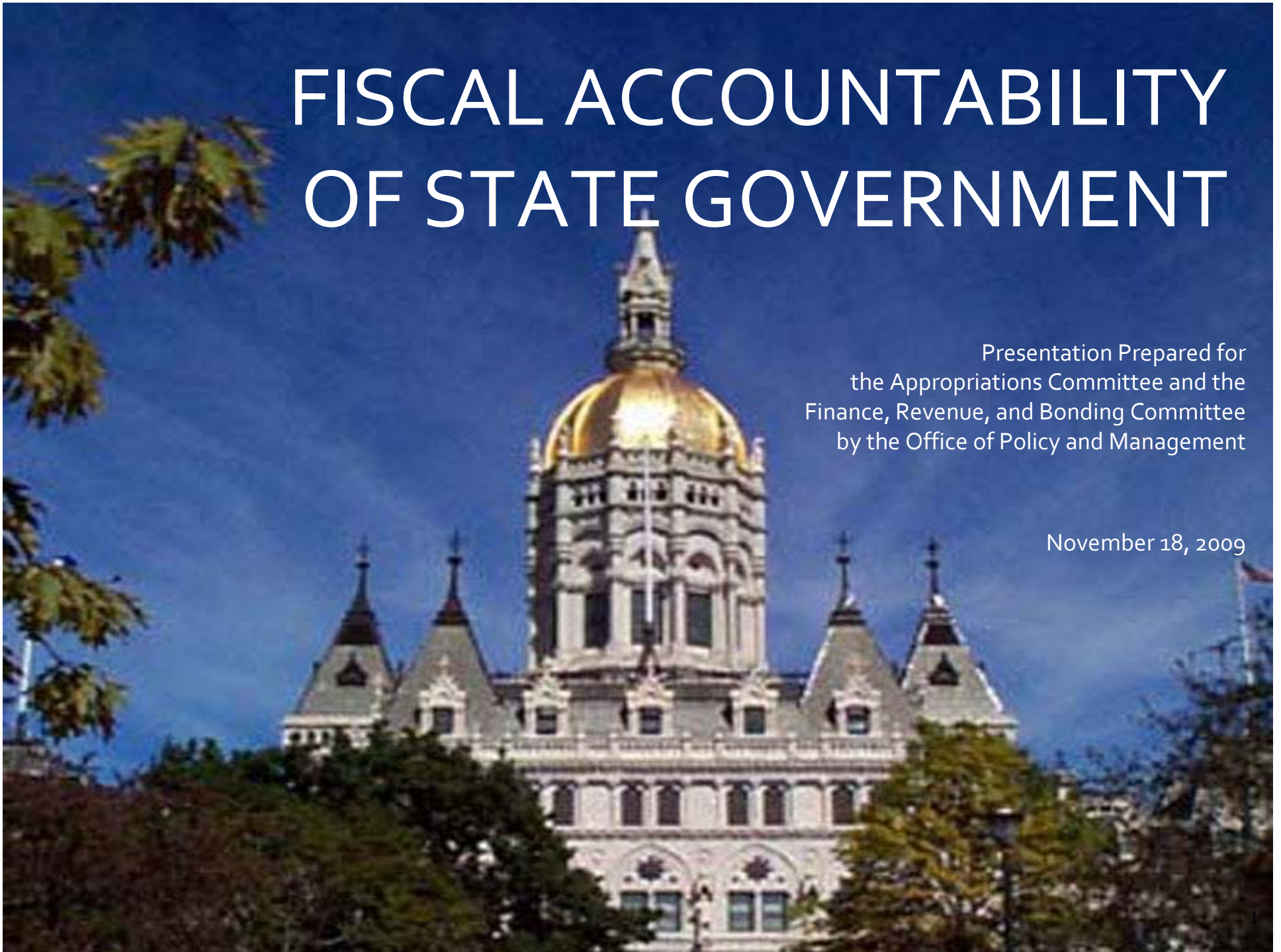


# FISCAL ACCOUNTABILITY OF STATE GOVERNMENT

Presentation Prepared for  
the Appropriations Committee and the  
Finance, Revenue, and Bonding Committee  
by the Office of Policy and Management

November 18, 2009



# INTRODUCTION

# FINANCIAL SUMMARY OF FUNDS - CONSENSUS REVENUE

(in Millions)

	Estimated	Revised Enacted	Projected		
	2009-10	2010-11	2011-12	2012-13	2013-14
<u>General Fund</u>					
Revenues	\$ 17,204.0	\$ 17,432.7	\$ 15,794.8	\$ 16,755.5	\$ 17,485.7
Expenditures	17,582.8	17,691.1	18,943.7	19,491.6	20,176.3
Surplus Adjustment	(11.0)	-	-	-	-
Surplus/(Deficit)	\$ (389.8)	\$ (258.4)	\$ (3,148.9)	\$ (2,736.1)	\$ (2,690.6)
<u>Special Transportation Fund</u>					
Revenues	\$ 1,118.7	\$ 1,184.7	\$ 1,200.3	\$ 1,260.3	\$ 1,287.6
Expenditures	1,114.7	1,180.6	1,246.1	1,262.5	1,286.7
Surplus/(Deficit)	\$ 4.0	\$ 4.1	\$ (45.8)	\$ (2.2)	\$ 0.9
<u>Other Funds</u>					
Revenues	\$ 160.4	\$ 163.7	\$ 193.3	\$ 195.1	\$ 198.7
Expenditures	159.9	163.4	192.9	194.6	198.1
Surplus/(Deficit)	\$ 0.5	\$ 0.3	\$ 0.4	\$ 0.5	\$ 0.5
<u>Total All Appropriated Funds</u>					
Revenues	\$ 18,483.1	\$ 18,781.1	\$ 17,188.4	\$ 18,210.9	\$ 18,972.0
Expenditures	18,857.4	19,035.0	20,382.7	20,948.7	21,661.1
Surplus Adjustment	(11.0)	-	-	-	-
Surplus/(Deficit)	\$ (385.3)	\$ (253.9)	\$ (3,194.3)	\$ (2,737.8)	\$ (2,689.2)
<u>Expenditure Cap Results</u>					
Total All Appropriated Funds	\$ 18,857.4	\$ 19,035.0	\$ 20,382.7	\$ 20,948.7	\$ 21,661.1
Allowed Appropriations per Cap	19,485.8	19,516.6	19,932.9	20,444.9	20,883.7
Over/(Under) the Cap	\$ (628.4)	\$ (481.6)	\$ 449.8	\$ 503.8	\$ 777.4
<u>Revenues and the Expenditure Cap</u>					
Revenues – All Funds		\$ 18,781.1	\$ 17,188.4	\$ 18,210.9	\$ 18,972.0
Allowed Appropriations per Cap		19,516.6	19,932.9	20,444.9	20,883.7
Revenues Less Allowed Approps.		\$ (735.5)	\$ (2,744.5)	\$ (2,234.0)	\$ (1,911.8)

# UPDATE TO CONSENSUS REVENUE ESTIMATE

(In Millions)

	<u>FY 2010</u>	<u>FY 2011</u>
<b>Total Consensus General Fund Revenues</b>	\$ 17,204.0	\$ 17,432.7
<b>Revised Revenue Estimates</b>		
Sales and Use Tax-10/15/09	\$ 3,076.9	\$ 3,028.3
Sales and Use Tax-11/15/09	<u>3,010.3</u>	<u>2,935.3</u>
Change in projection	\$ (66.6)	\$ (93.0)
Rents, Fines, and Escheats-10/15/09	\$ 95.8	\$ 101.9
Rents, Fines, and Escheats-11/15/09	<u>112.3</u>	<u>101.9</u>
Change in projection	\$ 16.5	\$ -
Miscellaneous Revenue-10/15/09	\$ 202.5	\$ 197.5
Miscellaneous Revenue-11/15/09	<u>176.6</u>	<u>173.5</u>
Change in projection	\$ (25.9)	\$ (24.0)
Federal Grant Revenue-10/15/09	\$ 4,051.8	\$ 3,770.4
Federal Grant Revenue-11/15/09	<u>4,051.1</u>	<u>3,770.4</u>
Change in projection	\$ (0.7)	\$ -
Total Change in General Fund Revenue Projection	<u>\$ (76.7)</u>	<u>\$ (117.0)</u>
<b>Revised General Fund Revenues-11/15/09</b>	<b>\$ 17,127.3</b>	<b>\$ 17,315.7</b>
<b>Revised General Fund Expenditures-11/15/09</b>	<b>\$ 17,593.8</b>	<b>\$ 17,691.1</b>
General Fund Surplus/(Deficit) as of 11/15/09	\$ (466.5)	\$ (375.4)
Elimination of 0.5% Sales Tax Rate Reduction-Projected	\$ 129.5	\$ 268.0
<b>Revised General Fund Surplus/(Deficit)- Projected</b>	<b><u>\$ (337.0)</u></b>	<b><u>\$ (107.4)</u></b>

# SUMMARY OF APPROPRIATED FUND PROJECTIONS

LARGEST ACCOUNTS (In Millions)

	Estimated 2009-2010	Revised Enacted 2010-2011	2011-2012	Estimated 2012-2013	2013-2014
GENERAL FUND					
DSS – Medicaid	3,917.1	3,694.8	3,883.5	4,077.6	4,281.5
STATEWIDE – Personal Services	2,471.4	2,475.7	2,509.1	2,635.7	2,764.5
SDE – Education Equalization Grants	1,889.6	1,889.6	1,889.6	1,889.6	1,889.6
OTT – Debt Service	1,488.4	1,510.4	1,747.2	1,743.9	1,765.0
OSC – Employee Retirement Contribution	635.5	663.3	829.9	866.4	904.5
STATEWIDE – Other Expenses	571.0	552.4	563.6	575.2	586.7
TRB – Retirement Contributions	559.2	581.6	604.9	629.1	654.2
OSC – State Employees Health Serv Cost	554.9	516.9	480.4	500.1	519.6
OSC – Retired Employee Health Serv Cost	543.8	547.0	624.3	649.9	675.3
DDS – Community Residential Services	385.3	406.5	421.3	428.8	437.4
OSC – Employers Social Security Tax	239.7	249.8	249.5	245.1	250.0
DSS – State Administered General Assistance	232.0	304.0	319.2	335.2	352.0
UOC – Operating Expenses	222.4	222.4	227.0	231.5	236.2
DCF – Board & Care – Residential	191.9	195.6	202.5	209.3	216.2
DDS – Employment Opportunities & Day Svcs	177.5	185.0	189.5	193.3	197.2
CCC – Operating Expenses	157.1	157.4	160.6	163.8	167.1
CSU – Operating Expenses	155.5	155.5	158.7	161.9	165.1
SDE – Magnet Schools	153.1	174.6	199.4	217.2	230.8
DSS – Temporary Assist to Families – TANF	120.9	122.7	128.8	135.2	142.0
SDE – Excess Cost – Student Based	120.5	120.5	120.5	120.5	120.5
UHC – Operating Expenses	118.5	120.8	123.3	125.8	128.3
SDE – Priority School Districts	117.2	117.2	117.2	117.2	117.2
OSC – Loss Taxes Private Tax-Exempt Property	115.4	115.4	115.4	115.4	115.4
DCF – Board and Care for Children – Foster	112.4	115.1	120.4	125.7	131.0
OTT – UConn 2000 – Debt Service	106.9	118.4	122.7	132.5	144.0
DSS – DMHAS – Disproportionate Share	105.9	105.9	105.9	105.9	105.9
DOC – Inmate Medical Services	100.1	100.6	105.1	109.4	113.6
DSS – Child Care Services – TANF/CCDBG	93.2	95.9	98.8	101.8	104.8
MHA – General Assistance Managed Care	83.1	86.3	90.9	95.2	100.0
DCF – Board and Care for Children – Adoption	81.5	86.1	93.3	100.4	107.6

