

GOVERNOR M. JODI RELL
DEFICIT MITIGATION PLAN FOR FISCAL YEAR 2008-2009

OCTOBER 21, 2008



GOVERNOR RELL'S DEFICIT MITIGATION PLAN

Connecticut faces an economic situation unlike any we have ever seen as government leaders, as taxpayers, as parents or as homeowners.

The financial markets are in constant turmoil. The Dow Jones Industrial Average is down 700 points one day – up 900 points another. A year ago the market hit an all-time high of more than 14,000 points. Today it's down about 37 percent from that high.

Once-mighty financial institutions no longer exist. Others have sought refuge through government lifelines. The continuing turmoil on Wall Street has not only affected the thousands of residents of our state who make their living in the financial services industry, it has destabilized the stock prices of some of our largest employers. Medium- and small-sized businesses have been affected as well.

People wonder from day to day whether they will be able to hang on to their jobs. They have watched with anxiety and dread as their savings accounts, retirement accounts, college savings accounts and other investments have dwindled – even disappeared. They have watched neighbors lose their homes to the subprime mortgage crisis. They have seen their plans for retiring in the next year or two suddenly put on hold.

State government is also feeling the fallout. Revenues are declining, even as demand for services is increasing. We have already taken a number of steps to cut spending but we still face a deficit of more than \$302 million in the current year's budget.

This budget gap must be closed. State law demands it, but more importantly simple fiscal prudence necessitates it. That same fiscal prudence requires that we close the gap with real savings.

These difficult financial times demand that we reduce spending this year rather than increase taxes, for we know that raising taxes is absolutely the worst thing we could do for people and businesses in the middle of a recession.

Yes, we face unprecedented challenges. It is a time of great uncertainty – a time of great unknowns. There have already been many difficult days endured and many difficult decisions made. Unfortunately, there will be many more such days – and many more such decisions – ahead.

Earlier this year, as the economic picture began to darken, I took a number of steps to rein in state spending and to keep last year's state budget "in the black." I directed state agencies to cut their gasoline use and told my commissioners to cease all but the most essential spending. I also ordered a hiring freeze and banned out-of-state travel paid for with state funds.

Those belt-tightening measures helped us finish the budget year that ended June 30, 2008, with a small surplus – a total of about \$84 million.

You may remember that around the same time, global oil prices were at or near record highs. Gasoline was more than \$4 a gallon and heating oil was approaching \$5 a gallon. It was unclear when – or if – Congress would give states any help meeting winter heating needs.

I was determined that no one in Connecticut would go cold this winter. No low-income resident or senior citizen would have to choose between heating and eating, or put off filling a prescription because they needed to fill the oil tank instead. Given the outrageous increases in energy prices, I was also concerned

that many middle-income families – families that, in the past, have been donors to food banks and fuel banks – would themselves need help from groups like Operation Fuel this winter.

While oil prices have dropped, the burdens on families remain heavy. Economists say families heating their homes with oil will still pay about 25 percent more this year than last year; families using natural gas will pay about 20 percent more this year.

Now that the heating season has arrived in earnest, we are grateful for the action we took back in the summer to safeguard the people of Connecticut.

As the 2009 fiscal year was about to begin, the national economic storm clouds were truly forbidding. The fiscal problems facing our country were about to explode – and the impact would be felt across the nation, including Connecticut.

State revenues from all sources – income tax, sales tax, corporation tax, casino revenue, etc. – were already showing steep declines. Thus, faced with implementing a budget (passed one year earlier) that was already out of balance by \$150 million, I again took immediate and decisive action.

On June 24 I ordered budget cuts to close the \$150 million shortfall. These rescissions were difficult but necessary. Cutting state programs and services is never easy – no more than families across Connecticut have enjoyed having to cut back on food, energy, vacations or gasoline.

But they have done it – done it because they had to, done it and survived. State government can do the same.

Wherever possible, I tried to make sure that agencies with the greatest public safety or human services roles saw the smallest cuts. Some agencies – such as the Department of Correction – saw no cuts at all. Other major areas of spending, such as aid to municipalities, cannot be cut.

In September our nation's economy suffered its worst decline since the Great Depression of 1929, leading state revenue projections on a further downward spiral and further exacerbating the financial problems facing our state. My budget office was now projecting a new state budget deficit of \$302 million – even after my earlier \$150 million in cuts. (Please see Attachment "A").

Around the nation other states were posting even larger budget deficits – almost all attributable to the chaos on Wall Street. While our deficit pales in comparison (New York: \$4.9 billion; New Jersey: \$3.5 billion; Massachusetts: \$1.2 billion; California: \$22.2 billion), it is of little comfort when tough decisions must be made – and tough they are.

On September 30 I implemented a second round of budget rescissions totaling \$34.4 million. Today I am presenting my Deficit Mitigation Plan to the General Assembly to erase the remaining \$268 million shortfall.

