

**Governor Rowland's
FY 2001-2003 Biennial Budget**

February 7, 2001

**A Call For Living
Within Our Means**

Living Within Our Means

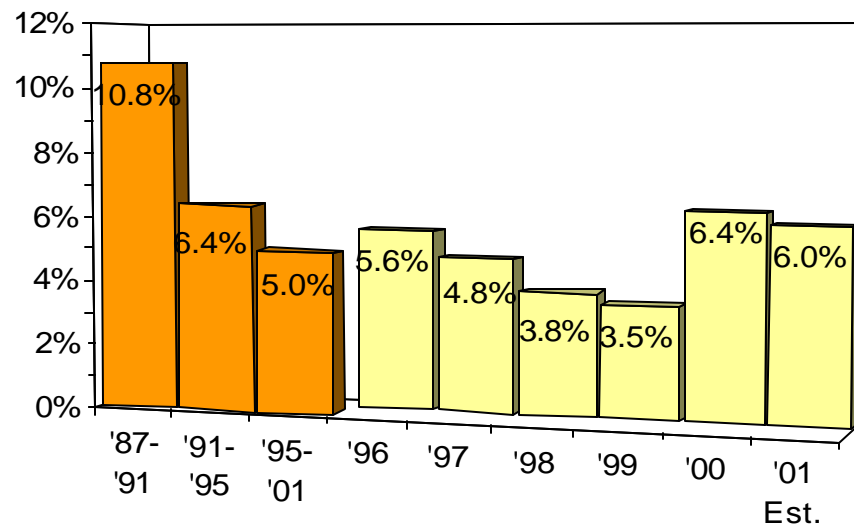
While many will criticize the budget as being lean, it must be remembered that:

- Residents of Connecticut will continue to be offered far more services than many of their counterparts in other states
- The vast majority of new and innovative education and human services programs begun continue to be funded at their current levels, including:
 - Early Reading Success and Early Childhood programs
 - Major expansions in home care for the elderly
 - Assisted living units for as many as 800 elderly
 - Full funding for the HUSKY Adult program
- The budget for next year increases by \$450 million

Living Within Our Means

- With record surpluses, low unemployment and a strong economy, spending reductions may be hard to understand, BUT,
- Spending growth has accelerated in recent times and we are on the verge of living beyond our means

**Budgeted Expenditure Growth Rates
By Fiscal Year**

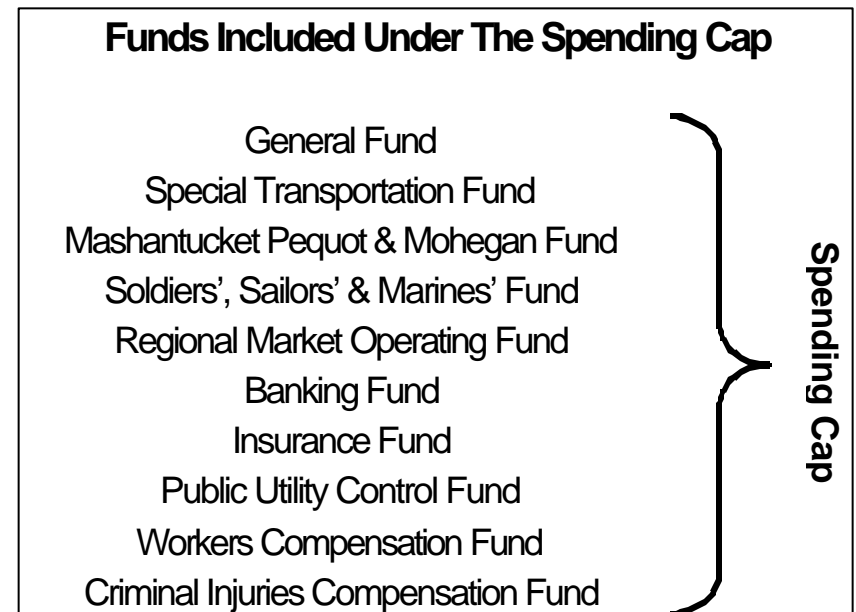


- The cap requires us to take the long view, to have the discipline to weather leaner times and it was passed 4 to 1 by the electorate

The Importance of the Spending Cap

How can we have surpluses and still be forced to cut?

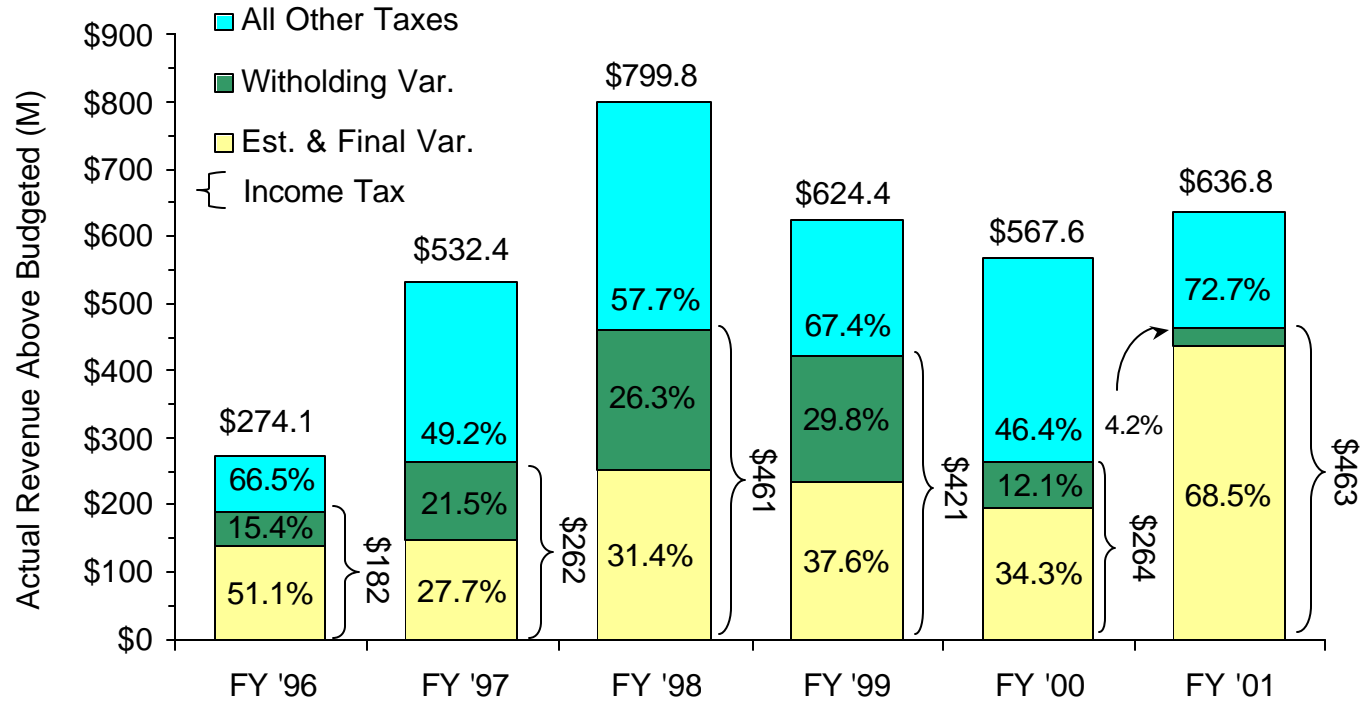
- The “umbrella” cap limits total spending for all these funds, while each one may have its own revenue source and surplus
- Both the general fund and special transportation fund are currently amassing surpluses



The Importance of the Spending Cap

- Much of the surplus has resulted from capital gains activity – from 1995 to 1998 there was a 157% increase; since 1996 our estimates and finals have doubled
- Such gains, largely dependent on stocks, cannot be relied on indefinitely

Revenue Variance Due Primarily To Income Tax Collections



The Importance of the Spending Cap

Haven't we exceeded the cap in the last 3 years?

- We have technically exceeded the cap in the past, but only for clearly defined, non-recurring purposes like debt reduction or avoidance
- We have never built the surplus spending into the base

The Importance of the Spending Cap

Aren't we spending more than the cap this year?

- We have a \$144.5 million deficiency and only around \$50 million under the cap this year. To not appropriate over the cap, the Governor
 - Tightened the hiring freeze, ordered spending cutbacks and used lapses (natural savings) to be transferred to cover the deficiencies (\$89 million)
- Spending this year accelerated beyond expectations
 - Medical caseloads, medical inflation
- There is a difference between appropriations and expenditures
- By not appropriating over the cap, we are deliberately penalizing ourselves in the future (\$94 million)

The Importance of the Spending Cap

Why not exempt certain items from the cap?

- Already, existing statutory exemptions amount to \$2.5 billion
- New exemptions would obligate us to spending for which there may not be revenues, leading us down the same path that created the fiscal calamities of the early 90s
- Technically, we would have to re-base the cap
- Exempting certain items may actually mean reduced spending in the future

The Importance of the Spending Cap

Why leave so much room under the cap?

- Average deficiencies are about \$97 million per year. There is no guarantee that revenues will be there to cover them.

