - Equity	0.0	3.0	0.0
Miscellaneous Education Grants	122.5	133.0	142.5
Sub-total - Education	1,883.8	2,001.4	2,026.6
Total - Formula Grants	2,267.0	2,406.9	2,936.5

* formerly known as the Mashantucket Pequot and Mohegan Fund Grant

Conclusion

Building Connecticut's future requires leadership. It requires vision, responsibility, and discipline. Together we must create a climate in Connecticut that is conducive to job growth, environmental enhancement, and life long learning. We must provide for the neediest of our citizens at the same time we strive to attract and retain those who create jobs. We must continue to restore faith in government.

The Governor's budget provides for future job growth by investing in transportation, offering tax relief that will keep Connecticut competitive and setting the groundwork for new and innovative programs to attract and retain both employers and employees.

It invests in education today so Connecticut can thrive tomorrow.

It spends additional resources for health care and on those who care for our neediest citizens.

It provides for greater commitment to the public safety of Connecticut's families.

And it provides meaningful, equitable and immediate tax relief for virtually every taxpayer in the State.

It is a bold and aggressive agenda for a twelve week session but there is no time to waste.

We must begin building Connecticut's future today.