My Plan outlines the revenue changes and spending cuts I have identified to close the budget shortfall in the current fiscal year. It does **not** require new taxes. It does **not** require tapping the Rainy Day Fund. It does **not** require layoffs of state employees. It does **not** impose new burdens on the hard-pressed taxpayers and businesses of our state, who continue to cope with the fallout of a national economic downturn.

It does, however, keep Connecticut's fiscal house in order. Because as I have said many times before, government's highest priority must be to safeguard its residents – and that includes the financial health and welfare of Connecticut families.

A cornerstone of the efforts to mitigate the projected deficit involves identifying revenue due to the state under current law. A settlement will result in additional federal revenue due from reimbursable costs incurred in the operation of our Department of Developmental Services. I am proposing a Tax Amnesty

program that is expected to generate a minimum of \$40 million, based on our prior experience. Also, we expect increased revenue from the Disproportionate Share Hospital program that has been recently identified by the federal government as forthcoming in this fiscal year.

In addition to these new revenues, my plan calls for expanding the abandoned property program to include unclaimed beverage container deposits.

In order to offset the projected deficit, I am also recommending further spending cuts, which include: delaying several new initiatives; changes in our Fleet Vehicle Procurement program; applying reductions to several programs which were funded by prior year surpluses (carry-forwards); returning funds in the Governor's Contingency Fund; identifying areas where appropriations could lapse; and pushing all agencies to become more vigilant in identifying areas where further cutbacks can be achieved.

The difficult economic conditions will not end with this year's budget deficit. Bigger challenges – and with them, bigger changes – are coming. However, I believe we will not only master these challenges but use the opportunities for change to streamline government and make it more responsive to taxpayers.

For times of great challenge also provide unique opportunities to lead. Right now is the perfect time to reaffirm that government serves the people, not the other way around. It is the perfect time to require government to live within its means, just as families are doing each and every day. If I have to choose between cutting a government program or forcing families to pay more in taxes, I will choose to cut government each and every time.

I firmly believe that we will emerge a stronger state, better able to take advantage of economic opportunities and create better, more plentiful jobs in the years to come.

GOVERNOR RELL'S DEFICIT MITIGATION PLAN SUMMARY

10/21/2008

(in millions)

\$	(302.4)	Projected Deficit as of 9/22/08
\$	34.4	Second Round Rescissions Implemented 10/1/08 (see Attachment "C")

REVENUE

\$	157.0	Department of Developmental Services – Cost Settlement of State Facility Rates for 2002 – 2009
\$	13.8	Bottle Deposits
\$	40.0	Tax Amnesty
\$	2.0	Increased Disproportionate Share Hospital Revenue

CARRY-FORWARDS

\$	22.2	Carryforward Reductions
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APPROPRIATIONS

\$	4.8	Reductions in Appropriations
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DELAY NEW INITIATIVES

\$	3.2	New Initiatives - Delay
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OTHER ITEMS

\$	2.0	Governor's Contingency Fund
\$	1.2	Fleet Operations Vehicle Purchase Delay
\$	0.5	Connecticut Independent College Student Grant (Recapture Unused Funds)
\$	14.5	Other Post Employment Benefits Contractual Change
\$	3.1	Reserve for Salary Adjustment Reduction - Decreased Demand on Accrued Leave
\$	0.3	Arena Study Deferral
\$	1.5	Other Expenses - Across the Board Reductions
\$	2.0	Reduce Outside Consultant Contracts Statewide

\$	0.0	Balance*
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* Net change included in the re-estimate for the 10/20/08 Comptroller's Letter (Attachment "B") would indicate a balance of \$1.1 million

DEFICIT MITIGATION PLAN – SECOND ROUND OF RESCISSIONS

Second Round Rescissions - Implemented October 1, 2008

As the nation's economy continued its downward slide, so too did Connecticut's revenue collections. On September 22, 2008, the Office of Policy and Management projected a further decline in revenue of \$151.8 million from the prior month and a General Fund deficit of \$302.4 million. On September 30, 2008 and concurrent with the second quarter allotment of appropriations to agencies, Governor Rell implemented a second round of rescissions totaling another \$35.4 million, with \$34.4 million in the General Fund. For a detailed list of these rescissions, please see Attachment "C".

DEFICIT MITIGATION PLAN - REVENUE INITIATIVES

Department of Developmental Services – Federal Revenue Cost Settlement **\$157,000,000**

Medicaid billing for public intermediate care facilities and group homes operated by the Department of Developmental Services (DDS) has been based on interim per diem rates since 2002, with an expectation that actual rates would be set at a future date and a cost settlement would occur. While a cost settlement was delayed for a number of years due to a lack of necessary data, over the past six months the Department of Social Services and DDS have been working on setting revised rates retroactive to 2002 in order to implement this Medicaid cost settlement. The total additional one-time revenue anticipated in FY 2009 through these efforts is estimated at \$157.0 million. Any ongoing revenue impact for the upcoming biennium will need to be reviewed and assessed over the coming months as more information becomes available. No legislation would be required to implement this proposal.