State Deficiencies

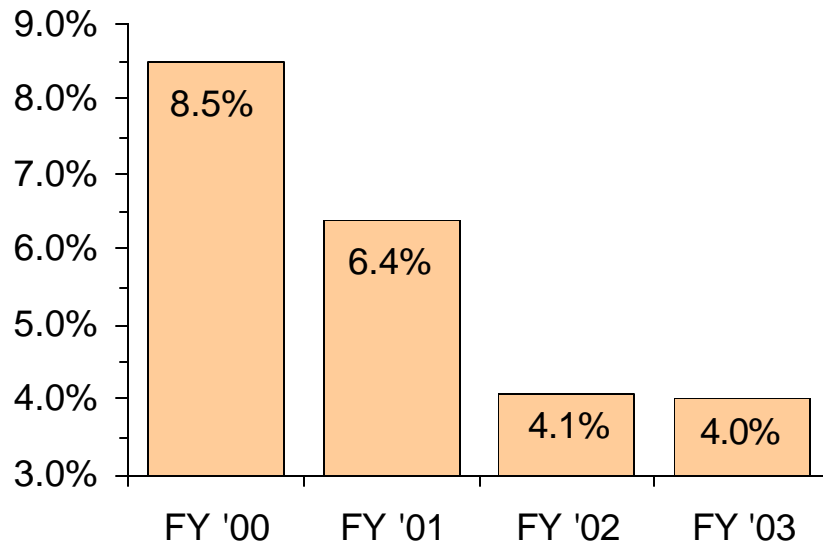
<u>FY</u>		<u>Amount</u>	
2001	*	\$144.5M	
2000		\$68.2M	
1999		\$27.7M	
1998		\$108.8M	
1997		\$137.1M	
5 Yr. Avg.		\$97.3M	* Estimate

- If we don't leave enough room, we will be forcing rescissions each year

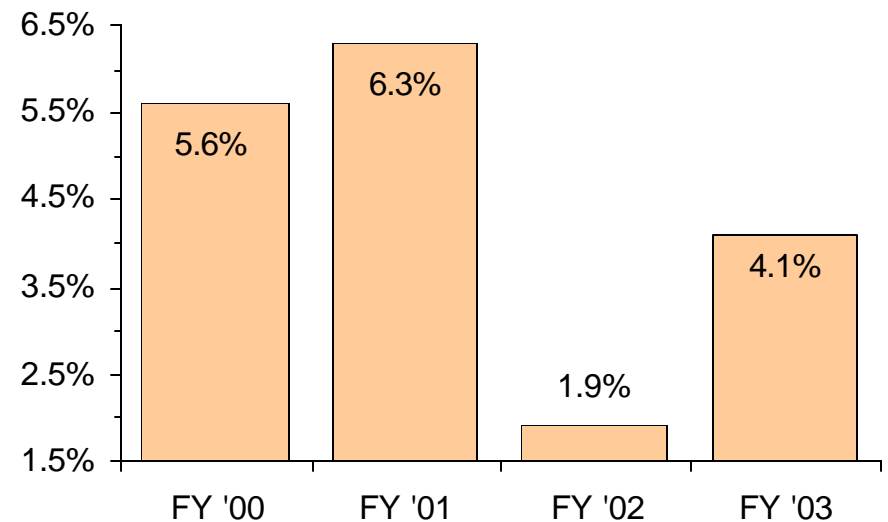
Looking Forward

- Looking forward, revenue is as much a factor as the spending cap
- Two major factors must be considered in future revenue - Economic Growth is slowing and Tax Cuts are taking effect

Economic Growth Rates
General Fund Revenues



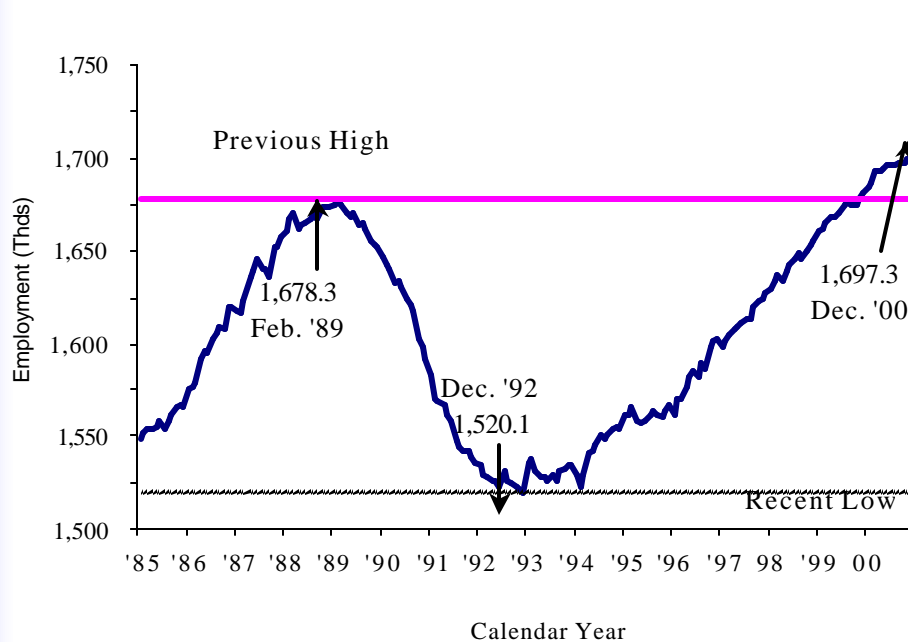
Actual Growth Rates
General Fund Revenue
Prior To Proposed '02 & '03 Tax Cuts



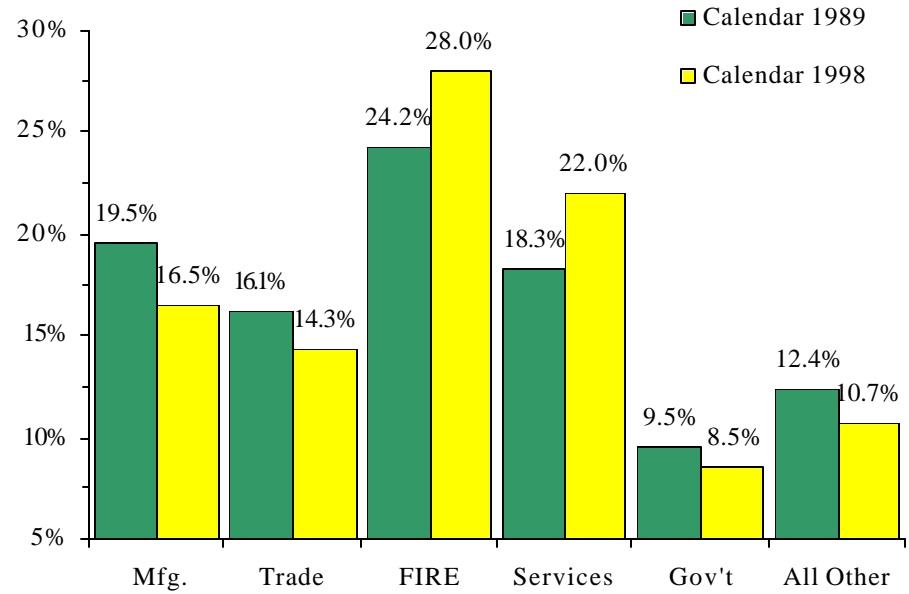
Economic Outlook – Good News

- The good news - our economy is not what it used to be
 - We've regained the jobs lost during the 90s, we have a better mix of industries and our unemployment rate is at a record low of 1.9% (S.A. Dec 2000 vs. 4.0% U.S.)

Connecticut Nonagricultural Employment



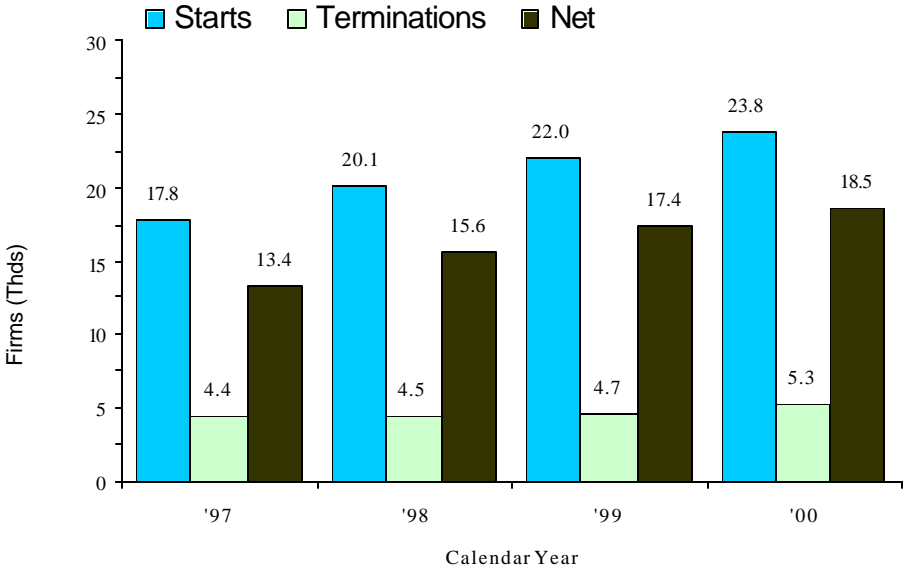
Gross State Product By Source



Economic Outlook - Good News

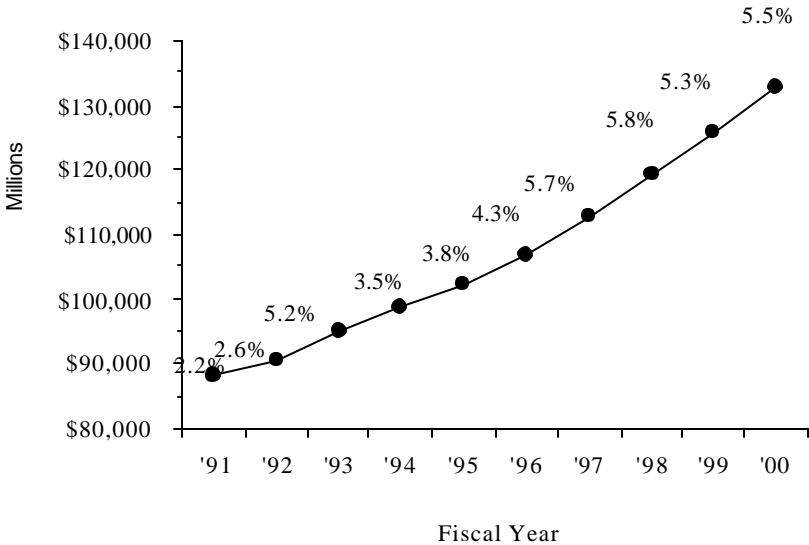
- We've continued the net gain in new business formations each year