# SUMMARY OF APPROPRIATED FUND PROJECTIONS

## LARGEST ACCOUNTS (In Millions)

	Estimated 2009-2010	Revised Enacted 2010-2011	2011-2012	Estimated 2012-2013	2013-2014
MHA – Grants for Mental Health Services	77.9	76.4	77.9	79.5	81.1
OSC – Loss of Taxes on State Property	73.5	73.5	73.5	73.5	73.5
DSS – Connecticut Home Care Program	70.4	75.7	78.8	81.9	85.2
DSS – Aid to the Disabled	60.6	62.7	65.7	68.7	71.8
OTT – Pension Obligation Bonds – TRB	58.5	65.3	80.9	121.4	145.1
OPM – P.I.L.O.T. New Mfg Machine & Equip	57.3	57.3	57.3	57.3	57.3
JUD – Alternative Incarceration Program	54.9	55.2	56.3	57.4	58.6
DSS – Disproportionate Share–Med Emer Asst	51.7	51.7	51.7	51.7	51.7
SDE – Charter Schools	48.2	53.1	61.6	65.3	66.9
SDE – Transportation of School Children	48.0	48.0	48.0	48.0	48.0
MHA – Young Adult Services	46.9	56.9	59.6	62.4	65.4
DSS – Housing/Homeless Services	44.1	47.3	48.3	49.2	50.2
DOC – Community Support Services	40.4	40.4	41.2	42.0	42.9
DSS – HUSKY Program	39.3	41.5	43.5	45.7	48.0
DDS – Early Intervention	39.2	42.3	44.2	46.0	47.8
MHA – Managed Service System	37.2	37.2	38.0	38.7	39.5
DSS – Old Age Assistance	36.3	38.1	39.9	41.7	43.6
DDS – Voluntary Services	35.2	37.7	38.5	39.2	40.0
OSC – Higher Ed Alternative Retirement Sys	33.4	34.2	36.2	35.5	36.3
DSS – DSH–Urban Hospitals/Distressed	31.6	31.6	31.6	31.6	31.6
JUD – Juvenile Alternative Incarceration	31.2	30.2	30.8	31.4	32.0
DOL – Workforce Investment Act	30.5	30.5	30.5	30.5	30.5
DHE – CT Aid for Public College Students	30.2	30.2	30.2	30.2	30.2
OPM – Reserve for Salary Adjustments	29.7	153.5	156.6	159.8	163.0
DOC – Workers' Compensation Claims	29.4	29.4	30.0	30.6	31.2
DCF – Community KidCare	25.9	25.9	26.5	27.0	27.5
MHA – Grants for Substance Abuse Services	25.5	25.5	26.0	26.6	27.1
DAS – Workers' Compensation Claims	24.7	24.7	25.2	25.7	26.2
DHE – CT Independent College Student Grant	23.4	23.4	23.4	23.4	23.4
ITD – Statewide Information Technology Services	23.0	23.9	24.4	24.9	25.4

# SUMMARY OF APPROPRIATED FUND PROJECTIONS

## LARGEST ACCOUNTS (In Millions)

	Estimated 2009-2010	Revised Enacted 2010-2011	2011-2012	Estimated 2012-2013	2013-2014
OPM – Tax Relief for Elderly Renters	22.0	24.0	24.5	25.0	25.5
DDS – Cooperative Placements Program	21.3	21.6	22.1	22.5	23.0
SDE – Adult Education	20.6	20.6	20.6	20.6	20.6
OPM – Prop Tax Relief Elder–Circuit Breaker	20.5	20.5	20.9	21.3	21.8
DSS – Charter Oak Health Plan	19.7	28.5	38.2	51.1	68.4
DOL – Jobs First Employment Services	17.6	17.6	17.9	18.3	18.6
SDE – Develop of Mastery Exams Grades 4,6&8	17.5	18.8	19.2	19.6	19.9
DCF – Individualized Family Supports	17.4	17.2	17.6	17.9	18.3
DDS – Workers' Compensation Claims	16.2	16.2	16.6	16.9	17.2
SDE – OPEN Choice Program	14.5	14.5	15.5	16.5	17.5
DCF – Gts Psychiatric Clinics for Children	14.2	14.2	14.5	14.8	15.1
SDE – Interdistrict Cooperation	14.1	14.1	14.4	14.7	15.0
DPW – Rents and Moving	13.9	13.6	13.8	14.1	14.4
MHA – Housing Supports and Services	12.7	13.2	13.5	13.7	14.0
DCF – Juvenile Justice Outreach Services	12.7	12.7	19.7	31.3	34.2
MHA – Workers' Compensation Claims	12.3	12.3	12.6	12.8	13.1
DCF – Support for Recovering Families	11.5	14.0	16.3	18.6	21.0
DSS – Children's Trust Fund	11.4	13.7	14.0	14.2	14.5
DCF – Family Support Services	11.2	11.2	11.4	11.7	11.9
DSS – Connecticut Children's Medical Center	11.0	11.0	11.0	11.0	11.0
MHA – Employment Opportunities	10.6	10.6	10.8	11.1	11.3
DSS – Child Day Care	10.6	10.6	10.8	11.1	11.3
DEP – Emergency Spill Response Account	10.6	10.6	10.8	11.0	11.2
MHA – Professional Services	10.5	10.5	11.0	11.4	11.8
DPH – School Based Health Clinics	10.4	10.4	10.7	10.9	11.1
CPC – Contracted Attorneys	10.3	10.3	10.5	10.8	11.0
DSS – Conn Pharmaceutical Assist to Elderly	10.3	6.8	7.1	7.4	7.7
<b>STATEWIDE – ALL OTHER</b>	<b>590.6</b>	<b>610.7</b>	<b>667.1</b>	<b>682.4</b>	<b>698.5</b>
General Fund – Gross	18,056.1	18,221.5	19,171.7	19,828.3	20,513.0

# SUMMARY OF APPROPRIATED FUND PROJECTIONS

## LARGEST ACCOUNTS (In Millions)

	Estimated 2009-2010	Revised Enacted 2010-2011	2011-2012	Estimated 2012-2013	2013-2014
Personal Services Reductions	-191.0	-193.7	0.0	0.0	0.0
Legislative Unallocated Lapses	-2.7	-2.7	-2.7	-2.7	-2.7
Management Reduction	-10.0	-12.5	-12.5	-12.5	-12.5
27th Payroll Cost	0.0	0.0	108.7	0.0	0.0
Reduce Other Expenses to FY07 Levels	-28.0	-32.0	-32.0	-32.0	-32.0
Reduce Outside Consultant Contracts	-95.0	-95.0	-95.0	-95.0	-95.0
Estimated Unallocated Lapses	-87.8	-87.8	-87.8	-87.8	-87.8
General Personal Services Reduction	-14.0	-14.0	-14.0	-14.0	-14.0
General Other Expenses Reductions	-11.0	-11.0	-11.0	-11.0	-11.0
Enhance Agency Outcomes	-3.0	-50.0	-50.0	-50.0	-50.0
DoIT Lapse	-30.8	-31.7	-31.7	-31.7	-31.7
<b>General Fund – Net</b>	<b>17,582.8</b>	<b>17,691.1</b>	<b>18,943.7</b>	<b>19,491.6</b>	<b>20,176.3</b>
<b>SPECIAL TRANSPORTATION FUND – Gross</b>	<b>1,135.9</b>	<b>1,202.0</b>	<b>1,259.9</b>	<b>1,283.9</b>	<b>1,308.1</b>
Estimated Unallocated Lapses	-11.0	-11.0	-11.0	-11.0	-11.0
Personal Services Reductions	-10.2	-10.4	-10.4	-10.4	-10.4
27th Payroll Cost	0.0	0.0	7.6	0.0	0.0
<b>Special Transportation Fund – Net</b>	<b>1,114.7</b>	<b>1,180.6</b>	<b>1,246.1</b>	<b>1,262.5</b>	<b>1,286.7</b>
<b>BANKING FUND – Gross</b>	<b>19.6</b>	<b>20.6</b>	<b>21.3</b>	<b>22.0</b>	<b>22.8</b>
27th Payroll Cost	0.0	0.0	0.5	0.0	0.0
<b>Banking Fund – Net</b>	<b>19.6</b>	<b>20.6</b>	<b>21.8</b>	<b>22.0</b>	<b>22.8</b>
<b>INSURANCE FUND – Gross</b>	<b>25.7</b>	<b>26.6</b>	<b>27.5</b>	<b>28.5</b>	<b>29.5</b>
27th Payroll Cost	0.0	0.0	0.5	0.0	0.0
<b>Insurance Fund – Net</b>	<b>25.7</b>	<b>26.6</b>	<b>28.1</b>	<b>28.5</b>	<b>29.5</b>
<b>PUBLIC UTILITY FUND – Gross</b>	<b>23.2</b>	<b>24.0</b>	<b>24.8</b>	<b>25.7</b>	<b>26.5</b>
27th Payroll Cost	0.0	0.0	0.5	0.0	0.0
<b>Public Utility Fund – Net</b>	<b>23.2</b>	<b>24.0</b>	<b>25.3</b>	<b>25.7</b>	<b>26.5</b>