Unclaimed Bottle Deposits **\$13,800,000**

This proposal would return unclaimed bottle deposits to the State of Connecticut. Since 1980, Connecticut consumers of beer and soft drinks have paid deposits of five cents per container. A significant portion of bottles and cans are never returned, with the beverage distributors keeping the unclaimed nickels. This is unlike other abandoned property, which is transferred to the state for safe keeping. This proposal would make certain that the public's money for the unreturned containers be returned to the state, as are other types of abandoned property, thus ensuring that these resources that belong to the public are returned to them for the public good. Currently, Massachusetts, Michigan, and Maine collect unclaimed bottle deposits. This proposal would become effective December 1, 2008 and is anticipated to yield \$13.8 million in FY 2009 and full year revenue of \$24.4 million in Fiscal Year 2009-2010 ("FY 2010"). This proposal would require legislation.

Tax Amnesty **\$40,000,000**

This proposal would institute a tax amnesty program for a period of 56 days - from May 1, 2009 through June 25, 2009. The program would eliminate penalties and allow for a 25% reduction in interest for taxpayers that remit back taxes. The program would cover all taxes and is expected to yield a net \$40.0 million in FY 2009 after \$2.0 million in expenses related to the program. Previous tax amnesty programs were implemented in 1990, 1995 and 2002. This proposal would require legislation.

Disproportionate Share Hospital **\$2,000,000**

In accordance with the Medicare Modernization Act of 2003, the federal Centers for Medicare and Medicaid Services (CMS) recently notified Connecticut that the state's Disproportionate Share Hospital (DSH) allocation will increase in FY 2009, resulting in \$2.0 million in additional federal revenue. The Medicare Modernization Act increased Connecticut's FY 2003 DSH allocation by 16 percent, with subsequent years remaining at the same level as the FY 2004 allocation until a certain "fiscal year specified." With CMS's recent decision to designate FY 2009 as the "fiscal year specified," Connecticut's DSH allocation will reflect an increase consistent with the 4 percent increase in the Consumer Price Index for all Urban Consumers. This increase of \$4.0 million in claimable expenses will generate an additional \$2.0 million in federal revenue for FY 2009. No legislation would be required to implement this proposal.

DEFICIT MITIGATION PLAN – CARRY-FORWARD REDUCTIONS

These funds have been moved from previous fiscal years into FY 2009. Reductions in these items require legislative action.

Legislative Management – Other Expenses **\$75,000**

This reduction would be an adjustment to the third or fourth quarter allotments for funds carried forward for the Results Based Accountability private contractor.

Office of State Ethics – Information Technology Initiatives **\$383,879**

This reduction will delay the system upgrades for two applications for electronic filing systems that were slated to be upgraded – the Lobbyist Electronic Filing Program and Statement of Financial Interests. The reports will still be filed and available for review.

Office of Policy and Management – Other Expenses **\$165,700**

Funding for Energy Issues is scaled back from the original \$565,000 appropriation to \$399,300. Efficiencies and economies in the Governor’s “One Thing” campaign and in energy data management services to monitor and provide management on energy usage and energy cost in state facilities will result in a savings of \$165,700.

Department of Administrative Services – Other Expenses **\$40,000**

This will defer the funding carried forward for lease appraisals.

Department of Administrative Services – Other Expenses **\$50,000**

This will defer the funding for the microfiche to compact disk project.

Department of Public Works - Rents and Moving Account **\$350,000**

These funds were to provide temporary placements for state tenants at 61 Woodland Street during renovations. However, the funds are not needed this fiscal year.

Department of Public Utility Control –Statewide Energy Efficiency and Outreach **\$3,000,000**

This reduction leaves \$2 million for the program (only \$131,859 was expended in FY 2008).

Department of Environmental Protection - Clean Diesel Buses **\$4,000,000**

This reduction leaves \$1 million for the initiatives begun in Hartford and Hamden and will defer other projects.

Department of Environmental Protection - Griswold Recreational Fields **\$50,000**

This project will be deferred.

Department of Environmental Protection - Storm Drain Filters **\$225,000**

These funds remain after expending the balance to complete a study to determine what would be the best filters to purchase for storm drains. Additional expenditures will be deferred.

Department of Transportation - Transportation Strategy Board **\$559,426**

This reduction will have no immediate impact on projects.

Department of Transportation - Bus Operations **\$5,000,000**

Funding is available due to the deferral of proposed expansions that have not yet been implemented.

DEFICIT MITIGATION PLAN - CARRYFORWARD REDUCTIONS CONTINUED

Connecticut Commission on Culture and Tourism – Statewide Marketing **\$689,936**

The agency will reduce its marketing program.

Department of Economic and Community Development - Small Business Incubator **\$700,000**

The agency will implement a scaled-down program with the remaining \$700,000 that is available to provide incentives for the creation of small businesses.