Connecticut Business Formation



- Personal income growth rates have been positive

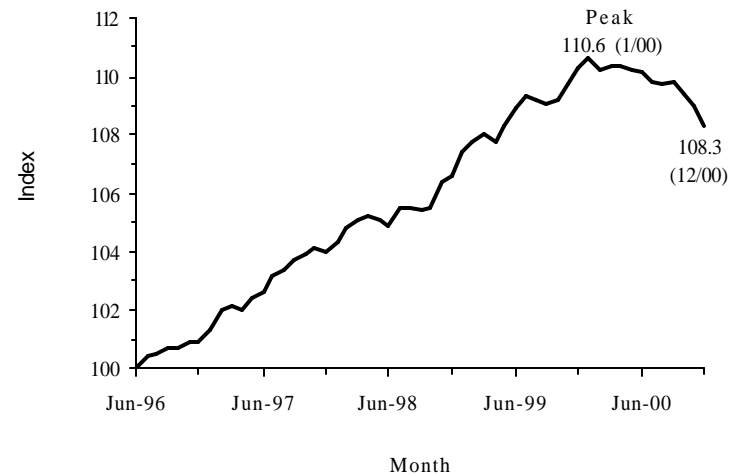
Connecticut Personal Income



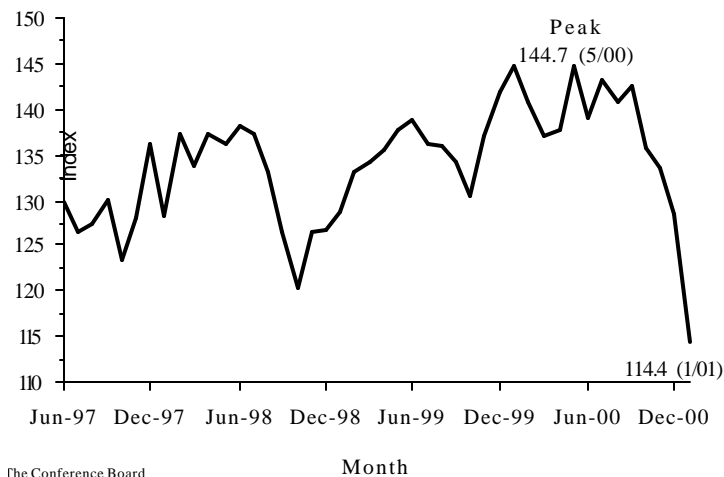
Economic Outlook – Uncertain Future

- Leading economic indicators have turned down

U.S. Index Of Leading Economic Indicators

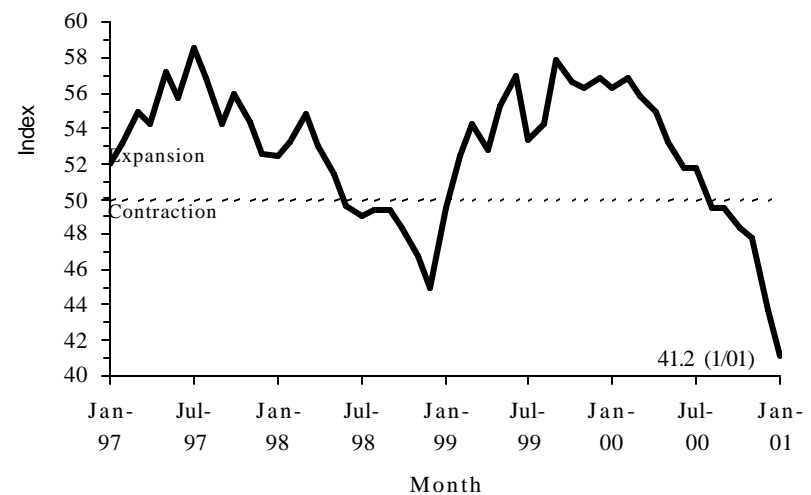


U.S. Consumer Confidence Index



The Conference Board

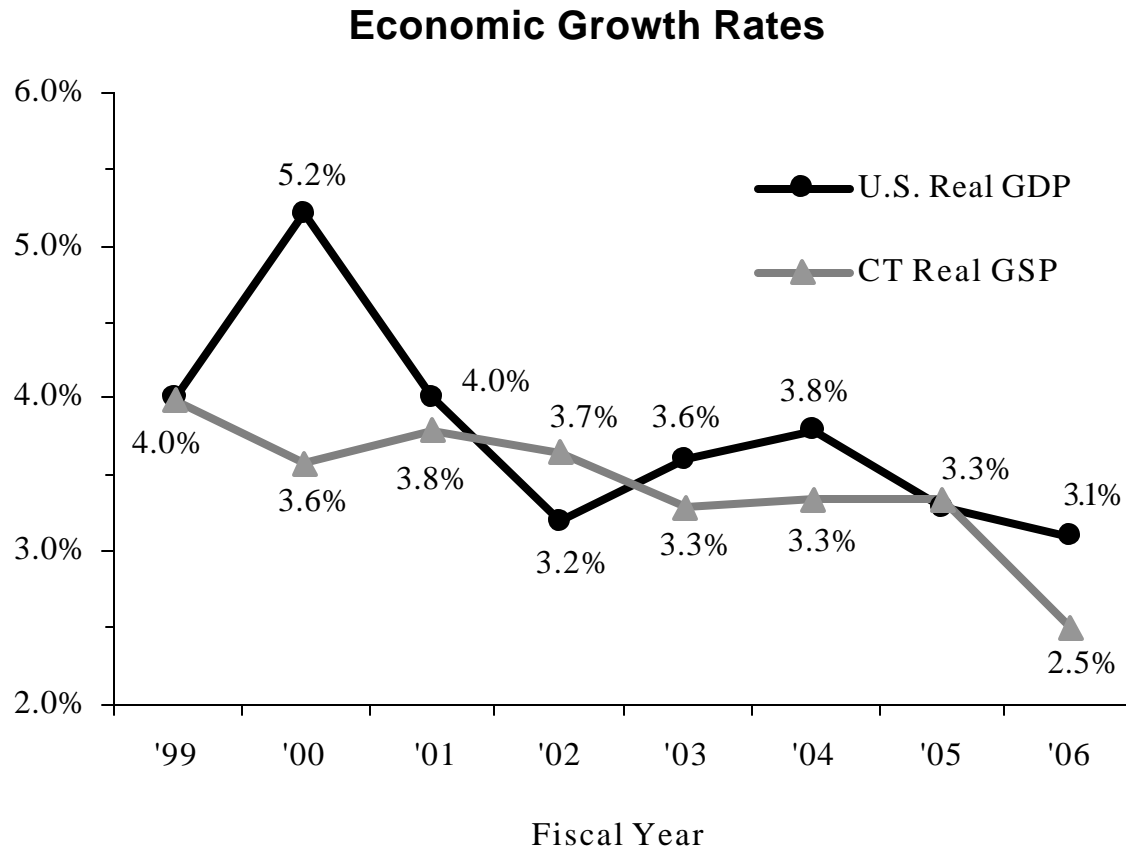
Purchasing Managers Index



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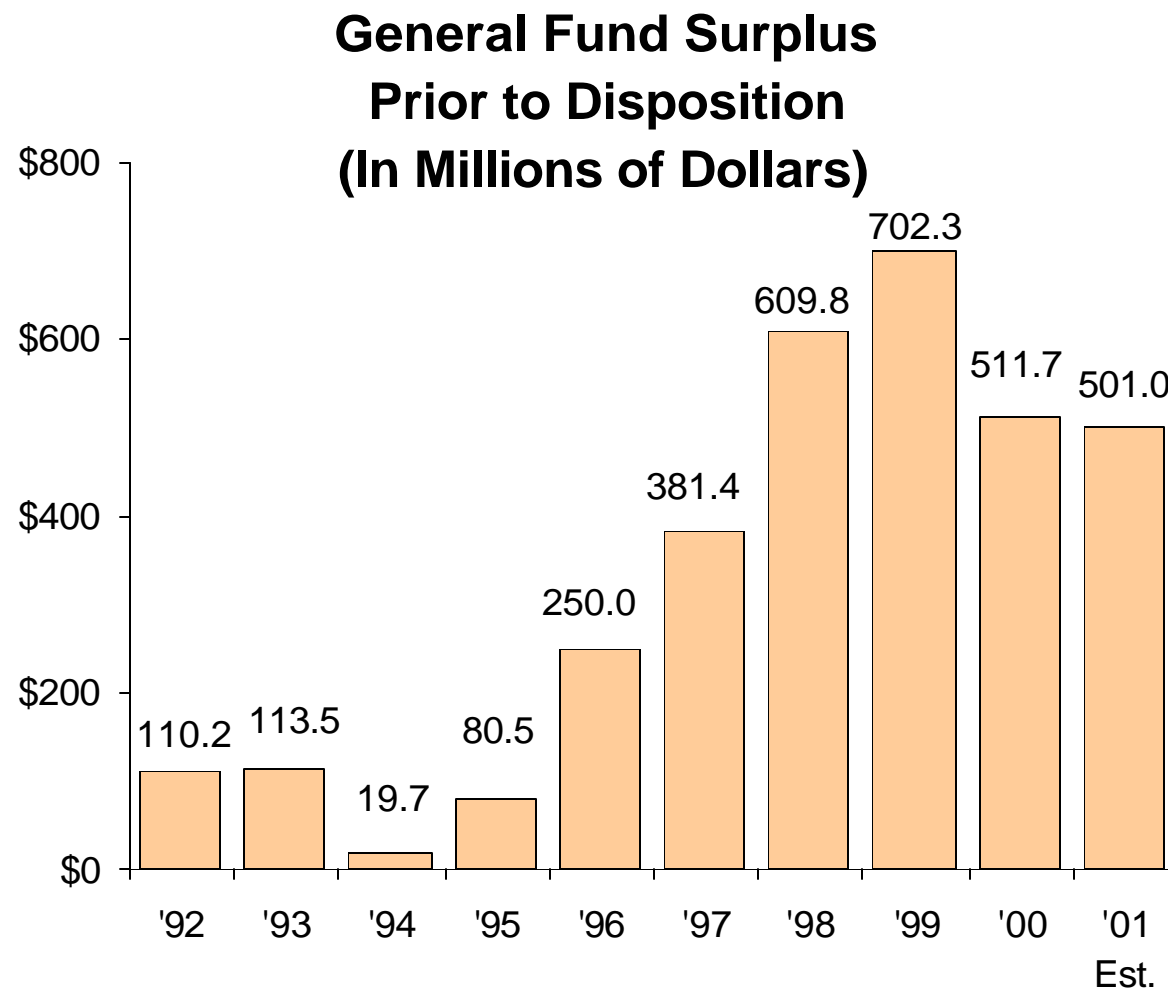
Economic Outlook - Uncertain Future