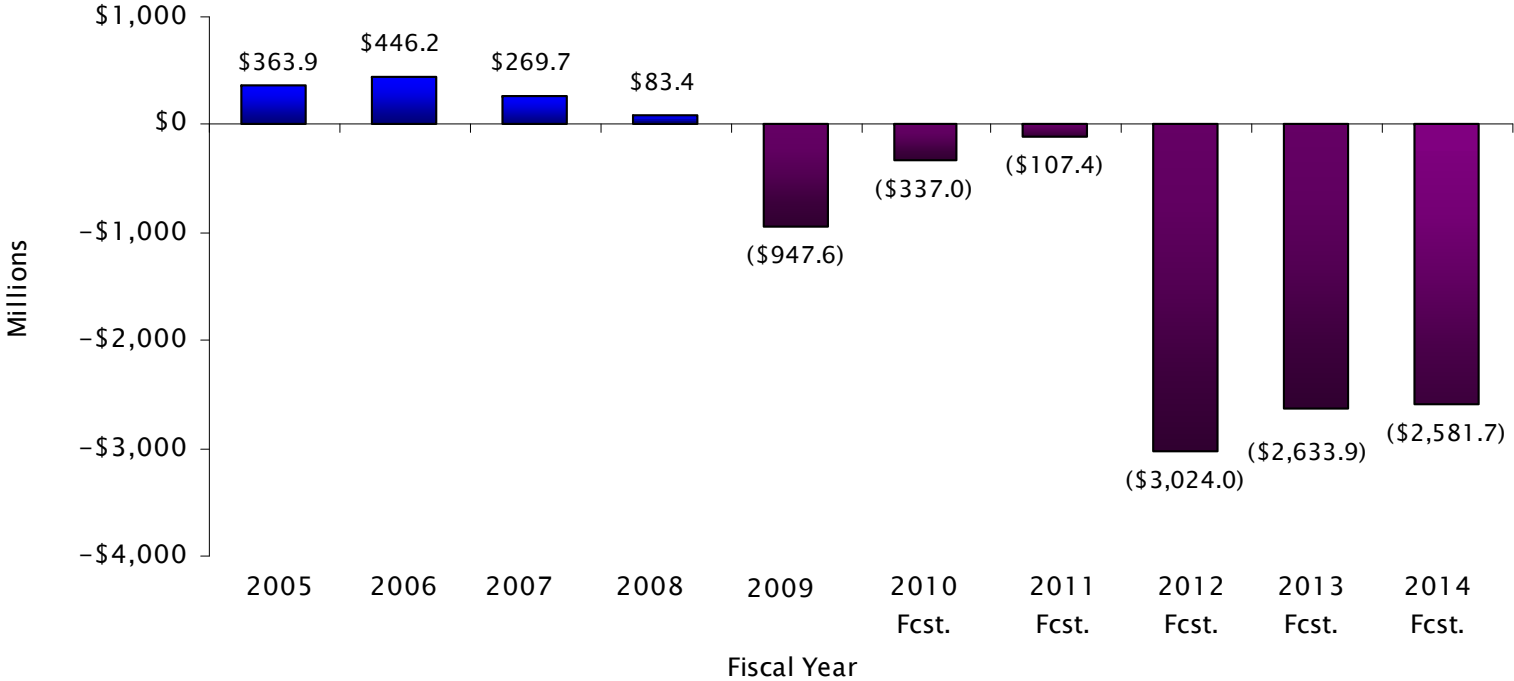


# SUMMARY OF APPROPRIATED FUND PROJECTIONS

## LARGEST ACCOUNTS (In Millions)

	Estimated 2009-2010	Revised Enacted 2010-2011	2011-2012	Estimated 2012-2013	2013-2014
WORKERS' COMPENSATION FUND – Gross	22.6	23.1	23.8	24.6	25.4
27th Payroll Cost	0.0	0.0	0.3	0.0	0.0
Workers' Compensation Fund – Net	22.6	23.1	24.1	24.6	25.4
MASHANTUCKET PEQUOT AND MOHEGAN FUND	61.8	61.8	86.3	86.3	86.3
SOLDIERS, SAILORS AND MARINES FUND – Gross	3.0	3.0	3.1	3.2	3.2
27th Payroll Cost	0.0	0.0	0.0	0.0	0.0
Soldiers, Sailors and Marines Fund – Net	3.0	3.0	3.1	3.2	3.2
REGIONAL MARKET OPERATION FUND – Gross	0.9	1.0	1.0	1.0	1.0
27th Payroll Cost	0.0	0.0	0.0	0.0	0.0
Regional Market Operation Fund – Net	0.9	1.0	1.0	1.0	1.0
CRIMINAL INJURIES COMPENSATION FUND	3.1	3.4	3.4	3.4	3.4
<b>TOTAL ALL FUNDS – NET</b>	<b>18,857.4</b>	<b>19,035.0</b>	<b>20,382.7</b>	<b>20,948.7</b>	<b>21,661.1</b>

# PROJECTED BALANCE OF THE GENERAL FUND



Balance projections based on current revenue forecasts

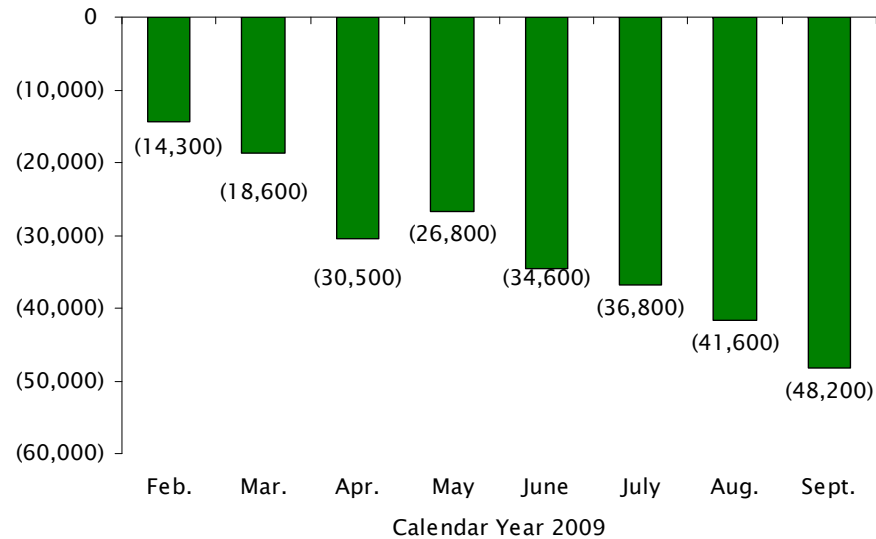
# ECONOMIC & DEMOGRAPHIC CONDITIONS

# CONNECTICUT EMPLOYMENT

## TOTAL EMPLOYMENT (Year-Over-Year Changes)

		<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
As of November 10, 2008	US	-0.8%	-0.3%	1.9%	2.5%
	CT	-0.9%	-0.4%	1.8%	1.5%
As of November 9, 2009	US	-2.3%	-3.0%	0.5%	3.0%
	CT	-2.0%	-3.3%	-0.3%	2.2%

## CUMULATIVE CT JOBS LOST SINCE JANUARY 2009



- Connecticut has lost a total of 86,800 jobs since the March 2008 Peak

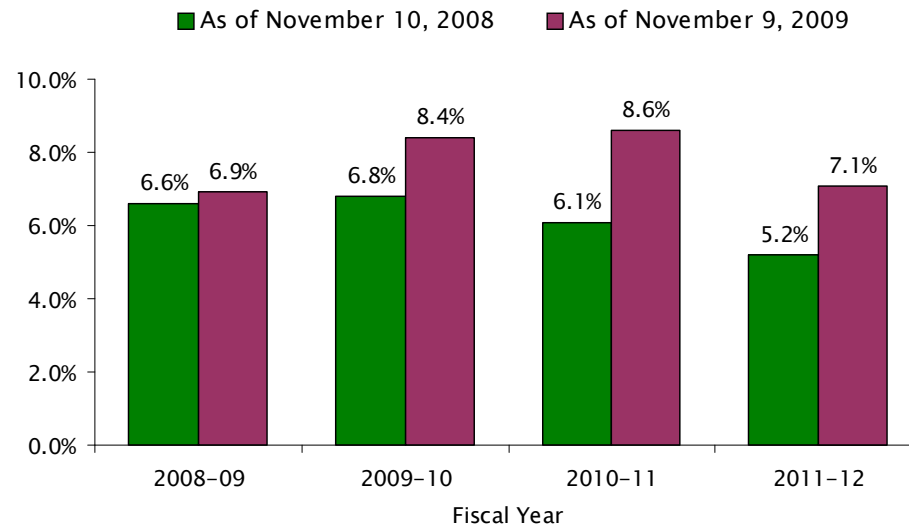
Source: Moody's Economy.com and CT Dept. of Labor

# CONNECTICUT UNEMPLOYMENT RATE IS RISING

## UNEMPLOYMENT RATE As of November 9, 2009

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
US	7.6%	10.0%	9.8%	8.0%
CT	6.9%	8.4%	8.6%	7.1%

## CONNECTICUT UNEMPLOYMENT RATE



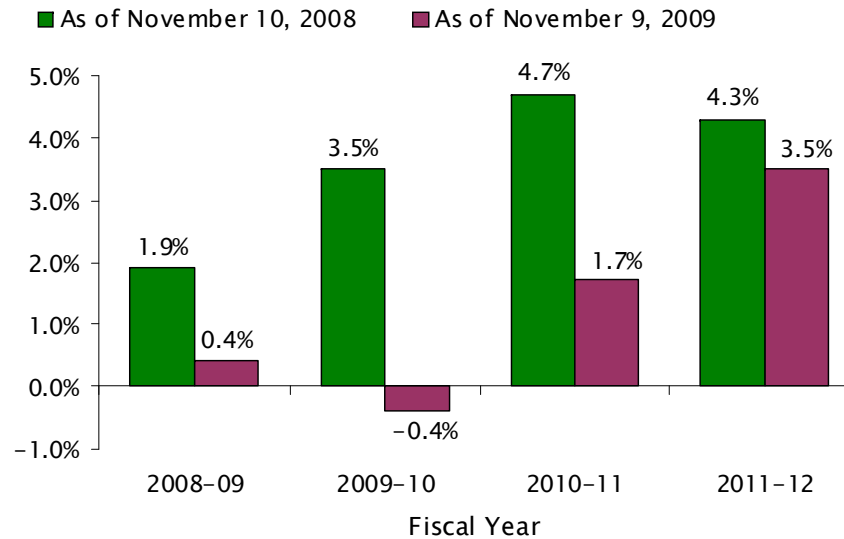
Source: Moody's Economy.com

# PERSONAL INCOME GROWTH SLOWS

## PERSONAL INCOME GROWTH (Year-Over-Year Changes)

		<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
As of November 10, 2008	US	3.3%	3.5%	4.7%	4.9%
	CT	1.9%	3.5%	4.7%	4.3%
As of November 9, 2009	US	-0.1%	-0.6%	3.5%	5.8%
	CT	0.4%	-0.4%	1.7%	3.5%