Department of Economic and Community Development - Biofuels **\$2,500,000**

This is a new program. The reduction leaves \$2.1 million for the disbursement of grants to encourage the expansion of the biofuels industry.

Department of Economic and Community Development - Southeast CT Marketing Plan **\$50,000**

Even with this reduction, the agency will have \$200,000 to implement the plan.

State Department of Education – Other Expenses **\$400,000**

The agency will prioritize funding and scale back certain new projects, including: a Family Resource Study, a Secondary School Reform study, capital improvements at Brainard field, and a secondary school curriculum design and assessment.

State Department of Education – Early Childhood Education Cabinet **\$280,000**

These funds were to pay for a study which can be deferred.

State Department of Education – Longitudinal Data Systems **\$1,500,000**

This reduction leaves \$1.25 million for the program which the agency will prioritize among: the creation of a data warehouse containing all student academic identifying information, the migration of a teachers' certification system from WANG to modern technology, and the development of the system to manage all of this information.

State Department of Education – School Safety **\$2,000,000**

Over the biennium, \$10 million was appropriated for this program. In FY 2008, \$5 million was spent, leaving \$3 million after this reduction.

Connecticut State Library – Arts Inventory **\$75,000**

Even with this reduction, agency will still have \$75,000 to initiate the survey.

Department of Higher Education– Other Expenses **\$100,000**

These funds were to pay for a Strategic Plan for Higher Education, which has never been initiated and can be deferred.

DEFICIT MITIGATION PLAN – REDUCTIONS IN APPROPRIATIONS

The Governor is proposing to de-appropriate the funds in these accounts. The funds are expected to remain unspent through the balance of the fiscal year. This proposal would require legislation.

Governor's Office	\$300,095
<u>Personal Services</u>	\$300,000
<u>Equipment</u>	\$95
Miscellaneous Appropriation to the Governor	\$14,250
<u>Governor's Contingency Account</u>	\$14,250
Secretary of the State	\$95
<u>Equipment</u>	\$95
Lieutenant Governor's Office	\$95
<u>Equipment</u>	\$95
Judicial Selection Commission	\$1,090
<u>Personal Services</u>	\$1,090
State Properties Review Board	\$8,000
<u>Other Expenses</u>	\$8,000
State Treasurer	\$95
<u>Equipment</u>	\$95
State Comptroller	\$95
<u>Equipment</u>	\$95
Department of Revenue Services	\$200,000
<u>Collection and Litigation Contingency Fund</u>	\$200,000
Division of Special Revenue	\$95
<u>Equipment</u>	\$95
State Insurance and Risk Management Board	\$95
<u>Equipment</u>	\$95
Office of Policy and Management	\$930,190
<u>Equipment</u>	\$95
<u>Cash Management Improvement Act</u>	\$95
<u>Water Planning Council</u>	\$30,000
<u>Property Tax Exemption for Hybrid Vehicles</u>	\$900,000

Current legislation does not authorize reimbursement to municipalities for voluntary property tax losses for hybrid vehicles.

**DEFICIT MITIGATION PLAN – REDUCTIONS IN APPROPRIATIONS
CONTINUED**

Department of Veterans' Affairs	\$950
<u>Equipment</u>	\$950
Office of Workforce Competitiveness	\$950
<u>Equipment</u>	\$950
Board of Accountancy	\$10,000
<u>Other Expenses</u>	\$10,000
A new policy exempts the agency from paying credit card fees.	
Department of Administrative Services	\$40,095
<u>Equipment</u>	\$95
<u>Employees' Review Board</u>	\$20,000
The reduction is consistent with the prior year lapse.	
<u>Hospital Billing System</u>	\$20,000
The reduction is consistent with the prior year lapse.	
Department of Information Technology	\$1,180,000
<u>Internet and E-Mail Services</u>	\$1,180,000
The reduction is based on the revised projections of funding required for this account.	
Department of Public Works	\$95
<u>Equipment</u>	\$95
Attorney General	\$95
<u>Equipment</u>	\$95
Office of the Claims Commissioner	\$95
<u>Equipment</u>	\$95
Division of Criminal Justice	\$95
<u>Equipment</u>	\$95
State Marshal Commission	\$23,845
<u>Equipment</u>	\$23,845
It is expected that the entire amount will lapse in FY 2009.	
Department of Public Safety	\$27,095
<u>Equipment</u>	\$95
<u>Stress Reduction</u>	\$27,000
The reduction is consistent with the prior year lapse.	
Police Officer Standards and Training Council	\$14,345
<u>Equipment</u>	\$14,345