- Overall – continued growth at a slower pace - grounds for prudent assumptions for revenue and spending
- This “weakening” is still positive in comparison with the early 90s



Disposition of the Surplus

- The Governor forecasts a surplus in the current year of \$501 million

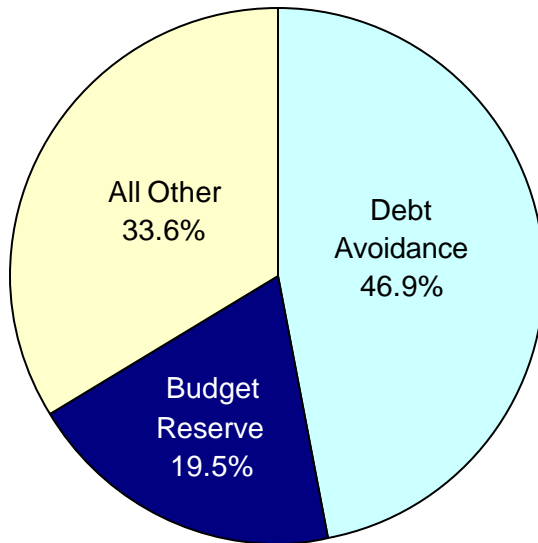


Disposition of the Surplus

- Governor Rowland has established a strong record of wise use of surpluses to build the rainy day fund, avoid future debt and make appropriate one-time investments

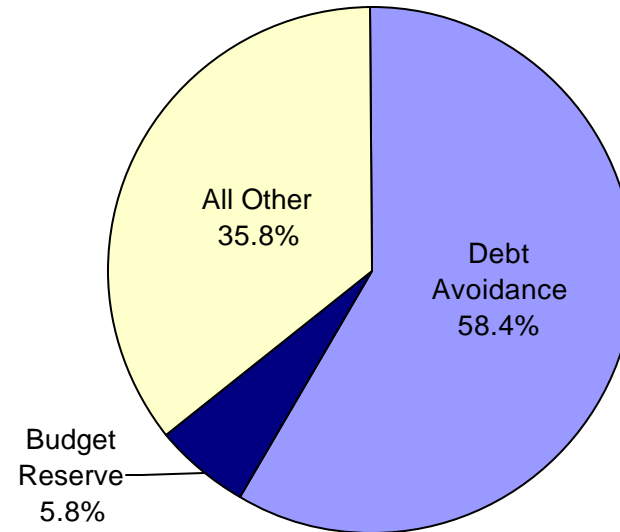
Use Of General Fund Surplus

Cumulative Surplus of \$3,036.7 Million
For Fiscal Years 1995 Through 2001



Disposition Of The 2001 Surplus

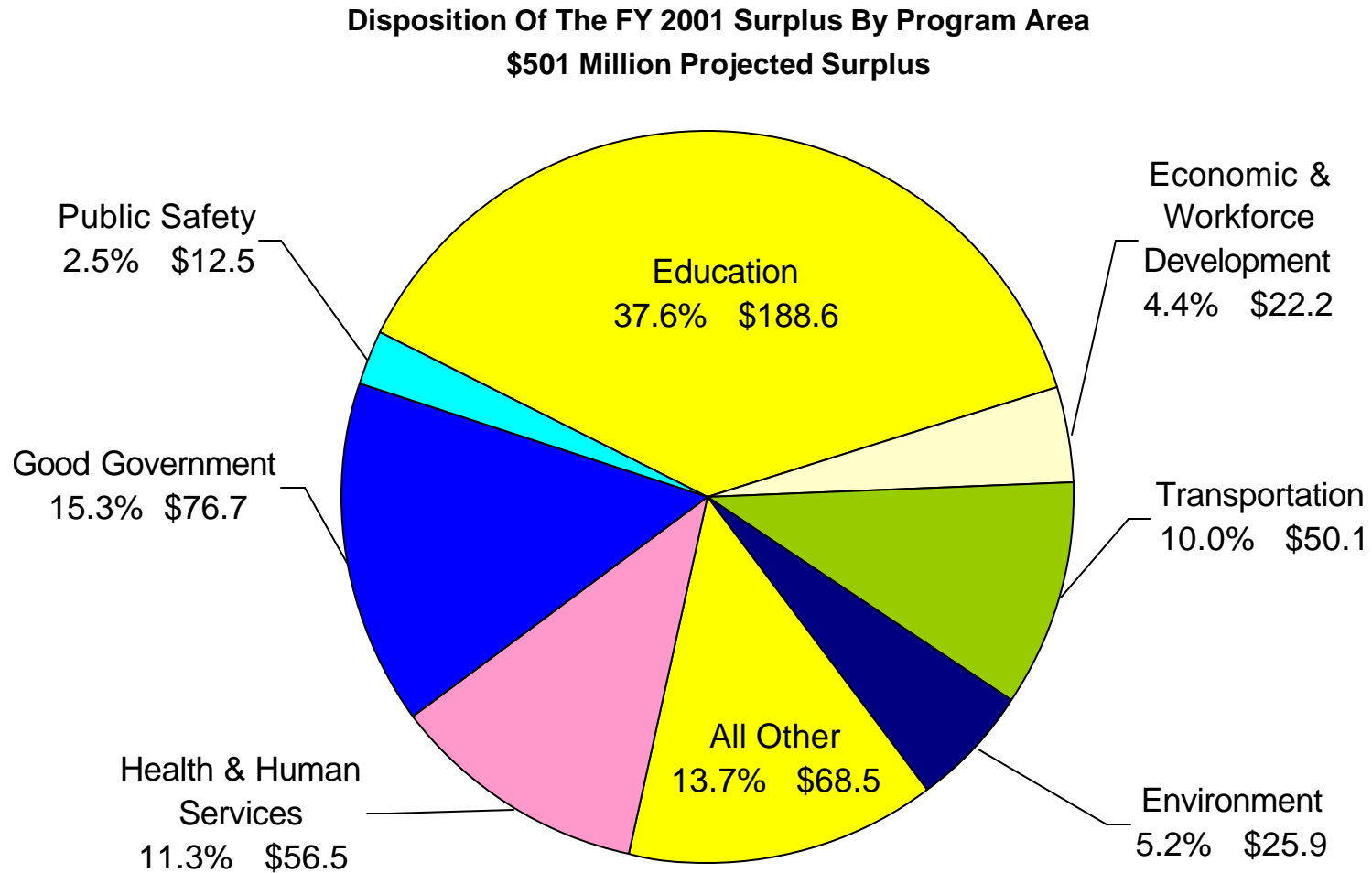
\$501.0 Million Projected Surplus



- This year, Governor Rowland proposes to continue this record, with a strong emphasis on debt avoidance

Disposition of the Surplus

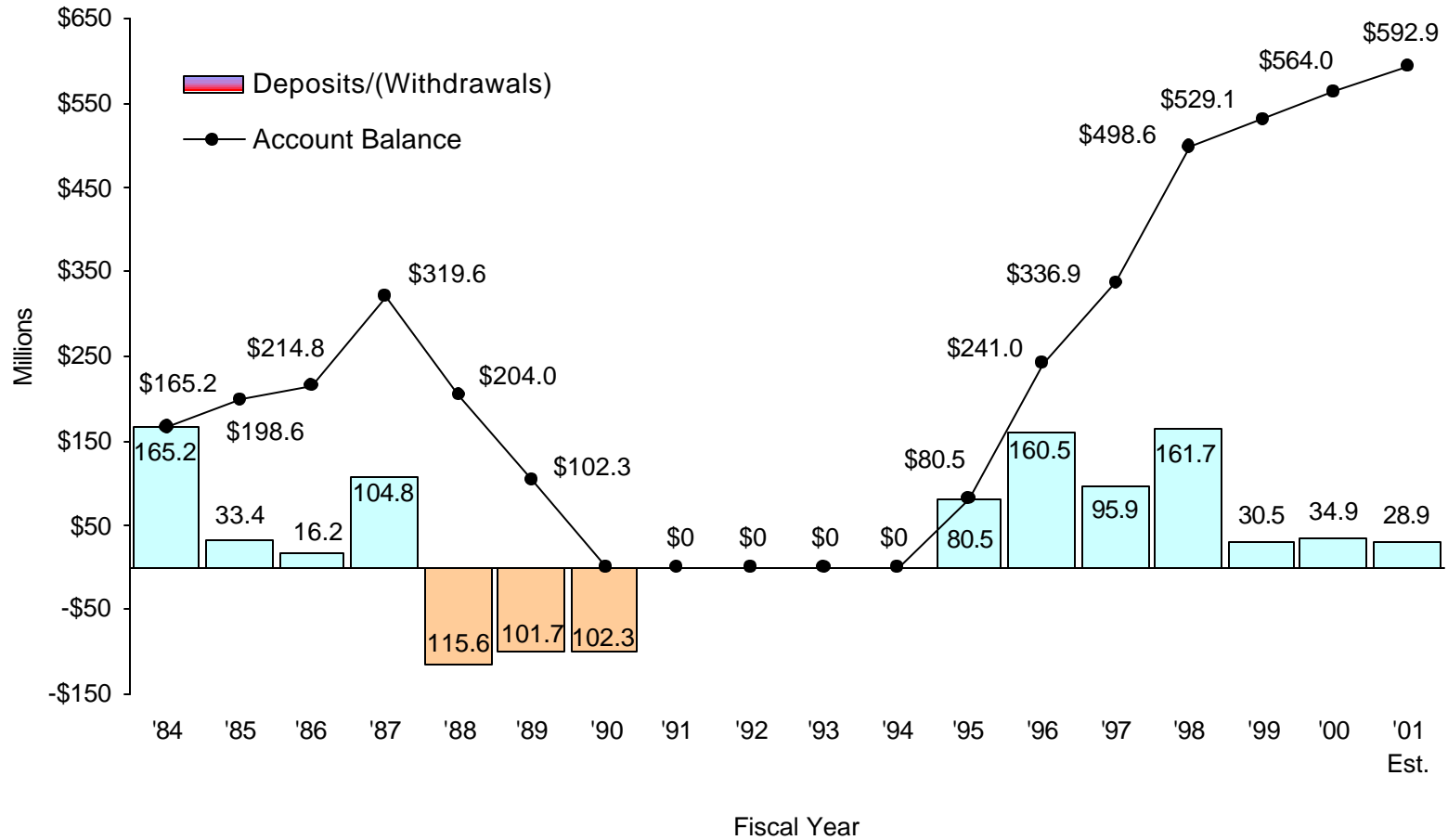
- The surplus will be invested in a wide variety of areas