## CONNECTICUT PERSONAL INCOME GROWTH (Year-Over-Year Changes)

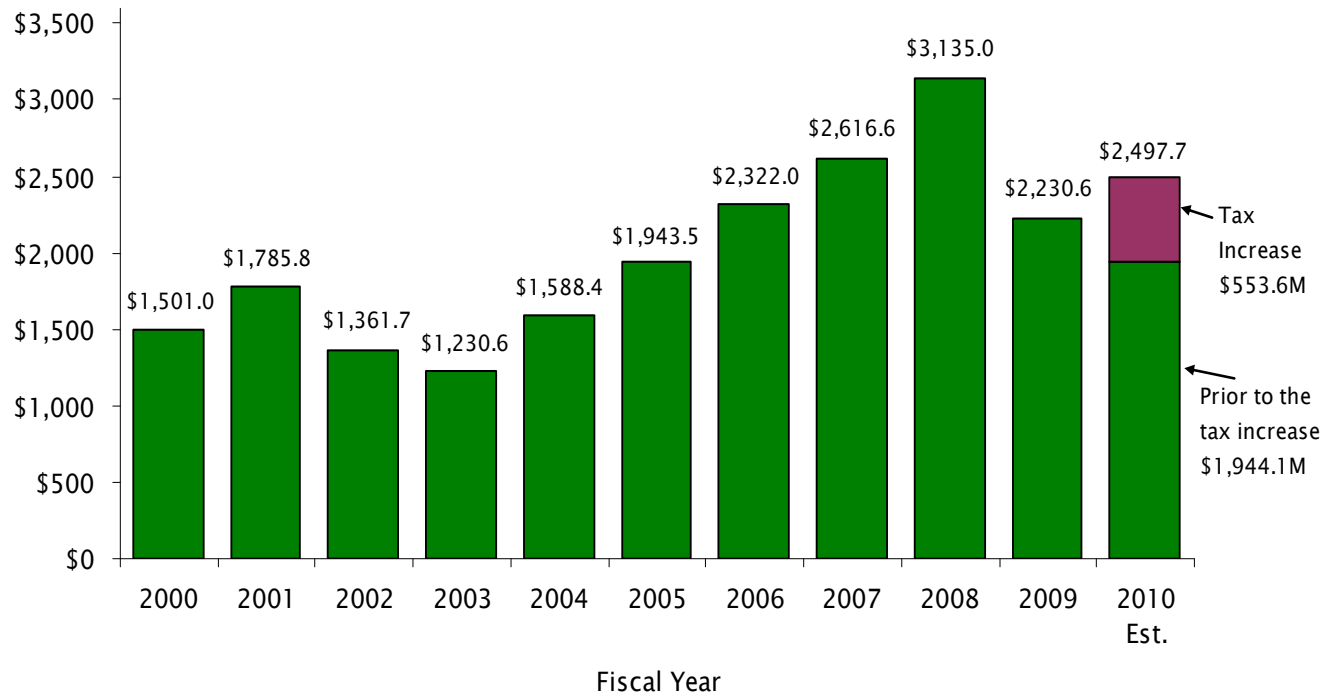


Source: Moody's Economy.com

# ESTIMATES AND FINALS INCOME TAX

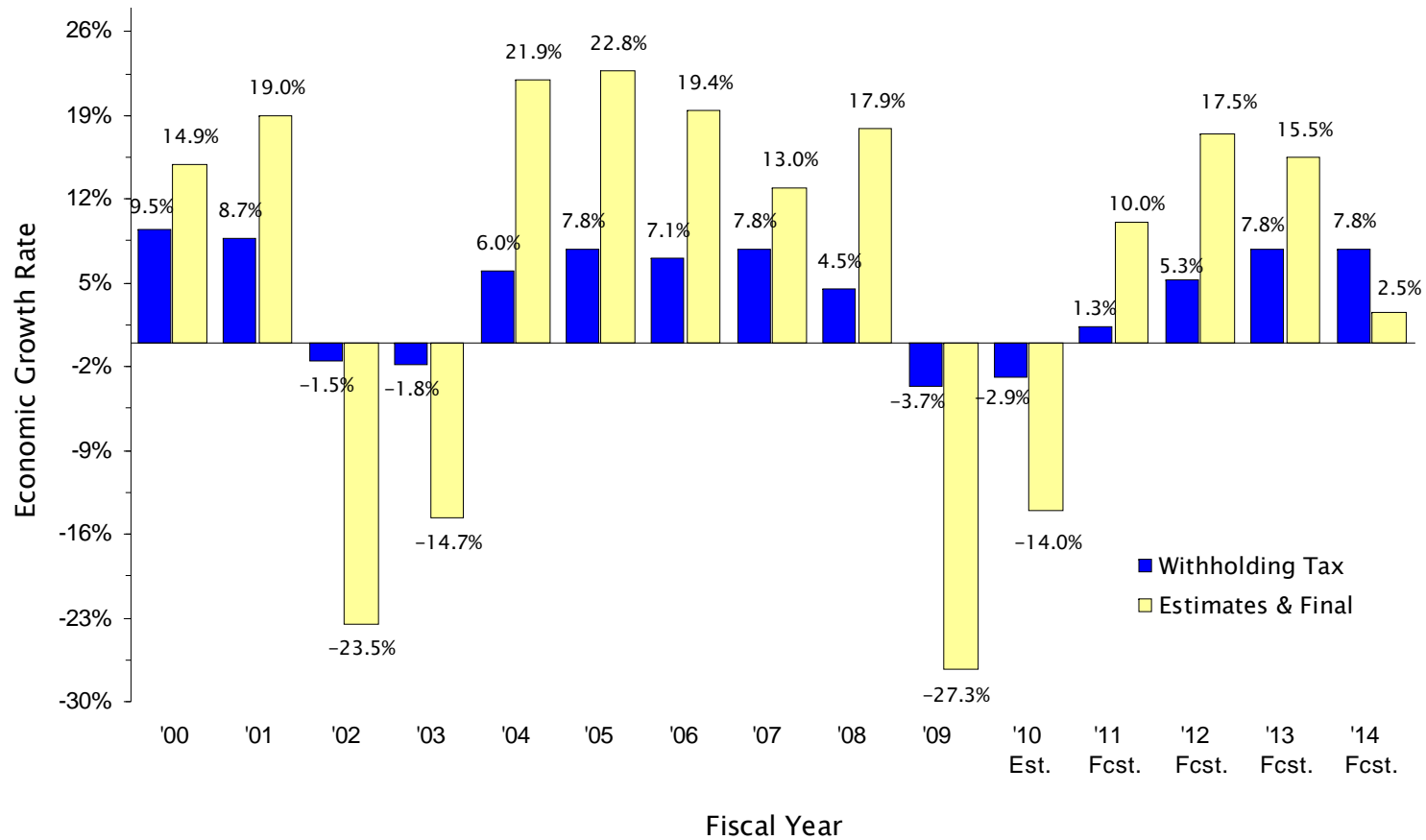
## PERSONAL INCOME TAX COLLECTIONS

(In Millions)



- In FY 2002, estimates and finals fell by \$424.1 million
- In FY 2003, they fell by an additional \$131.1 million for a total of \$555.2 million or 31% from the 2001 peak
- In FY 2009 alone, estimates and finals fell by \$904.4 million and were projected to fall an additional \$286.5 million in FY 2010 for a total decline over two years of approximately \$1.2 billion or 38% from the 2008 peak
- The increase in the projection for FY 2010 is a result of increasing the top tax rate from 5.0% to 6.5%, the underlying economic growth rate is -14.0%

# PERSONAL INCOME TAX

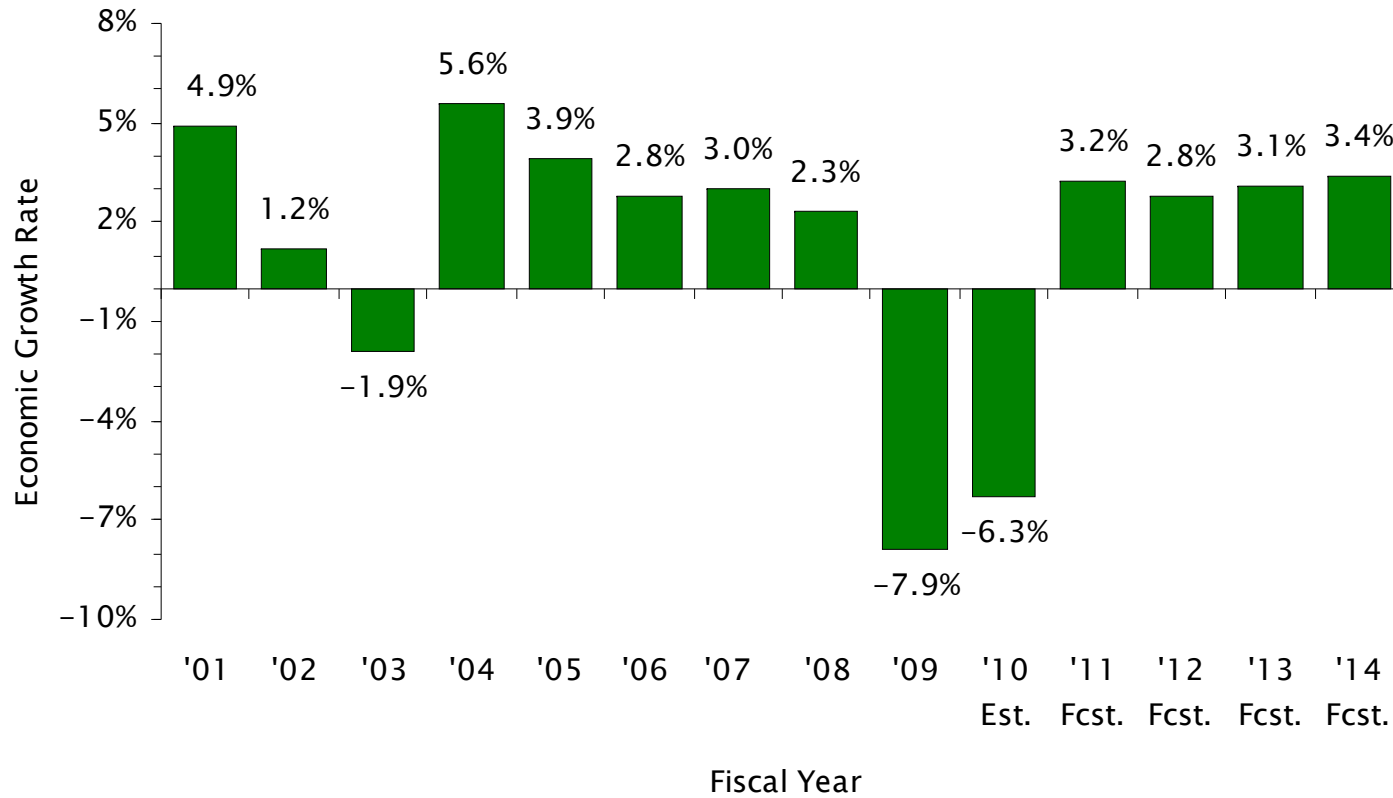


- Over the past decade Connecticut's income tax revenue has fluctuated dramatically.
- This was due to the performance of the stock market and a recession.
- Performance in the financial markets significantly influences the growth in this revenue source.



# SALES AND USE TAX TRENDS

## ECONOMIC GROWTH RATES OF THE SALES AND USE TAX



# CT TAX BURDEN VS OTHER STATES

## TOTAL CONNECTICUT STATE TAX BURDEN\* STATE, COUNTY AND LOCAL TAXES 2008

<u>Rank</u>	<u>State</u>	<u>% of Personal Income</u>
1	New Jersey	11.8%
2	New York	11.7%
<b>3</b>	<b>Connecticut</b>	<b>11.1%</b>
4	Maryland	10.8%
5	Hawaii	10.6%
6	California	10.5%
7	Ohio	10.4%
8	Vermont	10.3%
9	Minnesota	10.2%
10	Pennsylvania	10.2%
	United States Avg.	9.7%

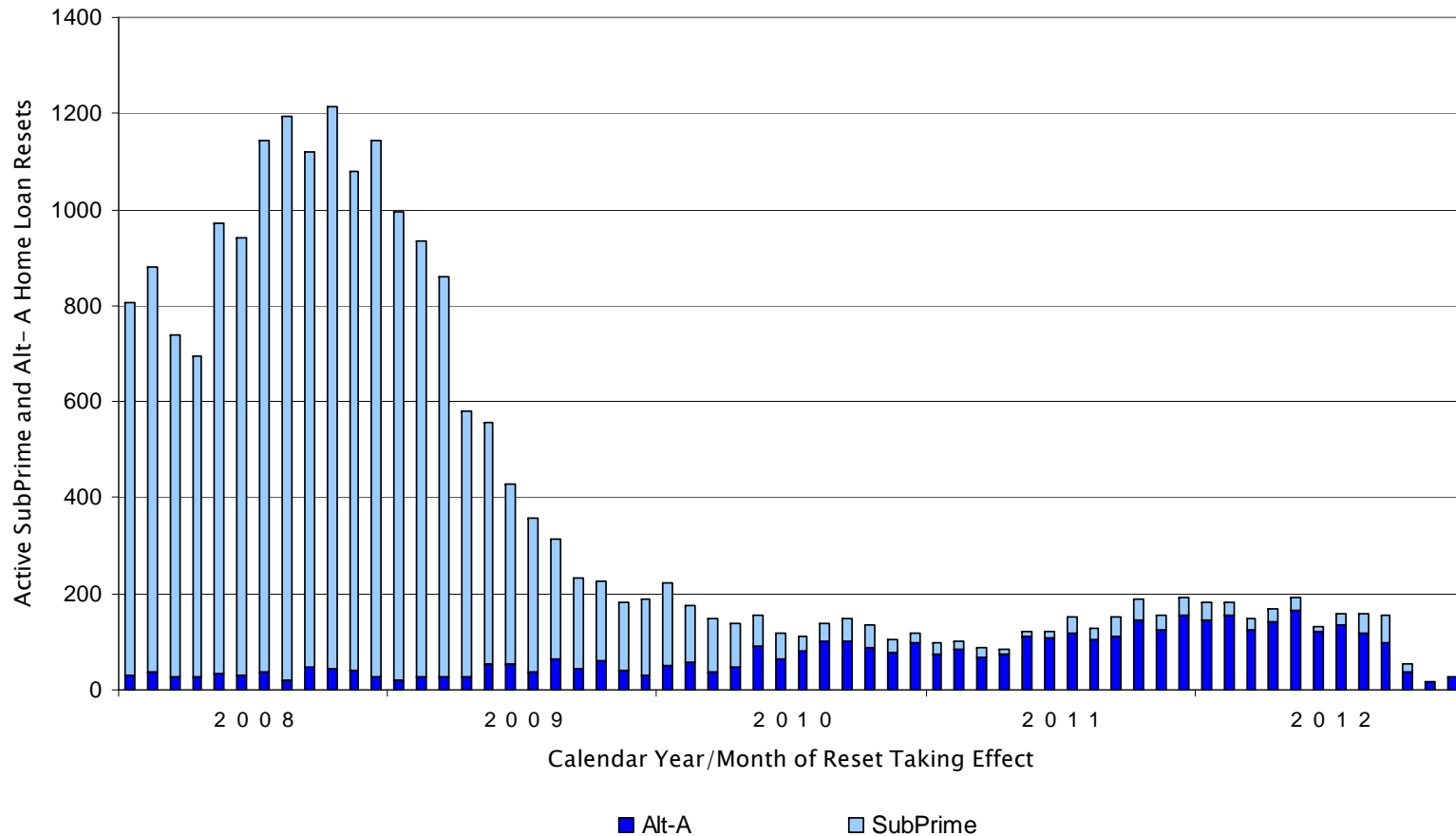
Source: Tax Foundation

\* Defined as total tax divided by income

- When county, and local taxes are added to state taxes and adjusted for Personal Income, Connecticut ranks 3rd in the nation
- Connecticut ranks 1st in state, county and local tax burden on a per capita basis at \$7,007 which is 63.6% higher than the national average of \$4,283