DEFICIT MITIGATION PLAN – REDUCTIONS IN APPROPRIATIONS CONTINUED

Board of Firearms Permit Examiners	\$5,095
<u>Other Expenses</u>	\$5,000
<p>\$5,000 was added by legislature in FY 2008 and FY 2009 for the printing and distribution of the firearms information pamphlet. Funds were not expended in FY 2008 and are not expected to be expended in FY 2009.</p>	
<u>Equipment</u>	\$95
Military Department	\$950
<u>Equipment</u>	\$950
Commission on Fire Prevention and Control	\$200,095
<u>Equipment</u>	\$95
<u>Firefighter Training I</u>	\$200,000
<p>The reduction is consistent with the prior year lapse</p>	
Department of Consumer Protection	\$95
<u>Equipment</u>	\$95
Labor Department	\$137,898
<u>Equipment</u>	\$950
<u>Workforce Investment Act</u>	\$136,948
<p>The ability to reduce funds is based on the FY 2009 appropriation being greater than the anticipated federal allocation. The total federal allocation reduction (and therefore General Fund over-appropriation) is \$2,937,860 for FY 2009. The amount available for additional savings after the first round of rescissions and other commitments is \$136,948.</p>	
Office of Victim Advocate	\$95
<u>Equipment</u>	\$95
Commission on Human Rights and Opportunities	\$950
<u>Equipment</u>	\$950
Office of Protection and Advocacy for Persons with Disabilities	\$5,950
<u>Other Expenses</u>	\$5,000
<p>The reduction is consistent with the prior year lapse.</p>	
<u>Equipment</u>	\$950
Office of the Child Advocate	\$950
<u>Equipment</u>	\$950
Department of Agriculture	\$95
<u>Equipment</u>	\$95
Department of Environmental Protection	\$95
<u>Equipment</u>	\$95

**DEFICIT MITIGATION PLAN – REDUCTIONS IN APPROPRIATIONS
CONTINUED**

Council on Environmental Quality	\$95
<u>Equipment</u>	\$95
Commission on Culture and Tourism	\$950
<u>Equipment</u>	\$950
Department of Economic and Community Development	\$950
<u>Equipment</u>	\$950
Agricultural Experiment Station	\$95
<u>Equipment</u>	\$95
Department of Public Health	\$9,020
<u>Equipment</u>	\$9,020
Office of Health Care Access	\$95
<u>Equipment</u>	\$95
Department of Developmental Services	\$950
<u>Equipment</u>	\$950
Department of Mental Health and Addiction Services	\$950
<u>Equipment</u>	\$950
Psychiatric Security Review Board	\$8,000
<u>Other Expenses</u>	\$8,000
The reduction is consistent with the prior year lapse.	
Department of Social Services	\$1,250,000
<u>Personal Services</u>	\$1,250,000
This reflects the current personal service levels.	
Department of Education	\$292,101
<u>Equipment</u>	\$54,601
<u>Amer-I-Can Program</u>	\$237,500
This program has not been widely used.	
Board of Education and Services for the Blind	\$950
<u>Equipment</u>	\$950
Commission on the Deaf and Hearing Impaired	\$950
<u>Equipment</u>	\$950
State Library	\$950
<u>Equipment</u>	\$950

DEFICIT MITIGATION PLAN – DELAY NEW INITIATIVES

These proposed reductions involve new programs that have not yet been implemented. The Governor is proposing to de-appropriate these funds. Legislation is required to implement these reductions.

Legislative Management - Native Americans Study **\$25,000**

This reduction would defer the funding for a study to consider creating a Commission on Native American Studies.

**Asian Pacific American Affairs Commission –
Establish the Asian Pacific American Affairs Commission** **\$23,750**

This reduction would defer the start up costs of the commission. No funds have been expended or encumbered as of this date. The Office of Legislative Management has indicated that they do not intend to request the funding for this commission for FY 2010.

**Department of Economic and Community Development -
Fund CCAT - CT Manufacturing Supply Chain** **\$950,000**

The contract has not been executed for this new program.

**Department of Public Health -
Provide Funding for Agency Information Technology Infrastructure** **\$1,023,750**

This reduction would defer an upgrade of the agency's information technology infrastructure.

Dept of Social Services – Medical Interpreters Under Medicaid - OE **\$1,175,000**

Under Title VI of the Civil Rights Act of 1964, all health care providers who receive federal funding are required to ensure “meaningful” access to programs and services for individuals with limited English proficiency. As part of meaningful access, it is the provider's responsibility to arrange and pay for interpreter services to ensure effective communication. To improve access to health care for Medicaid clients with limited English proficiency, the legislature mandated that the department amend the Medicaid state plan to include foreign language interpreter services provided to any beneficiary with limited English proficiency as a covered service under the Medicaid program during the FY 2008-09 biennium. DSS has yet to release the RFP for this initiative. Implementation of the state program for funding interpreter services could be delayed and the state will continue to rely on providers to ensure access to interpreter services. This is consistent with the majority of states; according to the Connecticut Health Foundation, only 12 states (HI, ID, KS, ME, MN, MT, NH, TX, UT, VT, WA, and WY) and the District of Columbia had a fully operational interpreting program as of April 2007. As in the past, the HUSKY managed care plans will continue to be expected to provide interpreter services for individuals with limited English proficiency.