Disposition of the Surplus

- The Rainy Day Fund

Rainy Day Fund



Disposition of the Surplus

- Highlights from the disposition package include;
 - \$120 million to avoid debt on school construction projects
 - \$50 million for various congestion mitigation and transportation improvement projects, overseen by the new Transportation Strategy Board
 - \$33.7 million to establish a Technology and Infrastructure Fund for Private Providers and Home Care Agencies
 - \$33.5 million to implement Lt. Governor Rell's Educational Technology Initiative
 - \$17 million to restructure the Residential Underground Storage Tank Program

Continued...

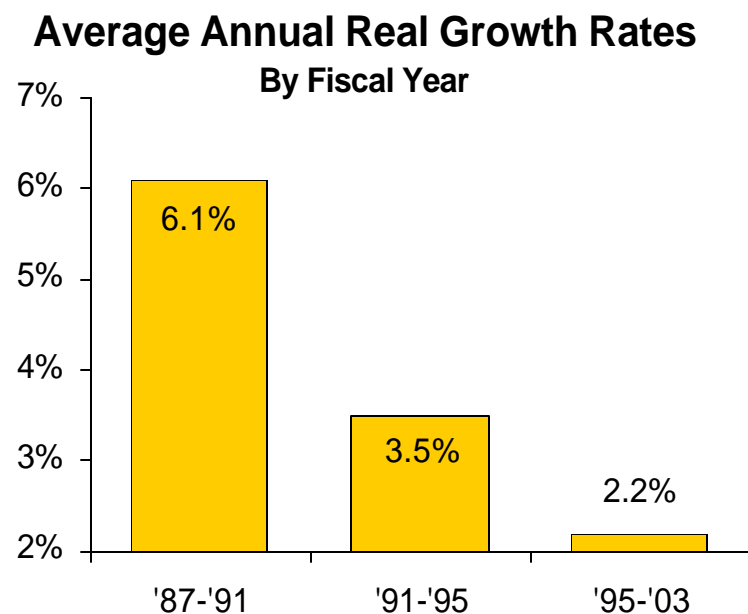
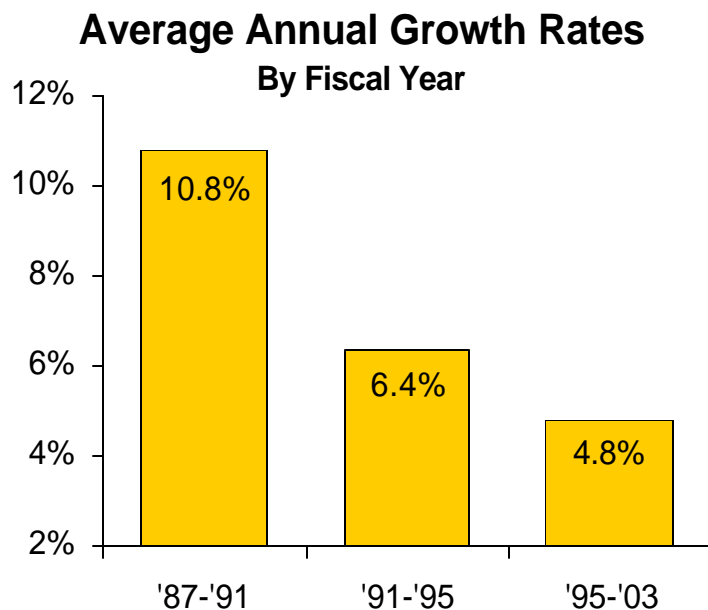
Disposition of the Surplus

Continued...

- \$20 million, along with \$60 million in additional bond funds, to sell certain worker's compensation claim liabilities, reducing the state's outyear risk and immediately lowering payouts by \$13 million
- \$41 million set aside in OPM to assist state agencies in meeting higher than anticipated energy costs over the biennium
- And if the surplus exceeds \$501 million, the Governor proposes the first \$30 million be used to help acquire water company land under threat of development in Fairfield County. Monies beyond \$531 million would be divided between transportation and school construction.

2001-2003 Biennial Budget Plan – Spending Plan

- Due to rising deficiencies on the horizon, Governor Rowland proposes a budget that is \$91.5 million under cap the first year and \$80.7 million under cap in the second year
- Based on these proposals, average annual spending growth under Governor Rowland’s eight year tenure will be 4.75%



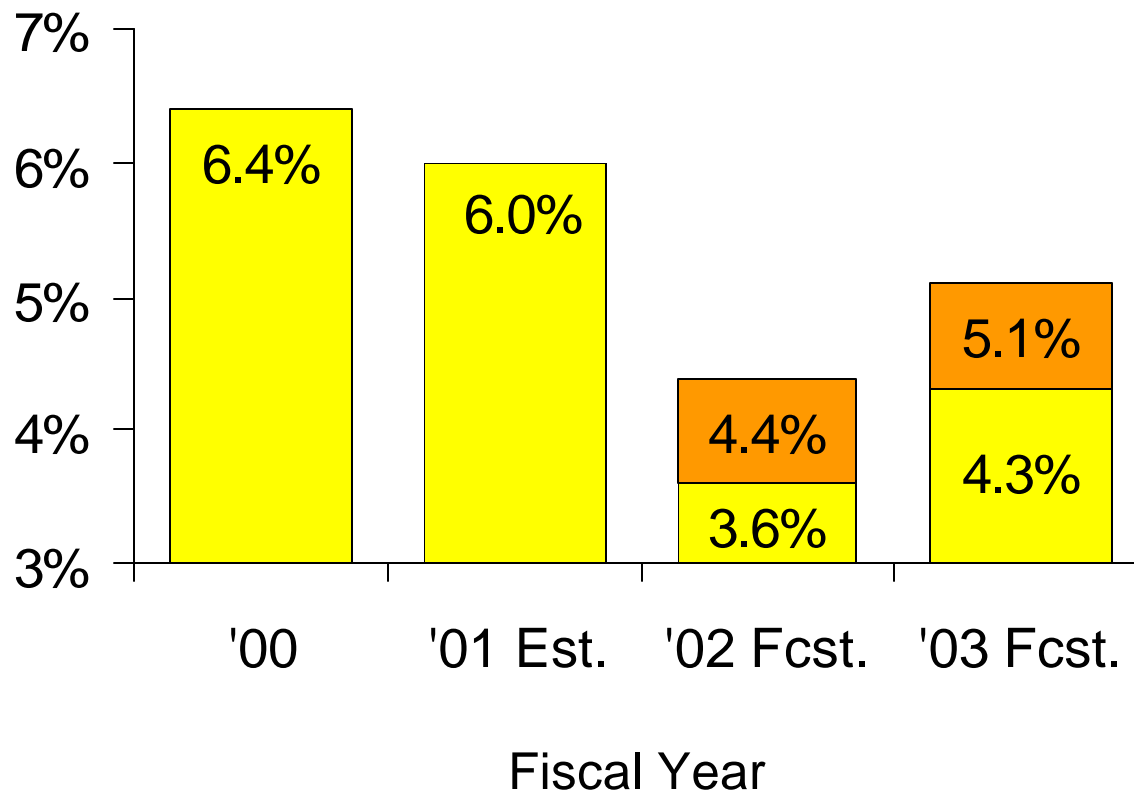
2001-2003 Biennial Budget Plan – Spending Plan

Appropriated Funds Of The State		
	<u>FY '02</u>	<u>FY '03</u>
General Fund	\$11,857.9	\$12,400.1
Special Transportation Fund	840.8	877.3
Mashantucket Pequot & Mohegan Fund	110.0	85.0
Soldiers', Sailors' & Marines' Fund	3.4	3.5
Regional Market Operating Fund	0.9	0.9
Banking Fund	15.0	15.8
Insurance Fund	21.5	21.7
Public Utility Control Fund	20.4	21.2
Workers Compensation Fund	18.5	19.5
Criminal Injuries Compensation Fund	1.5	1.5
Grand Total	<u>\$12,889.9</u>	<u>\$13,446.5</u>

- Current services for year one was calculated at \$13.36 billion and \$14.05 billion for year two. This budget reduces current services by \$469 million in year one and \$604 million in year two.