# HOUSING, MORTGAGES AND CREDIT QUALITY

## ACTIVE SUBPRIME AND ALT-A HOME LOANS IN CONNECTICUT AND TIMING OF RESETS



# ECONOMIC INDICATORS

## ASSUMPTIONS USED TO DEVELOP REVENUE ESTIMATES

	Fiscal <u>2009-10</u>	Fiscal <u>2010-11</u>	Fiscal <u>2011-12</u>	Fiscal <u>2012-13</u>	Fiscal <u>2013-14</u>
<u>UNITED STATES</u>					
Real Gross Domestic Product	0.2%	2.6%	5.0%	4.5%	3.0%
Housing Starts (M)	3.63	4.57	7.97	10.03	9.97
Unemployment Rate	10.0%	9.8%	8.0%	6.4%	5.7%
New Vehicle Sales (M)	10.91	12.68	15.18	16.60	17.03
Consumer Price Index	0.7%	1.6%	2.0%	2.0%	2.0%
<u>CONNECTICUT</u>					
Personal Income	-0.4%	1.7%	3.5%	4.7%	4.7%
Nonagricultural Employment	-3.3%	-0.3%	2.2%	3.1%	1.9%
Unemployment Rate	8.4%	8.6%	7.1%	5.6%	4.9%

M denotes millions.

Source: Moody's Economy.com November 9, 2009

# MAJOR COST DRIVERS & LONG TERM OBLIGATIONS

# WATCH LIST

## FY2010 AREAS OF CONCERN

(In Millions)

### GENERAL FUND

<u>Agency</u>	<u>Amount</u>
Statewide Lapses – unspecified cuts	\$ 473.3
Department of Social Services – budgeted Medicaid Savings	301.8
Particular Areas of Concern	
Medicaid trend re-estimate	13.0
Reduce MCO Rates by 6%	50.1
Special Needs Plans	25.0
Managed Services for aged, blind & disabled	27.8
Combat Medicaid Fraud	19.0
Judicial Department	7.9
Department of Correction	20.0
Department of Developmental Services	20.0
Total	\$ 823.0

# STRUCTURAL HOLES

## IMPACT ON FISCAL 2012 - GENERAL FUND

(In Millions)

### REVENUE

1. ARRA – Federal Stimulus	\$	594.8
2. Securitization		1,290.7
3. Budget Reserve Fund		342.0
4. Securitization – Loss of Revenue		216.5
5. UCHC Medical Malpractice Account Transfer		10.0
6. Sales of Assets		45.0
7. Corporate Tax Surcharge		34.1
<b>Total Revenue</b>	\$	<u>2,533.1</u>

### EXPENDITURES

8. Debt Service – Economic Recovery Notes	\$	208.4
9. Leap Year Costs		6.0
10. 27 <sup>th</sup> Payroll (General Fund Only)		108.7
<b>Total Expenditures</b>	\$	<u>323.1</u>

**Grand Total** \$ 2,856.2

% of FY2011 Enacted Budget 16.3%

- a structural hole exists in FY2013 for the first RIP accrual payment (estimated at \$28.1 million)

# LONG TERM OBLIGATIONS

- The state's long-term obligations total \$61.7 billion, up 7.1% from last year's reported amount of \$57.6 billion.
- This equates to approximately \$17,628 for every man, woman and child in Connecticut, up \$1,002 from last year's reported amount of \$16,626.
- In comparison, total Personal Income Tax collections in FY 2010 will only be \$6.610 billion.

## LONG-TERM OBLIGATIONS

(In Billions)

Bonded Indebtedness – As of 9/30/2009	\$	18.0
State Employee Pensions – Unfunded 6/30/2008		9.3
Teachers' Pension – Unfunded 6/30/2008		6.5
State Employees Post Retirement Health and Life – Unfunded		24.6
Teachers' Post Retirement Health and Life – Unfunded		2.2
GAAP Deficit		1.1
Total	\$	<u>61.7</u>



# CONNECTICUT'S BOND RATING

## CURRENT GENERAL OBLIGATION BOND RATING

Moody's  
Aa3

Standard & Poor's  
AA

Fitch  
AA

- Prior to 1975, Connecticut's General Obligation (GO) bonds had the highest rating possible: Aaa by Moody's and AAA by Standard & Poor's (S&P)
- The most recent revision in Connecticut's bond rating was a change in outlook to negative by both Moody's and Fitch in November 2009

### Reasons for Moody's change in outlook

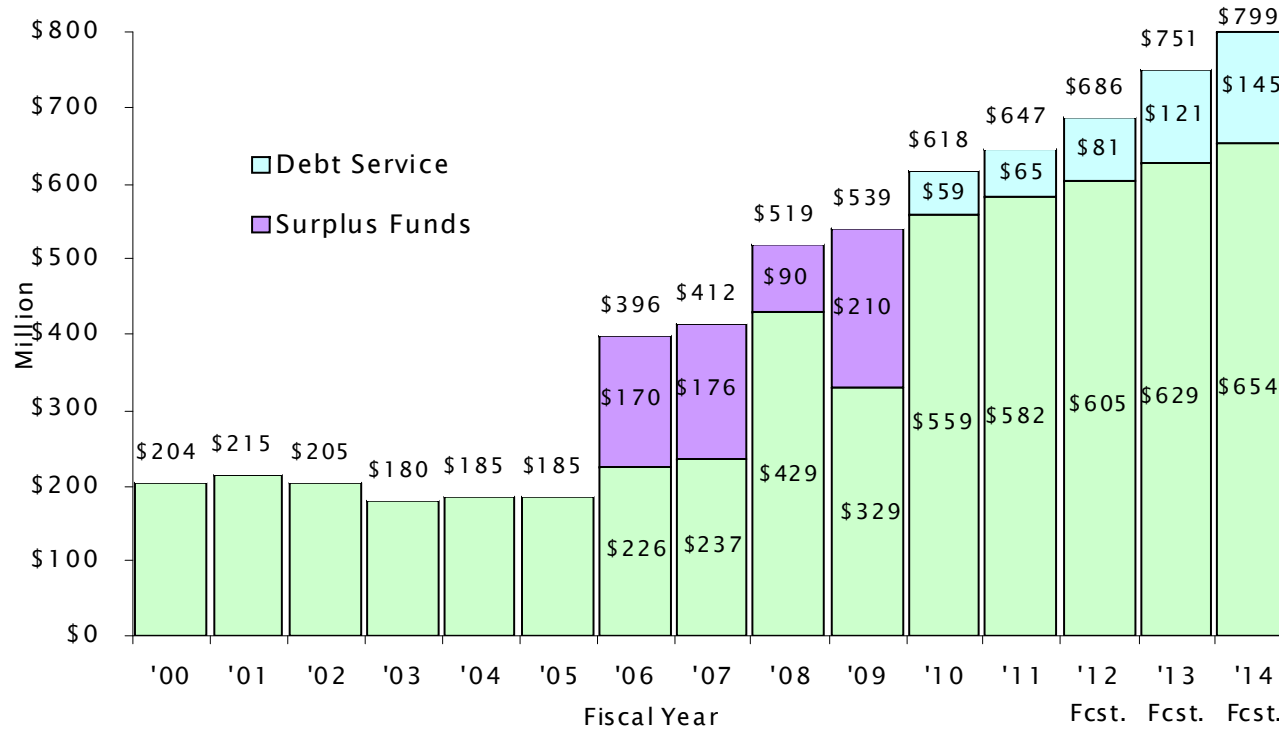
- Use of deficit financing to close the FY 2009 budget gap
- Use of one-time solutions, including securitization and federal stimulus funds to balance the FY 2009–2011 biennial budget
- Over-reliance on volatile income streams

<u>Rating</u>	<u>Number of States Rated</u>		
	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>
Better than CT	28	22	13
Equal to CT	10	17	14
Lower than CT	3	4	9
Total*	41	43	36

\* 44 states issue GO bonds. All 44 of these states are rated by Standard and Poor's. Moody's does not rate Nebraska. Fitch does not rate Arizona, Arkansas, Colorado, Nebraska, New Mexico, North Dakota, and Wyoming.

# UNFUNDED PENSIONS

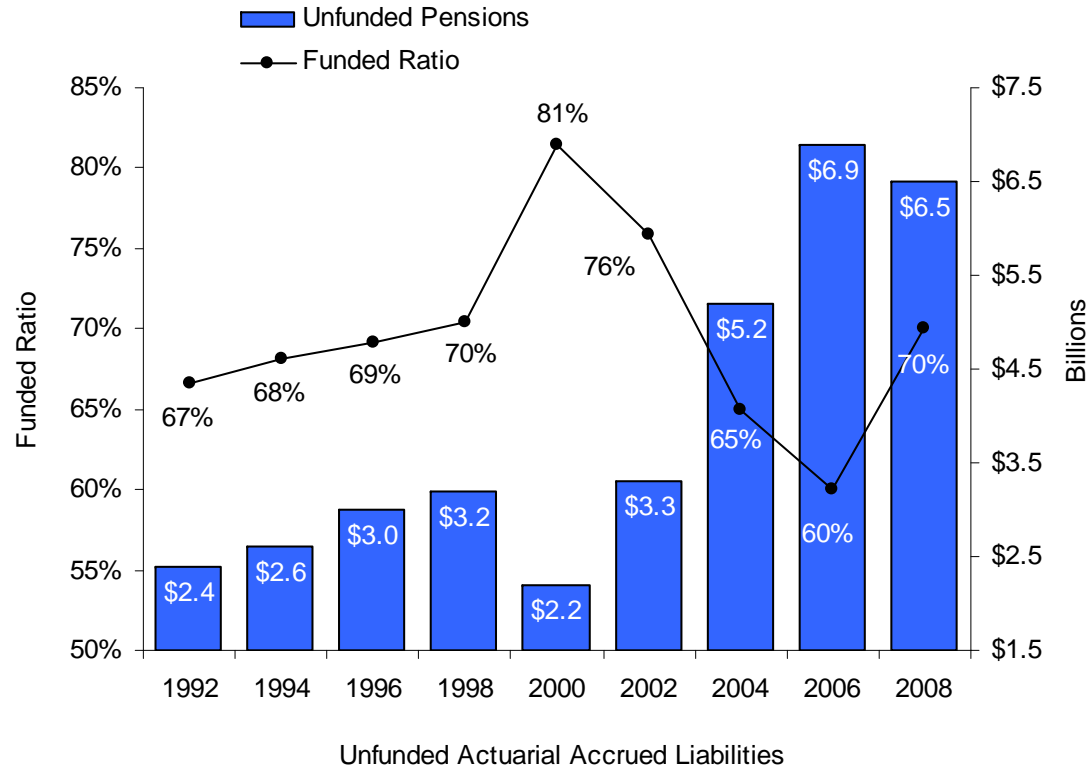
## TEACHERS' RETIREMENT SYSTEM CONTRIBUTIONS



\* FY06 and FY07 figures include \$170M and \$176M respectively from FY2005 and FY2006 surplus appropriations; FY08 includes \$90M and FY09 includes \$210M from FY2007 surplus appropriations. FY10 and beyond include debt service on the \$2.3 billion pension obligation bonds issued on April 30, 2008 on behalf of the Teachers' Retirement System.