DEFICIT MITIGATION PLAN – OTHER ITEMS

Elimination of Governor’s Contingency Fund **\$2,000,000**

The Governor controls one third of a \$6 million contingency needs appropriation, with the President Pro Tempore of the Senate and the Speaker of the House of Representatives controlling the other two thirds. Given the significant shortfall projected, the Governor has proposed to utilize the funds under her control to offset the deficit as part the deficit mitigation plan. No legislation is required to implement this proposal.

Dept of Administrative Services - Delay Purchase of Replacement Fleet Vehicles **\$1,200,000**

The Department of Administrative Services (“DAS”) will implement a delay in the purchasing of vehicles. This proposal will keep vehicles longer which will result in lower depreciation charges to agencies totaling \$1.2 million annually. Agencies will continue to be billed monthly amounts but the depreciation savings retroactive to July 1, 2008 will be captured from the DAS Revolving Fund. No legislation is required to implement this program.

Connecticut Independent College Student Grant **\$500,000**

The Department of Higher Education makes grants to private colleges under the Connecticut Independent College Student Grant (“CICSG”). The colleges then distribute these funds as scholarships to Connecticut students attending their schools. As an institution, Yale decided to self-finance a significant portion of student financial aid and thus is voluntarily returning \$500,000 to the state. Legislation is required to capture these savings.

Other Post Employment Benefits - Retired Employee Health Service Costs **\$14,500,000**

There is an agreement with the state employee unions to transfer \$14.5 million of anticipated savings in the state health plans to the Other Post Employment Benefits (“OPEB”) account. This account was established to begin to fund the state’s unfunded liability that relates to providing insurance for retired state employees. The anticipated savings are expected from the negotiated conversion of the pharmacy program from a fully insured plan to a self insured plan. The funds have not yet been transferred to the OPEB account as the full savings have not yet been realized. This proposal can only be accomplished with the consent of the state employee unions and submission to the legislature.

Reserve for Salary Adjustment Leave Accrual Payments – General Fund **\$3,100,000**

The Reserve for Salary Adjustment account includes funds to pay for accrued vacation and sick leave payouts. Due to lower than expected employee separations, it is anticipated that the entire amount intended for this purpose will not be spent. No legislation is required to implement this proposal.

Arena Study from Surplus Appropriation **\$250,000**

The Capital City Economic Development Authority was provided funding from prior year surplus for a study on the feasibility of establishing a new arena in the City of Hartford. The study has not yet begun and given the fiscal climate, can be deferred at this time. No legislation is required to capture these savings.

Other Expenses - Across the Board Reduction **\$1,500,000**

Beyond existing rescissions an across the board reduction of approximately 0.5% will be applied to all agencies that are not involved in direct client care. While it is expected that this will be challenging to manage, a the proposal includes a request to expand the authority of the Finance Advisory Committee to allow it to approve transfers not only between line items but between agencies as well. Legislation is required to implement this proposal.

Reduce Outside Consultant Contracts Statewide **\$2,000,000**

Agencies will be required to reduce the costs of outside consulting contracts by 3 – 4%. These reductions will be achieved by a reduction in consultant services. No legislation is required to implement this proposal.

ATTACHMENT A

September 22, 2008 Office of Policy and Management Letter to the Comptroller
For the Attachments to the Letter, Please Go To:

<http://www.ct.gov/opm/lib/opm/budget/comptrollerletter/fy2009/2009sep22letter.pdf>



STATE OF CONNECTICUT OFFICE OF POLICY AND MANAGEMENT

September 22, 2008

The Honorable Nancy Wyman
State Comptroller
55 Elm Street
Hartford, Connecticut 06106

Dear Comptroller Wyman:

The following information on the State's General Fund for fiscal year 2008-2009 is provided in accordance with Section 4-66 of the General Statutes. In addition, an analysis of the Special Transportation Fund is included due to the significant nature of this fund. Estimates are as of August 31, 2008. This letter reflects the passage of Public Acts 08-01 and 08-02 from the August Special Session.

More than fifteen months have passed since Governor Rell signed the biennial budget into law (Public Act 07-1). As you know, the 2008 legislative session ended without passage of a revised midterm budget. Due to worsening economic conditions, Governor Rell ordered a number of measures to curtail state spending. These include a ban on out-of-state travel, implementation of a hiring freeze and, most recently, the initiation of allotment rescissions in accordance with her authority under CGS 4-85. The Governor has requested this office to begin a full review of all accounts in preparation for a second round of rescissions, should she decide that step to be necessary.