2001-2003 Biennial Budget Plan – Spending Plan

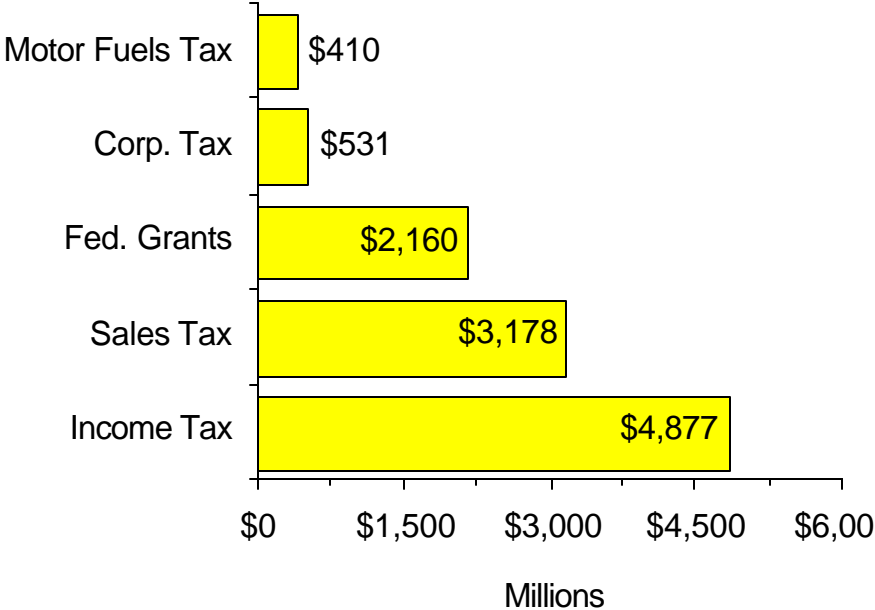
Annual Growth In State Spending
Assuming \$100M In Deficiencies In FY '02 & '03



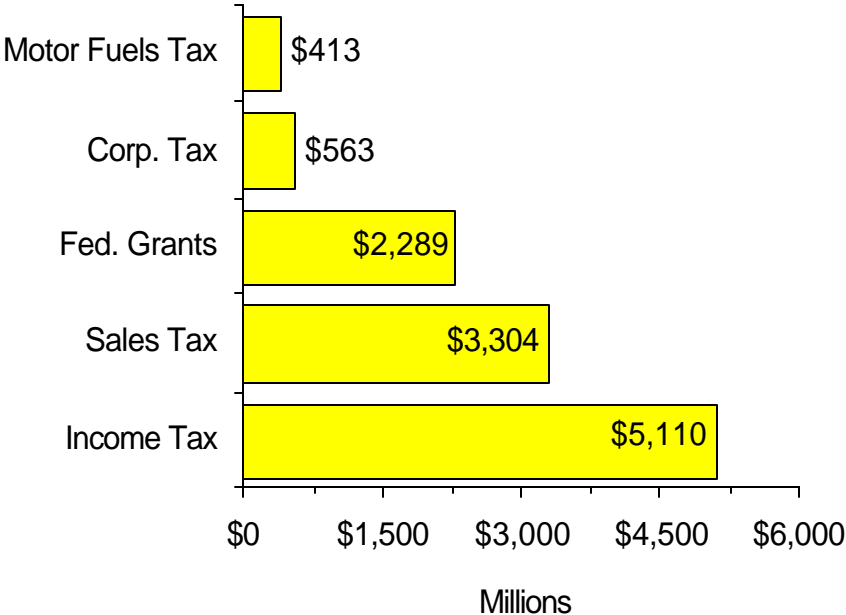
2001-2003 Biennial Budget Plan – Revenue Forecasts

- Due to mixed economic signals, conservative revenue estimates are used in this budget

FY 2002 Forecasted Revenues



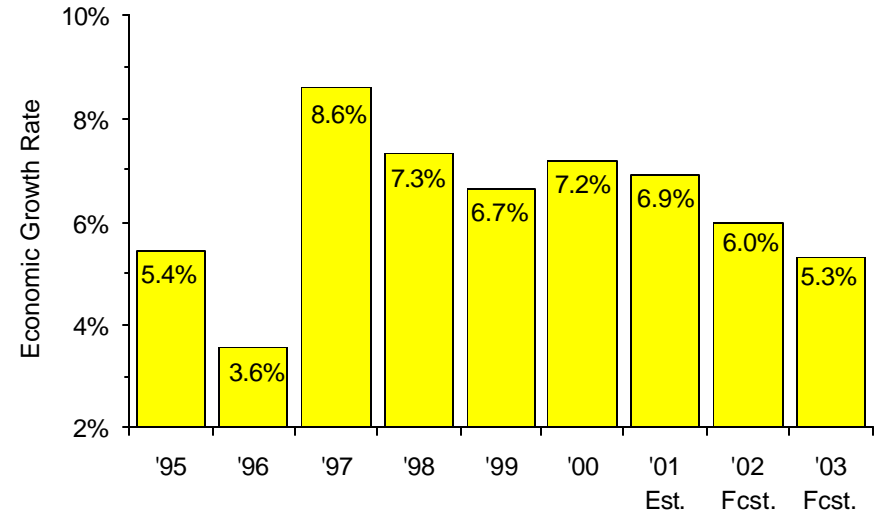
FY 2003 Forecasted Revenues



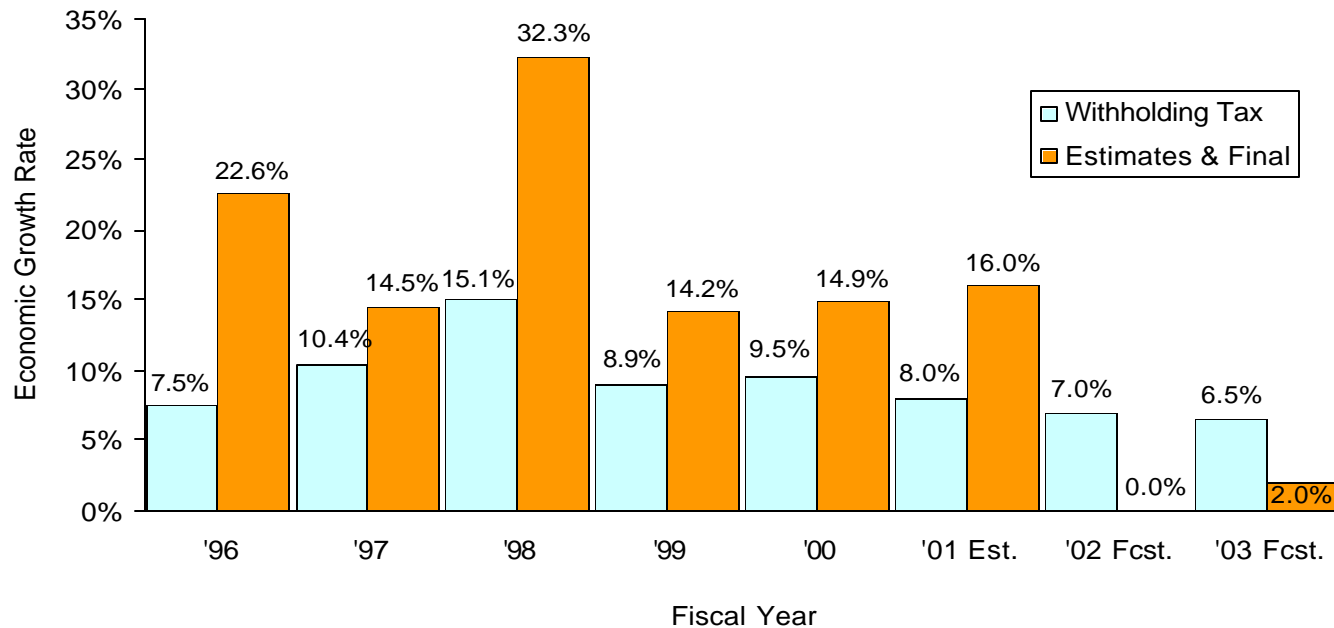
2001-2003 Biennial Budget Plan – Revenue Forecasts