# UNFUNDED PENSIONS

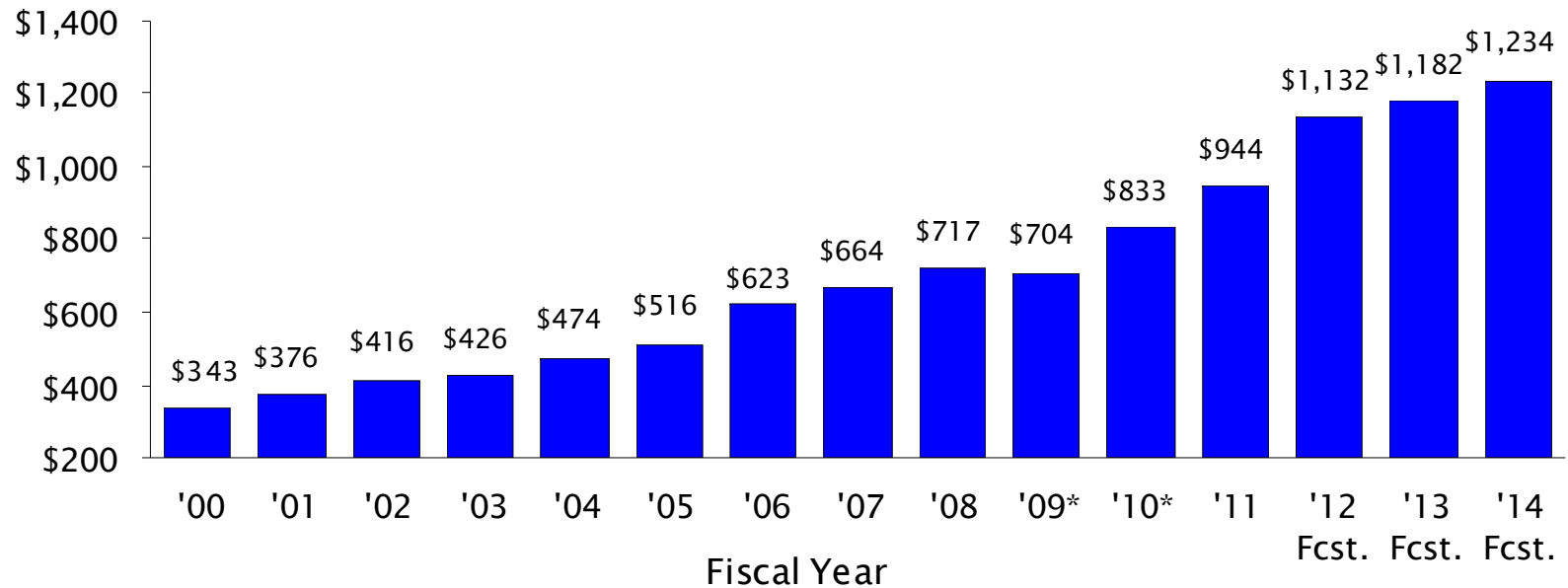
## CONNECTICUT TEACHERS' RETIREMENT SYSTEM



- The State's obligations at the end of FY2008 total \$6.5 billion.
- Contributions in FY2006, FY2007, FY2008 and FY2009 were insufficient and were supplemented by the use of surplus funds.
- The \$6.5 billion does include an increase in obligations due to the elimination of the cost of living adjustment reserve account (CLARA), and does include the impact of the issuance of Pension Obligation Bonds.

# STATE EMPLOYEES RETIREMENT SYSTEM CONTRIBUTIONS

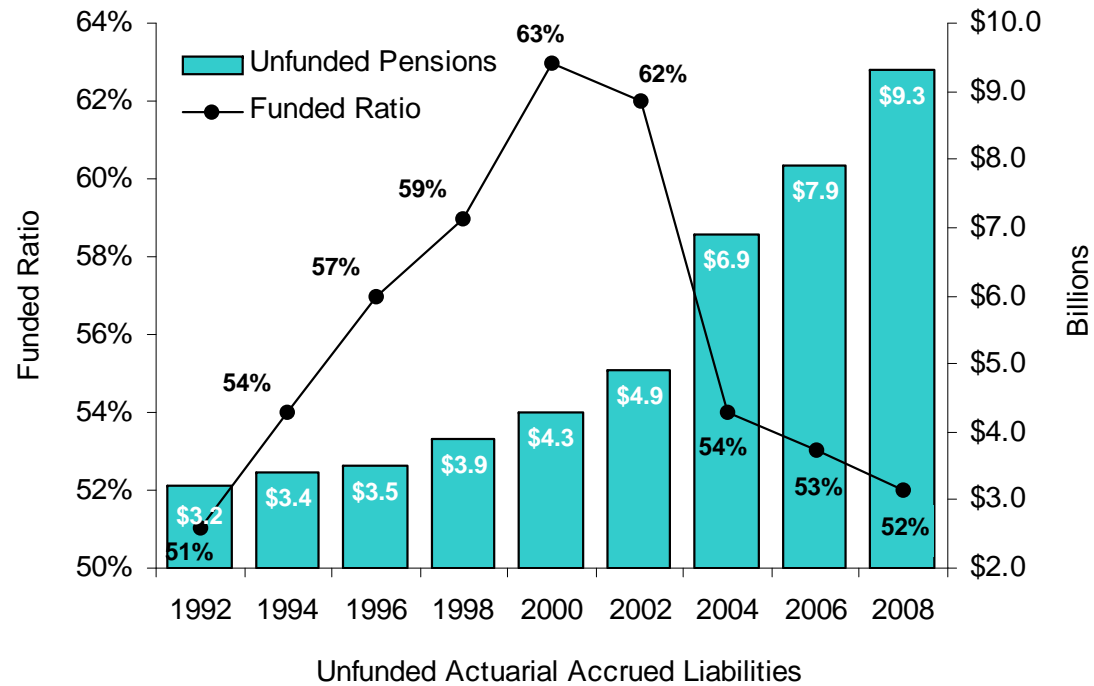
(In Millions)



FYs '09 and '10 include deferrals of the SERS Contribution per the 2009 SEBAC Agreement

# UNFUNDED PENSIONS

## STATE EMPLOYEES RETIREMENT SYSTEM AS OF 6/30



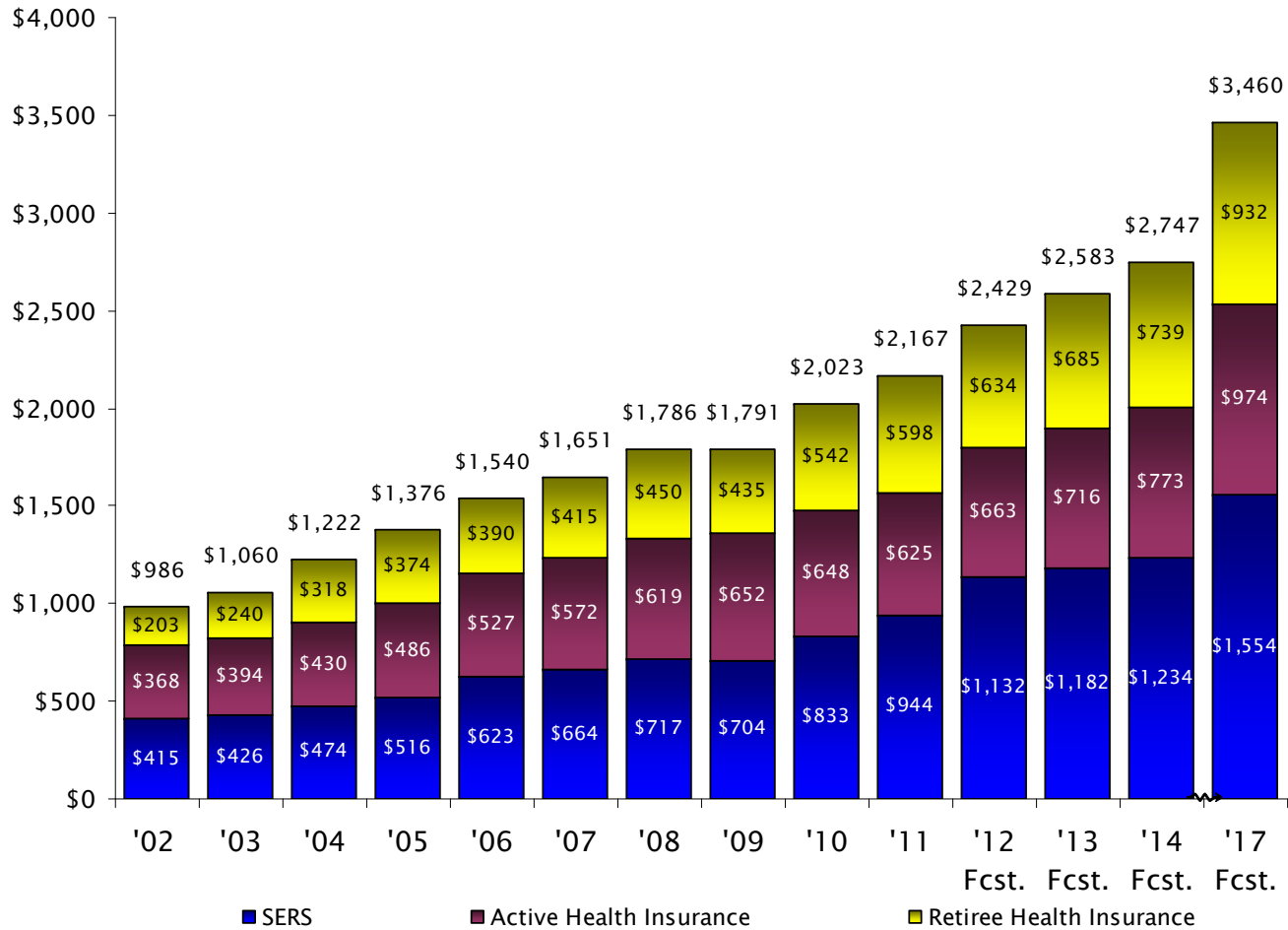
- State Employees unfunded pension liabilities continue to grow
- The State's obligations at the end of FY2008 total \$9.3 billion
- This obligation represents roughly \$2,650 for every man, woman, and child in the State