In the General Fund we are estimating a deficit of \$302.4 million. This month's letter reflects an overall decrease in projected General Fund revenue of \$151.8 million. The Personal Income Tax has been revised downward by \$75.0 million for two reasons. First, the accrual period for last fiscal year encompassed two very large collection days under the withholding component of the income tax and thus shifted revenue from the first month of FY 2009. Second, OPM had anticipated that the estimated component of the income tax would be flat compared to last year, but is currently falling by approximately 5.0%. The Oil Companies Tax estimate has been lowered by \$27.4 million to reflect the Energy Information Administration's new forecast of the average wholesale price of oil for the remainder of FY 2009, down 6.0% since the beginning of the fiscal year. The \$20.0 million forecast revision for Indian Gaming Payments reflects an anticipated negative 5.0% growth rate for fiscal year 2009, which is a continuation of recent trends. We are also seeing weakness in several other revenue line items and thus are revising our projections downward for the following: Sales Tax down \$10.0 million, Insurance Companies Tax down \$10.0 million, Cigarettes Tax down \$5.2 million, and Real Estate Conveyance Tax down \$7.6 million. All other changes in our projections net to a positive \$3.4 million.

It is important to note that this month's letter does not reflect the impact of recent events in the financial markets. It is anticipated that over the next several months data will become available to make a more informed assessment as to the impact on the state's economy and revenue collections.

ATTACHMENT A - CONTINUED

September 22, 2008 Office of Policy and Management Letter to the Comptroller

For the Attachments to the Letter, Please Go To:

<http://www.ct.gov/opm/lib/opm/budget/comptrollerletter/fy2009/2009sep22letter.pdf>

In the General Fund, we are estimating that due to the Governor's rescission program and other surpluses available in select accounts, lapses are approximately \$100 million higher than budgeted. All told, the statewide lapses are estimated to reach \$217.5 million. These are itemized in Statement 4 of the attached report. Partially offsetting this gain, we are estimating a deficiency of \$18.3 million in the Department of Correction and a projected deficiency of \$1.5 million in the DAS-Workers' Compensation Account, related primarily to the roll-out of last year's deficiencies in those agencies.

In the Special Transportation Fund, we are projecting an annual operating deficit of \$42.7 million. There are no changes to our revenue projections for the Special Transportation Fund this month. Revenues in the transportation fund are projected to be \$53.3 million less than the adopted budget, particularly in the areas of motor fuels taxes, motor vehicles receipts and licenses, permits and fees. Declining gasoline consumption and slower economic growth are the primary causes of the lower revenue projections. Lapses have increased to \$18.7 million due to the Governor's rescission program.

It should be noted that while these projections are the best that can be made at this time, estimates may have to be adjusted to reflect changes in the economy, expenditure patterns and/or other factors.

Sincerely,



Robert L. Genuario
Secretary

RLG:dd
Attachments

ATTACHMENT B

October 20, 2008 Office of Policy and Management Letter to the Comptroller

For the Attachments to the Letter, Please Go To:

<http://www.ct.gov/opm/cwp/view.asp?a=2965&q=382950>



STATE OF CONNECTICUT OFFICE OF POLICY AND MANAGEMENT

October 20, 2008

The Honorable Nancy Wyman
State Comptroller
55 Elm Street
Hartford, Connecticut 06106

Dear Comptroller Wyman:

The following information on the State's General Fund for fiscal year 2008-2009 is provided in accordance with Section 4-66 of the General Statutes. In addition, an analysis of the Special Transportation Fund is included due to the significant nature of this fund. Estimates are as of September 30, 2008. This letter reflects the passage of Public Acts 08-01 and 08-02 from the August Special Session.

More than fifteen months have passed since Governor Rell signed the biennial budget into law (Public Act 07-1). As you know, the 2008 legislative session ended without passage of a revised midterm budget. Due to worsening economic conditions, Governor Rell ordered a number of measures to curtail state spending. These include a ban on out-of-state travel, implementation of a hiring freeze and, most recently, the implementation of a second round of allotment rescissions in accordance with her authority under CGS 4-85. The Governor also directed the Office of Policy and Management to prepare a Deficit Mitigation Plan to address the \$302.4 million shortfall projected in our September 22nd letter to you and confirmed in your letter to Governor Rell on October 1st. Some components of that plan, primarily items that do not require legislative action, such as the second round of rescissions, are reflected in this letter.

In the General Fund, we are estimating a deficit of \$107.9 million. This month's letter reflects an overall increase in revenue of \$163.5 million. The largest component is in Federal Grants and is due to the setting of revised rates back to 2002 in Medicaid billing for public intermediate care facilities and group homes. This is expected to yield a one-time \$157.0 million. In addition, another \$2.0 million in Federal Grants is expected under the disproportionate share hospital program. All other revenue changes net to a positive \$4.5 million.

In the General Fund, we are estimating that due to the Governor's two rescission programs and other surpluses available in select accounts, lapses are approximately \$134.4 million higher than budgeted. All told, the statewide lapses are estimated to reach \$251.9 million. These are itemized in Statement 4 of the attached report. There are no changes in projected deficiencies. We are estimating a deficiency of \$18.3 million in the Department of Correction and a projected deficiency of \$1.5 million in the DAS-Workers' Compensation Account, related primarily to the roll-out of last year's deficiencies in those agencies.