- Growth rates for key taxes

Sales & Use Tax Growth Rates



Personal Income Tax Growth



Continuing Targeted Tax Reductions

- Tax relief has been a hallmark of this administration

**Previously Enacted Major Tax Reductions
Impacting Fiscal 2002 and Fiscal 2003
Relative to the Fiscal 2001 Base**

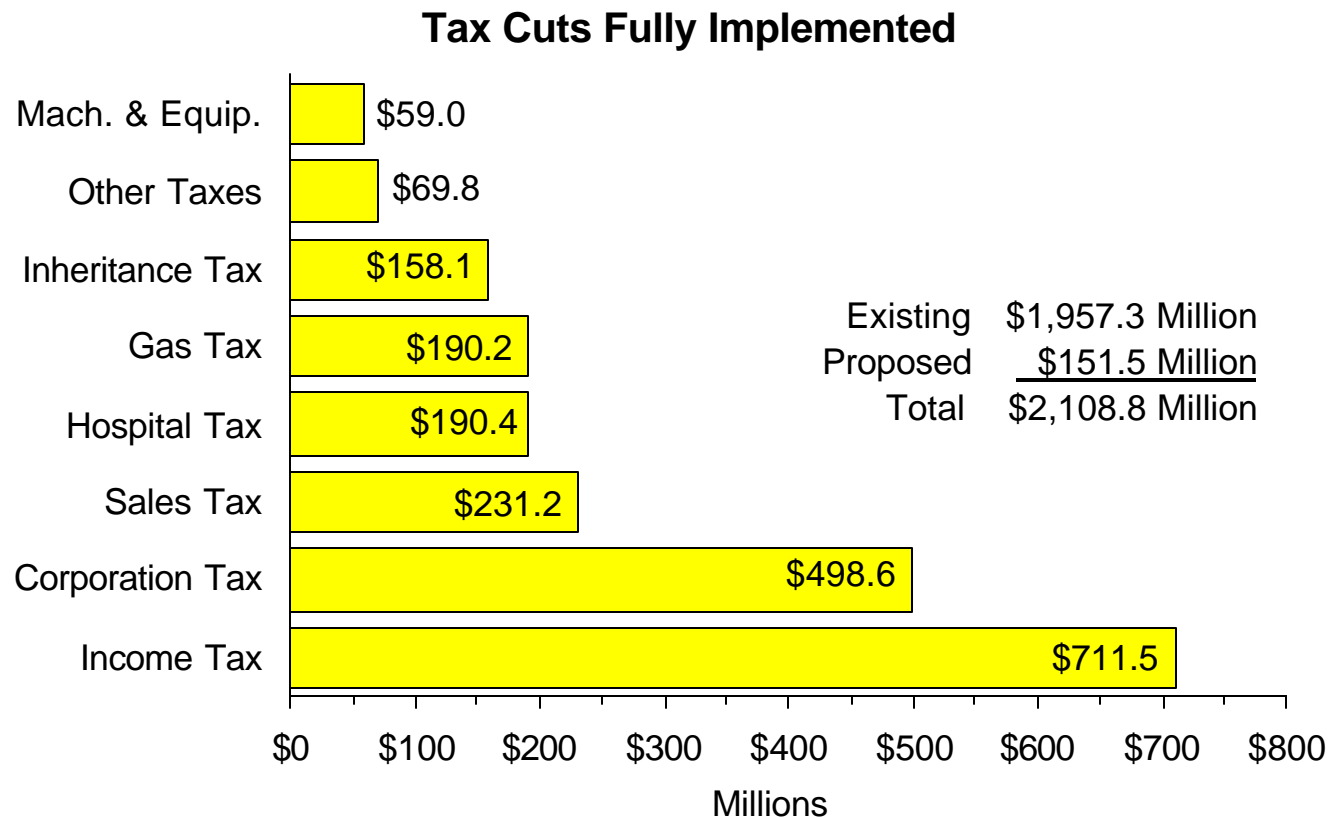
(Millions)		
<u>Income Tax</u>	Fiscal <u>2001-02</u>	Fiscal <u>2002-03</u>
Increase in Standard Deduction for Single Filers	\$ 1.7	\$ 8.5
<u>Sales Tax</u>		
Computer and Data Processing	9.6	19.3
Equipment used in High Speed Data Transmission	8.0	8.0
Phase-Out Tax on Home Improvements & Misc.	3.3	3.8
Miscellaneous Exemptions enacted in 2000	1.6	0.6
<u>Corporation Tax</u>		
Eliminate 'S' Corporation Tax	2.1	2.8
Eliminate Capital Base Tax on 'S' Corporations	3.5	3.5
Cluster Initiatives for Research Expenditures	2.6	3.7
Permit Exchange of Unused R&D Tax Credits	14.0	14.0
Single Factor Apportionment for Manufacturers	35.7	21.0
Single Factor Apportionment for Broadcasters	15.2	19.0
<u>Inheritance Tax</u>		
Rate Reduction	37.2	37.8
<u>Gift Tax</u>		
Phase-Out Tax for Gifts Less Than \$1 million	1.1	3.7
Total - Previously Enacted Tax Reductions	\$ 135.6	\$ 145.7

Continuing Targeted Tax Reductions

- Governor Rowland is proposing new tax cuts of \$156.5 million over the biennium, fully phased in and covered by current revenue streams
 - Eliminate hospital sales taxes - \$115 million by the second year
 - Increase the clothing and footwear exemption from \$75 to \$125 per item - \$35 million annually
 - Add another tax free week for clothing and footwear – additional \$2.7 million annually

Continuing Targeted Tax Reductions

- Governor Rowland will exceed \$2.1 billion in enacted and proposed tax cuts, wiping out the \$1.9 billion in tax increases during the 90-91 fiscal crisis
 - More than 350,000 residents no longer pay any income tax due to rate reductions and property tax credit



Investing in Mental Health and Alternatives to Incarceration

- Children's Behavioral Health Initiative (DCF)
 - 121 new specialized residential beds and 61 current beds augmented to care for more seriously ill youth. 50 children will return from out of state.
 - Community programming enhancements:
 - Creating Emergency Mobile Crisis Units
 - Creating crisis stabilization beds
 - Hiring care coordinators
 - Increasing community treatment and family respite services
 - Enhancing psychiatric care and medication management

Investing in Mental Health and Alternatives to Incarceration

- Children's Mental Health

- The gross additional funding to DCF is \$22 million in FY 2001-02 and \$32 million in FY 2002-03

To Increase Preventive Efforts:

- An additional \$300,000 for the Department of Education's Primary Mental Health Grant Program (PMHP) in each year of the biennium
- \$450,000 to expand the Children's Trust Fund's ChildServ program statewide by FY 2002-03

Investing in Mental Health and Alternatives to Incarceration

- Enhancing Adult Mental Health

Based on the findings of DMHAS and the Governor's Blue Ribbon Commission, \$10 million in FY02 and \$20 million in FY03 to enhance community services in DMHAS:

- Intensive residential programs and enhanced clinical services for new residential settings
- Additional ACT Teams to increase the level of supervision and support for persons being discharged from hospitals
- Address housing supports for persons with serious behavioral health disorders by adding \$3 million over the biennium
- Additional outpatient slots to expand programs for mentally ill and dually diagnosed clients
- Expand the services provided to women and families
- \$650,000 to begin the process of planning a Specialty Behavioral Health Plan for fee-for-service Medicaid clients

Investing in Mental Health and Alternatives to Incarceration

- Alternatives to Incarceration
 - Expand the DMHAS Jail Diversion Program to all Geographic Area courts in the state - \$3.3 million more for the program in FY 2001-02
 - Increase DOC community residential services for non-violent offenders in need of substance abuse treatment to \$1 million in each year of the biennium
 - 100 Community Based Drug Treatment beds through the Judicial Branch, annualized at a cost of \$2.5 million
 - Drug education programs through the Judicial Branch Community Service Labor Program, \$500,000 in each year of the biennium
 - Drug Courts: The budget includes \$900,000 in new funding for staff and contractual services on the state level and contractual substance abuse treatment services on the local level

Investing in Mental Health and Alternatives to Incarceration

- Alternatives to Incarceration
 - Priority in OPM's federal grant funding to substance abuse and mental health programs for the incarcerated, \$1.2 million of federal dollars and \$2 million of the state surplus
 - 500-bed residential Community Justice Center (CJC) for male and female offenders. The CJC will:
 - Manage non-violent offenders
 - Serve as a pre-release treatment center
 - Function as a centralized revocation center
 - Coordinate treatment services and community placements
 - Provide judges an alternative to incarceration
 - Provide residential beds for parolees requiring special services
 - Give judges the discretion to depart from current mandatory minimum sentences for certain non-violent offenses

Investing in Mental Health and Alternatives to Incarceration

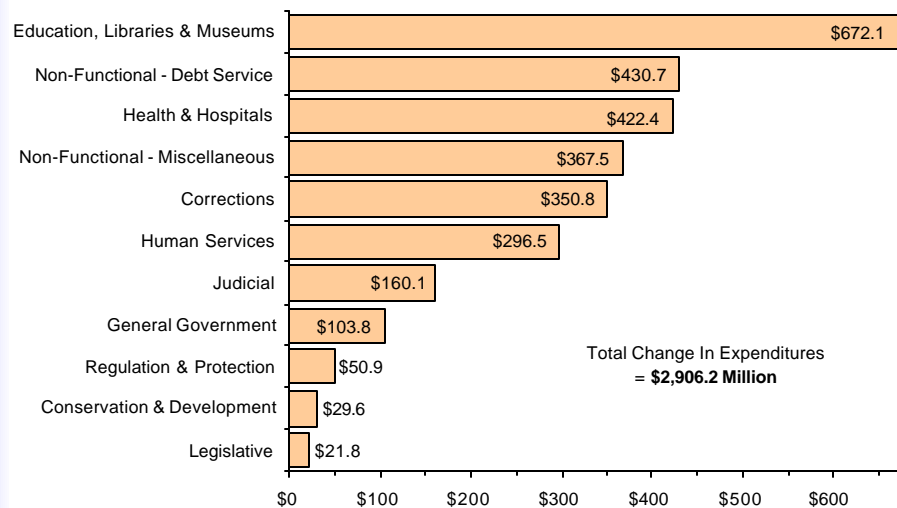
Investing in Mental Health (In Millions)

	<u>FY 2001-02</u>	<u>FY 2002-03</u>
<u>Department of Mental Health and Addiction Services</u>		
Community Service Enhancements	\$10.0	\$20.0
COLAs for Private Providers	9.7	13.2
In and Outpatient Hospital Rate Increases	2.7	2.7
Annualization of Physician Increases	2.8	2.8
Jail Diversion	3.3	3.3
Total - DMHAS	<u>\$28.5</u>	<u>\$42.0</u>
<u>Department of Education</u>		
Primary Mental Health Program	\$0.3	\$0.3
<u>Department of Children and Families</u>		
KidCare	\$22.3	\$32.1
<u>Children's Trust Fund</u>		
ChildServ	\$0.2	\$0.5
<u>Department of Correction</u>		
Community Residential Services	\$0.6	\$0.6
Community Justice Center		5.0
Total - DOC	<u>\$0.6</u>	<u>\$5.6</u>
<u>Judicial</u>		
Community Based Drug Treatment Beds	\$1.7	\$1.7
Community Service Labor Program	0.5	0.5
Total - Judicial	<u>\$2.2</u>	<u>\$2.2</u>
<u>Various</u>		
Federal Fund Pick-ups - Drug Session	\$1.2	\$1.2
Grand Total	\$55.3	\$83.8