# STATE EMPLOYEES PENSION

## HEALTH INSURANCE – ALL FUNDS

### SERS & HEALTH INSURANCE EXPENDITURES

As Of 6/30



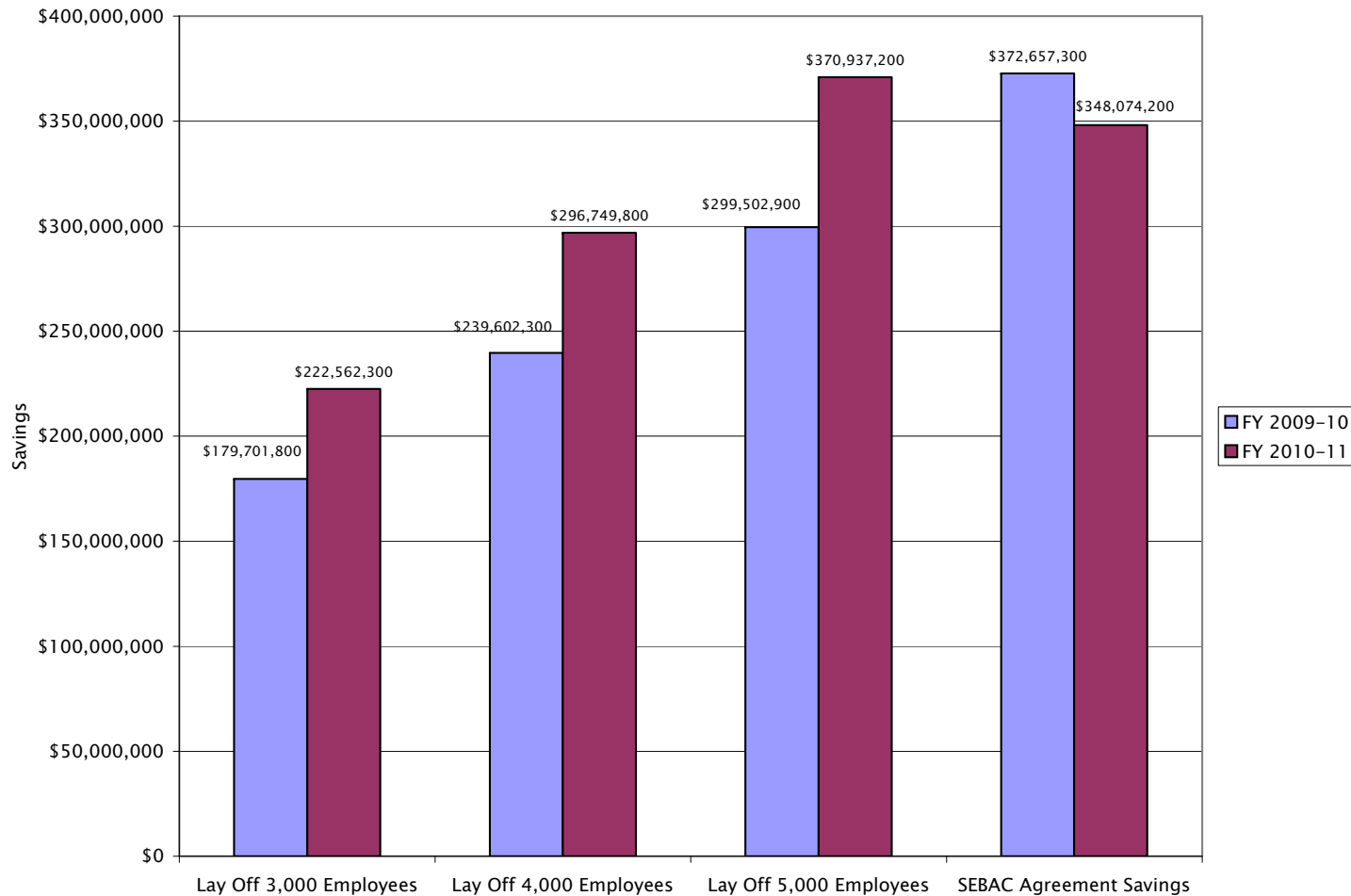
**Note:** Retiree Health includes offsets for the Medicare Part D Employer Subsidy starting in FY2007. The impact of the 2009 SEBAC agreement is also included.

# CHANGES TO THE ORIGINAL SEBAC AGREEMENT (1997)

<b>Retirement Incentive Program</b>	<u>Criteria</u> 10 Years of State Service and be 55 years old; or 20 years of Hazardous Duty to be eligible	<u>Payout</u> Accrued Sick and Vacation days will be paid in 3 equal payments July 2012, 2013, and 2014	<u>Incentives</u> RIP will add on three extra years of service for the purpose of benefit calculation	<u>Cost Savings</u> FY 10-\$110.9 million FY 11-\$108.3 million FY 12-\$108.3 million
<b>Furlough</b>	<u>FY 09</u> One Furlough Day must be taken	<u>FY 10</u> Three Furlough Days must be taken	<u>FY 11</u> Three Furlough Days must be taken	<u>Cost Savings</u> Included in RIP
<b>Health Care</b>	<u>Co-Pays</u> Co-payments for generic drugs will rise from \$3 to \$5. Co-payments for preferred brand name drugs will rise from \$6 to \$10 and a third tier is created making non-preferred brand name drugs \$25	<u>Premiums</u> Employee Premiums set forth in SEBAC shall be increased \$350 per year	<u>Plan Changes</u> The Preferred Plan will be closed to new admissions unless an employee is retiring under RIP and selects it upon retirement	<u>Cost Savings</u> FY 10-\$30 million FY 11-\$54 million FY 12-\$54 million
<b>Salaries</b>	<u>FY 10</u> Higher education units will take a hard freeze (no General Wage Increase, Top Step Bonus, or Annual Increase) while Bargaining units with settled contracts may take a hard freeze or soft freeze (no GWI this year, and no AI and no TSB in FY 11)	<u>FY 11</u> Those that had hard freezes in the previous year and settled contracts will slide the FY 10 increases to FY 11	<u>FY 11</u> Those that had settled contracts in the previous year will slide the FY 11 increases to FY 12	<u>Cost Savings</u> Included in RIP
<b>Pensions</b>	<u>Triggers for Further Action</u> The State will contribute \$50 Million less to the State Employee Retirement System in FY 09 and \$64.5 million less in FY 10	<u>Reduced Contribution</u> If Projected Revenue for the General Fund and Special Transportation Fund is \$300 million below its budgeted amount and the Governor authorizes any Recissions then the State SERS contribution may be decreased \$100 million	<u>Conditions</u> If the number of people retiring under RIP is less than 3,000 the state may reduce its contributions to pensions or OPEB up to \$100 million	<u>Cost Savings</u> FY 09-\$62.4 million
<b>Other Post Employment Benefits</b>	<u>Retiree Health Insurance</u> All new employees will contribute 3% to a fund established for health care coverage for the first 10 years of their employment	<u>One-Time OPEB Contribution</u> The State will wait to contribute the \$14.5 million it budgeted for OPEB until the first fiscal year there is a budget surplus	<u>Health Insurance Entitlement</u> Age plus years of service must total 75 years for employees with less than 10 years of service on 7/1/09 in order to get retiree health insurance	<u>Cost Savings</u> Included in Health Care

# SEBAC AGREEMENT SAVINGS ROLLOUT

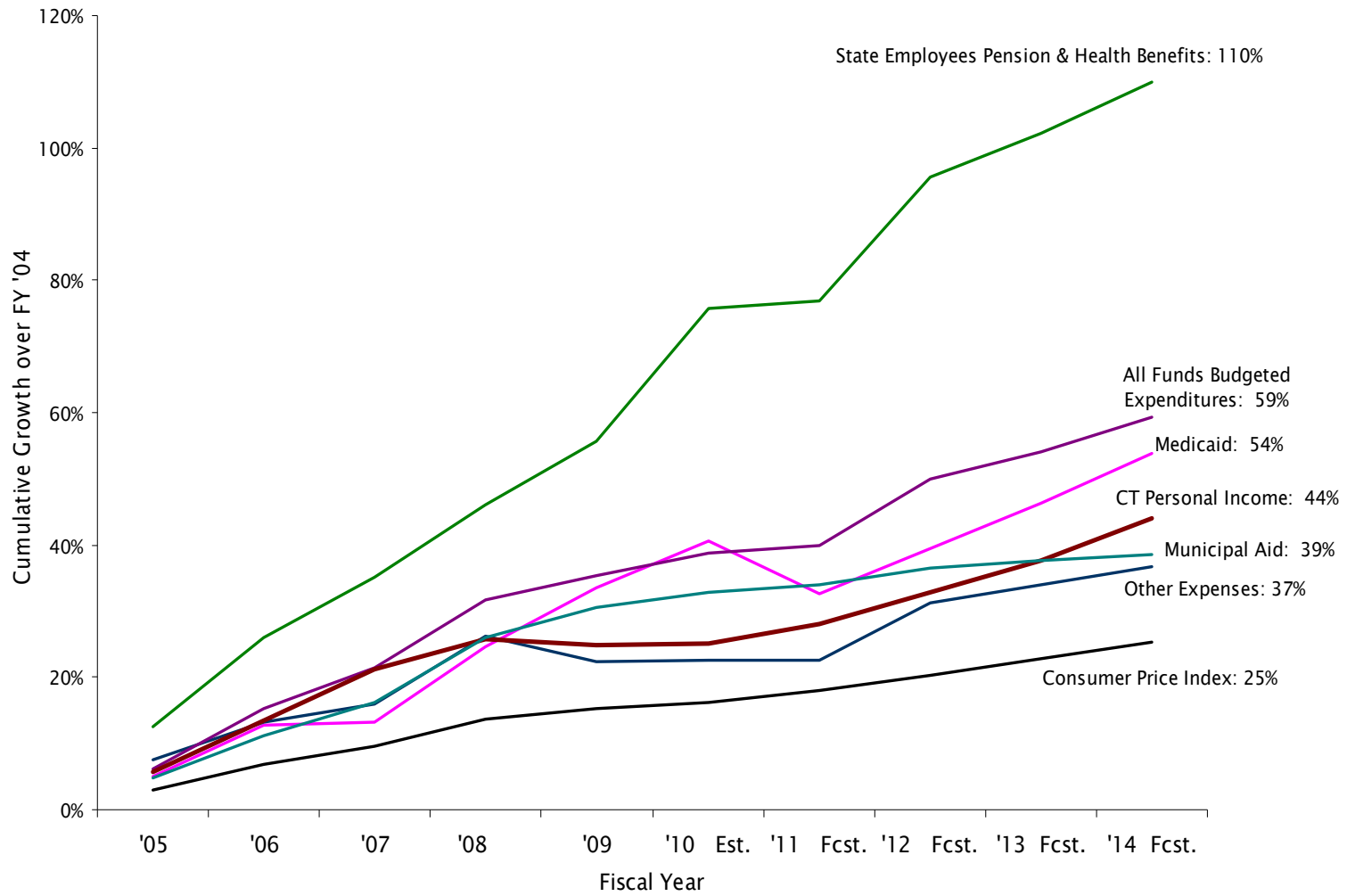
## COMPARATIVE ANALYSIS – SEBAC AGREEMENT VERSUS LAYOFF SCENARIOS COMBINED GENERAL AND SPECIAL TRANSPORTATION FUNDS



- Savings from the SEBAC agreement are roughly the same as what would have been realized by laying off 5,000 employees
- SEBAC savings are shown net of approved temporary and permanent refills



# GROWTH IN SIGNIFICANT STATE EXPENDITURES



# SUMMARY OF LOCAL AID

## ESTIMATED FORMULA GRANTS TO MUNICIPALITIES

(In Millions)

GRANT	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
State Owned PILOT	\$ 76.0	\$ 76.5	\$ 76.8	\$ 76.8	\$ 76.8	\$ 76.8
College & Hospital PILOT	115.4	115.4	115.4	115.4	115.4	115.4
Pequot Grant	86.3	61.8	61.8	86.3	86.3	86.3
Town Aid Road Grant	30.0	30.0	30.0	30.0	30.0	30.0
LoCIP	30.0	30.0	30.0	30.0	30.0	30.0
Miscellaneous General Grants	18.6	20.8	22.0	22.5	23.1	23.8
Machinery & Equipment	57.3	57.3	57.3	57.3	57.3	57.3
Subtotal – General Government	\$ 413.6	\$ 391.8	\$ 393.3	\$ 418.3	\$ 418.9	\$ 419.6
Public School Transportation	\$ 48.0	\$ 48.0	\$ 48.0	\$ 48.0	\$ 48.0	\$ 48.0
Non–Public School Transportation	4.0	4.0	4.0	4.0	4.0	4.0
Adult Education	19.6	20.6	20.6	20.6	20.6	20.6
Education Cost Sharing	1,882.9	1,889.6	1,889.6	1,889.6	1,889.6	1,889.6
Magnet Schools	128.6	148.1	174.6	199.4	217.2	230.8
Special Education – Student Based	140.0	120.5	120.5	120.5	120.5	120.5
Miscellaneous Education Grants	146.4	147.1	147.2	148.5	149.8	151.1
Subtotal – Education	\$ 2,369.5	\$ 2,377.9	\$ 2,404.5	\$ 2,430.6	\$ 2,449.7	\$ 2,464.6
Total – Formula Grants	\$ 2,783.1	\$ 2,769.7	\$ 2,797.8	\$ 2,848.9	\$ 2,868.6	\$ 2,884.2

- FY2009 Town Aid Road Grant includes \$8 million in FY2007 surplus funds
- Education Cost Sharing includes \$269 million in ARRA funds in both FY2010 and FY2011
- *Grants to Municipalities* comprises 14.6% of the FY2010 General Fund budget
- *Grants to Municipalities* will be \$2.8 billion in FY 2012 and FY2013 which is a 1.5% increase over the fiscal year 2009 level

# FY2011 BUDGET CHALLENGES

- Stagnant Economic Conditions
- Low-growth Revenue projections
- Budgeted Lapses that are unprecedented
- Substantial, aggressive Medicaid savings – \$353 million in FY2011 in addition to FY2010 budgeted savings of \$301.8 million

# THE SPECIAL TRANSPORTATION FUND

## POSSIBLE SHORTFALLS – DEPARTMENT OF TRANSPORTATION

- Rail Operations – \$15.1 million
  - Ridership down.
  - Metro North increase.
  - Maintain current level of service.
- Other Expenses
  - \$13.2 million cut from FY2009 level.
  - Replenish salt supplies for winter.
  - Agency identifying sources to offset shortfalls.