It is important to note that this month's letter does not reflect the impact of recent events in the financial markets. It is anticipated that over the next several months data will become available to make a more informed assessment as to the impact on the state's economy and revenue collections.

ATTACHMENT B - CONTINUED

October 20, 2008 Office of Policy and Management Letter to the Comptroller

For the Attachments to the Letter, Please Go To:

<http://www.ct.gov/opm/cwp/view.asp?a=2965&q=382950>

In the Special Transportation Fund, we are projecting an annual operating deficit of \$41.9 million. There are no changes to our revenue projections for the Special Transportation Fund this month. Revenues in the transportation fund are projected to be \$53.3 million less than the adopted budget, particularly in the areas of motor fuels taxes, motor vehicles receipts and licenses, permits and fees. Declining gasoline consumption and slower economic growth are the primary causes of the lower revenue projections. Lapses have increased to \$19.62 million due to the Governor's rescission programs.

It should be noted that while these projections are the best that can be made at this time, estimates may have to be adjusted to reflect changes in the economy, expenditure patterns and/or other factors.

Sincerely,



Robert L. Genuario
Secretary

RLG:dd
Attachments

ATTACHMENT C
DEFICIT MITIGATION PLAN – SECOND ROUND OF RESCISSIONS
IMPLEMENTED OCTOBER 1, 2008

Judicial Selection Commission	\$1,085
Other Expenses	\$1,085
State Comptroller - Miscellaneous	\$5,135
Interstate Environmental Commission	\$5,135
State Comptroller - Fringe Benefits	\$4,188,445
Employers Social Security Tax	\$1,086,906
State Employees Health Services Cost	\$3,101,539
Office of Policy and Management	\$62,547
Neighborhood Youth Centers	\$62,547
Department of Veterans' Affairs	\$160,000
Personal Services	\$160,000
Department of Public Works	\$255,059
Facilities Design Expenses	\$255,059
Attorney General	\$250,000
Personal Services	\$250,000
Division of Criminal Justice	\$53,740
Forensic Sex Evidence Exams	\$53,740
State Marshal Commission	\$15,682
Personal Services	\$15,682
Department of Public Safety	\$1,417,557
Personal Services	\$1,000,000
Fleet Purchase	\$417,557
Department of Consumer Protection	\$54,075
Personal Services	\$54,075
Labor Department	\$288,880
Other Expenses	\$38,880
Connecticut's Youth Employment Program	\$250,000
Office of Victim Advocate	\$4,000
Personal Services	\$4,000

ATTACHMENT C - CONTINUED
DEFICIT MITIGATION PLAN – SECOND ROUND OF RESCISSIONS
IMPLEMENTED OCTOBER 1, 2008

Commission on Human Rights and Opportunities	\$150,080
Personal Services	\$150,080
Office of the Child Advocate	\$41,335
Personal Services	\$41,335
Department of Economic and Community Development	\$434,599
Personal Services	\$148,618
Residential Service Coordinators	\$50,000
Congregate Facilities Operation Costs	\$206,536
Housing Assistance and Counseling Program	\$29,445
Department of Public Health	\$199,794
Medicaid Administration	\$196,385
Emergency Medical Services Training	\$3,409
Office of Health Care Access	\$13,025
Personal Services	\$7,000
Other Expenses	\$6,025
Department of Developmental Services	\$8,627,568
Personal Services	\$5,000,000
Human Resource Development	\$11,568
Cooperative Placements Program	\$600,000
Clinical Services	\$16,000
Employment Opportunities and Day Services	\$2,000,000
Community Residential Services	\$1,000,000
Department of Mental Health and Addiction Services	\$956,025
Connecticut Mental Health Center	\$221,070
Capitol Region Mental Health Center	\$8,510
Regional Action Councils	\$16,250
Community Mental Health Strategy Board	\$569,896
Home and Community Based Services	\$115,249
Governor's Partnership to Protect Connecticut's Workforce	\$25,050
Department of Social Services	\$5,021,259
Personal Services	\$1,250,000
Other Expenses	\$1,769,496
Temporary Assistance to Families - TANF	\$2,000,000
Human Resource Development	\$1,763
Department of Education	\$317,973
Family Resource Centers	\$317,973

ATTACHMENT C - CONTINUED
DEFICIT MITIGATION PLAN – SECOND ROUND OF RESCISSIONS
IMPLEMENTED OCTOBER 1, 2008

Department of Children and Families	\$10,652,627
Family Support Services	\$802,627
Board and Care for Children - Residential	\$9,850,000
Children's Trust Fund Council	\$275,665
Children's Trust Fund	\$275,665
Judicial Department	\$960,000
Personal Services	\$500,000
Other Expenses	\$460,000
Judicial Review Council	\$1,502
Other Expenses	\$1,497
Equipment	\$5
General Fund Total	\$34,407,657