## SPECIAL TRANSPORTATION FUND BALANCE

- Budgeted balance of \$4 million in FY2010.
- Balance could easily be depleted by any shortfalls.

# FY2010 GENERAL FUND OE HOLDBACKS

	Appropriation	General OE Adjustment	Reduce OE 2007 Level	Contracts Savings	Total Available After Lapses	Percentage Available After Lapses
Legislative Management	16,890,317	415,440	2,004,033	428,061	14,042,783	83.1%
Department of Public Works	26,785,784	658,832	668,639	3,183,500	22,274,813	83.2%
Department of Public Safety	29,997,894	737,839	0	5,317,303	23,942,752	79.8%
Department of Environmental Protection	3,456,277	85,012	0	612,688	2,758,577	79.8%
Commission on Culture and Tourism	857,658	21,095	0	383,783	452,780	52.8%
Department of Economic and Community Development	1,505,188	37,022	0	239,131	1,229,035	81.7%
Department of Public Health	5,549,136	136,488	0	1,636,931	3,775,717	68.0%
Department of Developmental Services	27,093,834	666,409	566,199	3,685,463	22,175,763	81.8%
Department of Mental Health and Addiction Services	34,667,107	916,635	2,707,056	8,317,188	22,726,228	65.6%
Department of Social Services	88,148,799	2,168,139	474,194	16,545,408	68,961,058	78.2%
Department of Education	16,689,076	410,490	0	3,058,921	13,219,665	79.2%
Department of Correction	84,791,809	2,085,569	9,506,572	6,268,886	66,930,782	78.9%
Department of Children and Families	46,185,390	1,135,992	613,092	7,089,543	37,346,763	80.9%
Judicial Department	74,956,525	1,843,657	7,818,118	2,558,880	62,735,870	83.7%
All Other Agencies	68,358,930	1,661,875	2,170,715	11,368,178	53,158,162	77.8%

# GENERAL FUND - OTHER EXPENSES

<u>Account Title</u>	<u>FY2009 Expenditures</u>
Electricity	\$ 49,922,813
Medical Program Support Services	39,664,297
Institutional Food and Beverages	29,542,092
Premises Rent Expense-Landlord	26,970,829
Natural Gas	26,165,926
IT Data Services	25,419,627
Management Consultant Services	18,877,656
Motor Vehicle Rental	14,044,570
Local/Long Distance Telecom	12,332,078
Regular Postage	11,956,708
IT Software Maint & Support	11,297,028
Premises Repair/Maint Services	11,271,592
Non-Medical Program Support Services	10,839,592
Motor Vehicle Fuel - Gasoline	10,426,155
Premises Repair/Maint Supplies	10,369,458
IT Consultant Services	10,230,300
Premises Property Management Services	9,669,651
General Office Supplies	9,549,265
IT Hardware Maint & Support	8,142,301
Office Equipment Lease/Rental	6,650,825
Fuel Oil - Heating	6,235,051

- The total expended for FY2009 Other Expenses was \$524.6 million, a decrease of \$16.8 million from FY2008
- The majority of Other Expense spending is fixed based on overall programmatic activity - numbers of clients, inmates, patients, cases, facilities
- Growth in Other expenses expenditures averaged 4% per year from FY2004 through FY2009; this growth rate is modest when compared with the inflation rates for fuel and utilities over the same period

# FIVE YEAR BOND PROJECTIONS

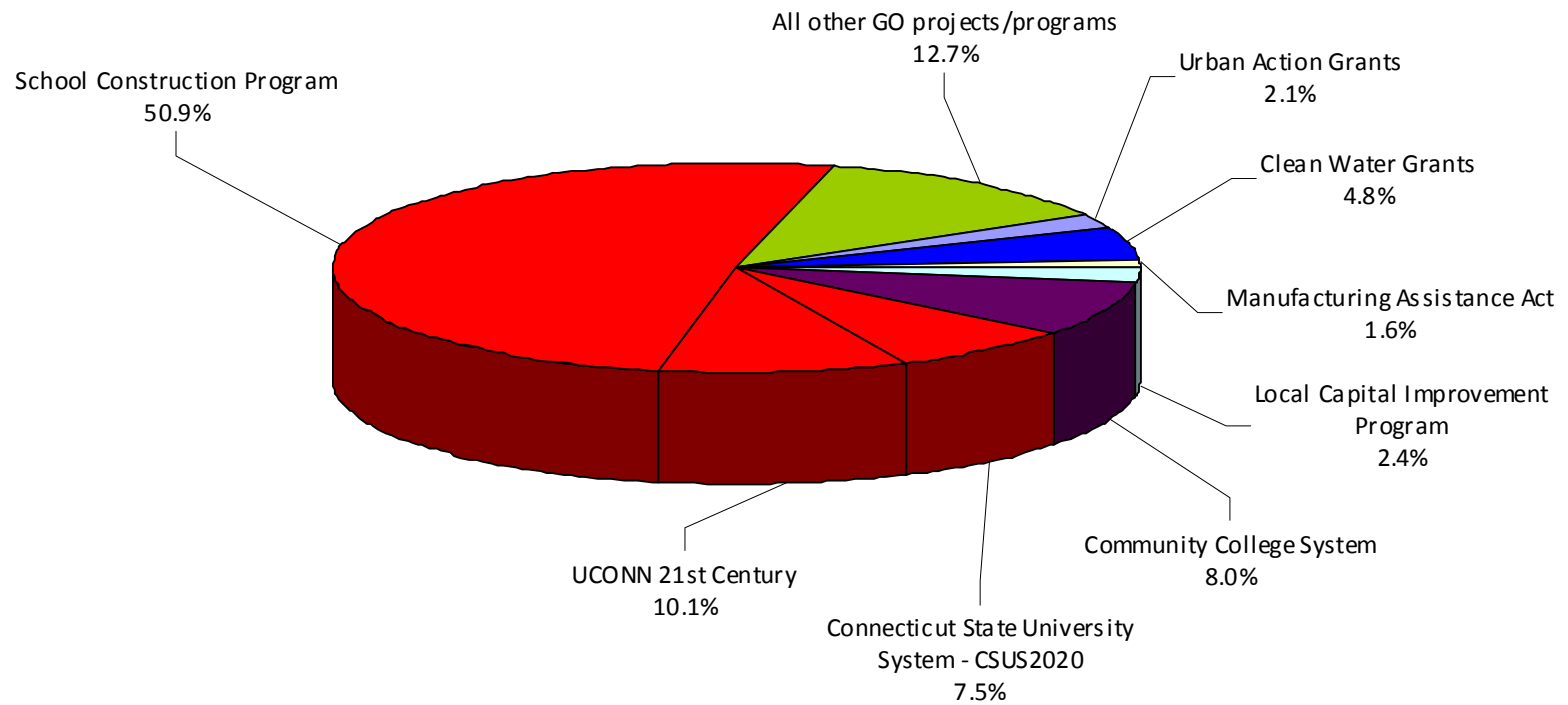
# PROJECTED GENERAL OBLIGATION BOND ALLOCATIONS

	FY2010	FY2011	FY2012	FY2013	FY2014
<b>Bond Allocations</b>					
<b>General Obligation Bonds</b>					
School Construction Program	\$ 688,300,000	\$ 641,600,000	\$ 617,100,000	\$ 615,500,000	\$ 642,000,000
Urban Action Grants	10,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Small Town Economic Assistance Program	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Housing Trust Fund	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Clean Water Grants	65,000,000	40,000,000	65,000,000	65,000,000	65,000,000
Manufacturing Assistance Act	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Local Capital Improvement Program	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
New Public Health Laboratory	81,700,000	-	-	-	-
Community College System					
Tunxis	-	-	16,000,000	-	4,600,000
Naugatuck Valley	1,325,000	6,600,000	-	37,800,000	-
Housatonic	-	3,400,000	31,000,000	-	-
Three Rivers	-	875,000	11,600,000	-	-
Norwalk	18,750,000	-	3,000,000	-	54,600,000
Gateway	182,700,000	-	2,500,000	2,500,000	2,500,000
Asnuntuck	1,254,500	11,450,000	-	-	-
Northwestern	-	1,634,000	-	6,200,000	-
Manchester	363,000	2,230,000	3,400,000	-	3,400,000
Middlesex	156,000	1,402,000	-	-	-
Capital	-	5,100,000	-	-	-
Quinebaug	980,000	-	-	-	-
Various Projects	9,500,000	22,500,000	19,000,000	19,000,000	19,000,000
Community College System	215,000,000	55,200,000	86,500,000	65,500,000	84,100,000
Connecticut State University System – CSUS2020	95,000,000	95,000,000	95,000,000	95,000,000	95,000,000
UCONN 21st Century	140,500,000	146,500,000	123,100,000	114,500,000	111,500,000
All other GO projects/programs	124,500,000	111,700,000	103,300,000	134,500,000	92,400,000
<b>Total General Obligation Bonds</b>	<b>\$ 1,500,000,000</b>	<b>\$ 1,200,000,000</b>	<b>\$ 1,200,000,000</b>	<b>\$ 1,200,000,000</b>	<b>\$ 1,200,000,000</b>
<b>Special Tax Obligation Bonds</b>	<b>500,000,000</b>	<b>500,000,000</b>	<b>325,000,000</b>	<b>325,000,000</b>	<b>325,000,000</b>
<b>Clean Water Fund Revenue Bonds</b>	<b>80,000,000</b>	<b>80,000,000</b>	<b>80,000,000</b>	<b>80,000,000</b>	<b>80,000,000</b>
<b>Total Bond Allocations</b>	<b>\$ 2,080,000,000</b>	<b>\$ 1,780,000,000</b>	<b>\$ 1,605,000,000</b>	<b>\$ 1,605,000,000</b>	<b>\$ 1,605,000,000</b>



# DISTRIBUTION OF GO BOND ALLOCATIONS

PROJECTED FY2010 – FY2014



# SUMMARY

# SUMMARY

- Based on the enacted budget, the state is projected to experience significant deficits at the end of FY2011–12, FY2012–13 and FY2013–14 that are unprecedented in our history.
- The use of one-time revenues including federal ARRA dollars to support on-going programs and projects adds over \$2.5 billion to these projected deficits.
- The budget reserve fund balance will be exhausted during FY2011.
- Debt service will continue to grow and consume a significant portion of the budget.
- The state faces significant long-term obligations including debt, unfunded pension liabilities and unfunded post-employment retirement benefits that are estimated to exceed \$61 billion in total.
- Budgeted “below the line” savings targets may be difficult to achieve.
- Stagnant economic conditions and low-growth revenue projections will continue to be the most significant challenges facing the state.