Enhancing Educational Opportunities

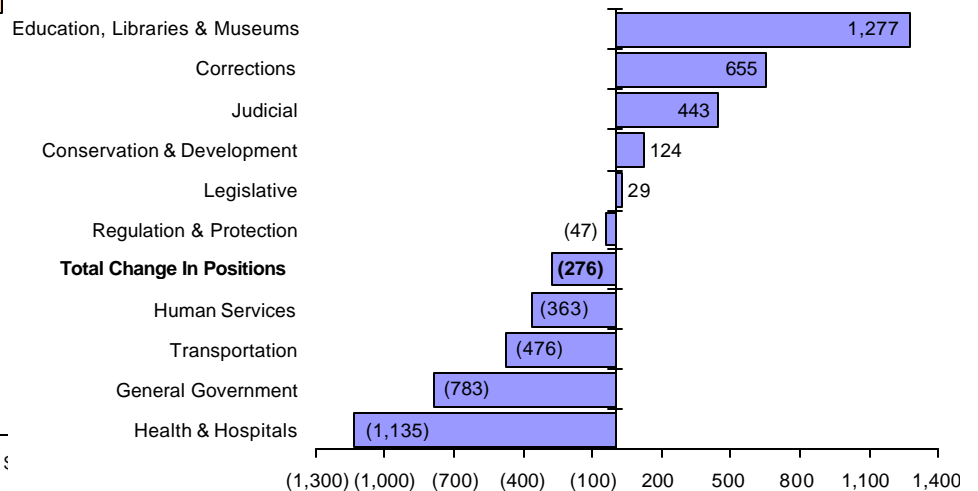
- The commitments made by Governor Rowland in the education arena are borne out by the budget numbers.
 - That growth was fueled by an increase in education cost sharing, investment in early childhood education, new Sheff programs, and increases in the higher education block grants
 - The education arena saw the greatest increase in full-time filled positions at 1,277 between 1995 and 2000

General Fund Expenditure Growth
Between Fiscal 1995 and Fiscal 2001
(In Millions)



Note: Adjusted for transfer of patrol function, emergency spill response fund, superfund maintenance, workforce investment act, and lottery fund

Change In Permanent Full Time Filled Positions
(January 1995 - November 2000)



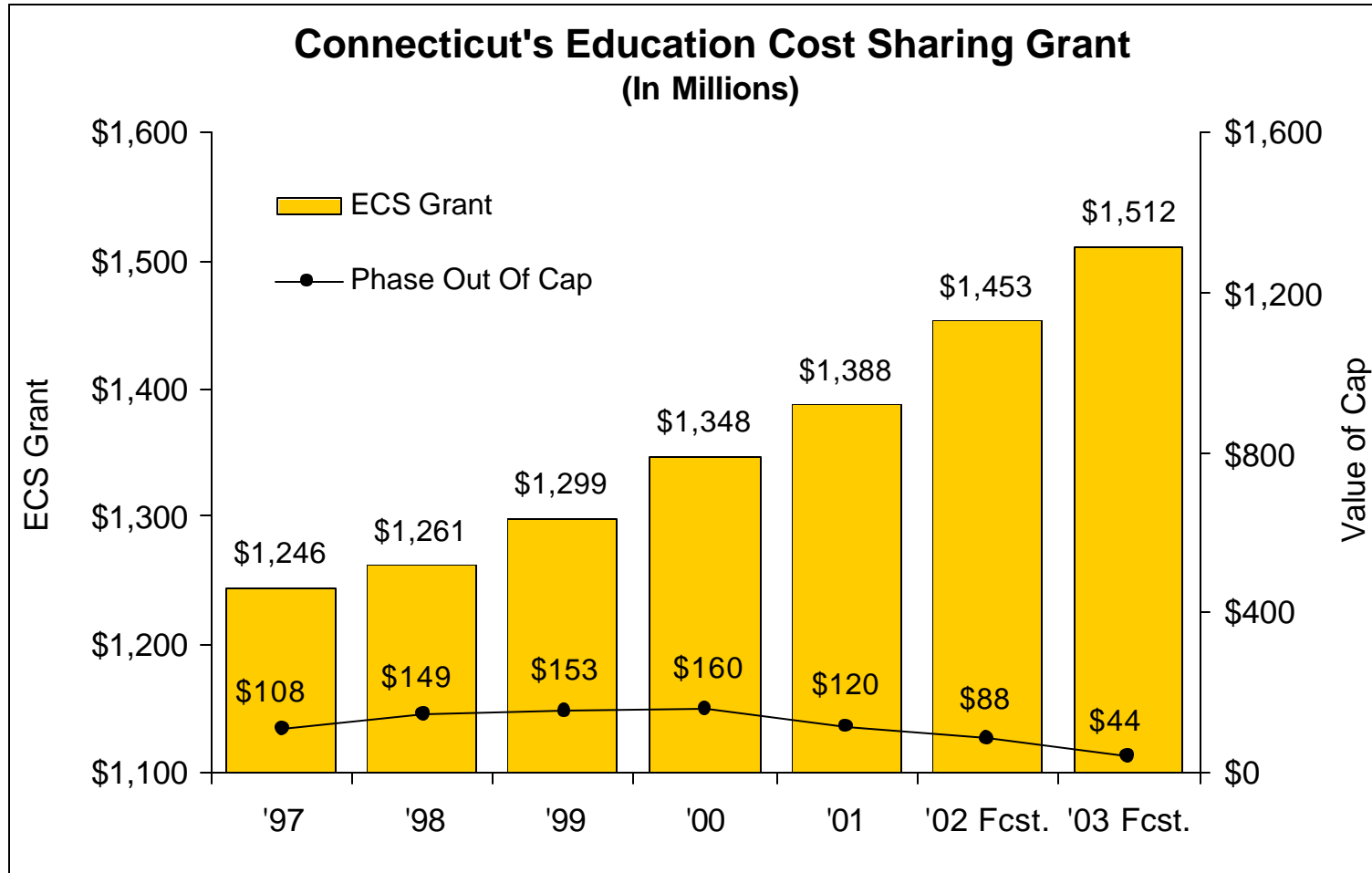
Enhancing Educational Opportunities

Phasing out the ECS Cap

- Each year of the biennium, approximately one-third of the remaining cap will be eliminated. The final elimination of the cap will occur in FY 2003-04, as required by law.
 - \$40 million and \$33 million are added in each year for enrollment growth
 - \$25 million more is added to the budget in year one and a total of \$50 million more in year two to begin the phase out of the cap
 - This is accomplished by utilizing a portion of the Mashantucket Pequot and Mohegan grant monies that goes to towns each year
 - In conjunction with the increases in the ECS grant, two grants will be eliminated: the Transitional School District grant, and the Scholastic Achievement Grant

Enhancing Educational Opportunities

Phasing out the ECS Cap



Enhancing Educational Opportunities

Responding to Sheff

- Magnet Schools:
 - An additional 5,119 students and \$13.5 million over the biennium
- Charter Schools:
 - An additional 300 students and \$2.6 million over the biennium
- Open Choice Program:
 - An additional 450 students and \$2.2 million over the biennium
- Early childhood monies:
 - An additional 200 students and \$1.5 million over the biennium
- All or portions of several grants are reallocated to the Priority School District Program

Enhancing Educational Opportunities

	FY 2000	FY 2002	FY 2003
	Actual	Recommended	Recommended
<i>IMPROVE URBAN EDUCATION</i>			
FAMILY RESOURCE CENTERS	\$6.0	\$6.1	\$6.1
EARLY CHILDHOOD PROGRAM*	\$36.1	\$2.8	\$2.8
HEAD START ENHANCEMENT	\$2.0	\$2.0	\$2.0
PRIORITY SCHOOLS	\$20.6	\$83.1	\$83.1
EARLY READING PROGRAM	\$20.4	\$2.2	\$2.2
TOTAL	\$85.1	\$96.2	\$96.2
<i>REDUCE RACIAL ISOLATION</i>			
INTERDISTRICT MAGNET SCHOOLS	\$19.2	\$33.3	\$45.2
CHARTER SCHOOLS	\$11.3	\$15.1	\$16.6
INTERDISTRICT COOPERATION GRANTS	\$14.4	\$11.9	\$11.9
COORDINATE INTERDISTRICT ACTIVITIES	\$3.1	\$3.3	\$3.3
OPEN CHOICE PROGRAM	\$5.5	\$7.1	\$8.7
LIGHTHOUSE SCHOOLS	\$0.6	\$0.3	\$0.3
TOTAL	\$54.1	\$71.0	\$86.0
GRANT TOTAL	\$139.2	\$167.2	\$182.2
<i>Percent Change</i>		20%	9%

Enhancing Educational Opportunities

Demonstration Scholarship Program

- \$10 million of the surplus to implement a 1972 statute that created a Demonstration Scholarship Program
 - Estimated \$2 million each year over five years will be sent to participating Priority School Districts pro rata for scholarships
 - Students would be allowed to attend other public, private and parochial schools of their families' choice
 - Participating districts will have flexibility in determining annual scholarship amounts and other requirements as long as each student participating has the ability to participate for the full five-year period
 - For example, at \$2,000 per student, the demonstration program could serve about 1,000 economically deprived and racially isolated students

Enhancing Educational Opportunities

Enhancing Educational Technology

- About \$33.5 million from the surplus to:
 - Connect more classrooms to the internet
 - Build the Connecticut Education Network
 - Provide resources to the Digital Library
 - Increase distance learning opportunities, including those for teachers learning how to integrate technology in the classroom
- The Distance Learning Initiative
 - Since just last year, the Connecticut Distance Learning Consortium has increased its course offerings by 60 percent. Enrollment is 4,500 in FY 00-01, and has rapidly increased.
- Funding the Teachers' Retirement System at 100%

Schools Reporting Adequate Wiring For Technology

<u>Fiscal Year</u>	<u>School Buildings</u>	<u>% of Total Buildings</u>
1998	386	37%
1999	469	45%
2000	656	63%

Enhancing Educational Opportunities

Higher Education Block Grants

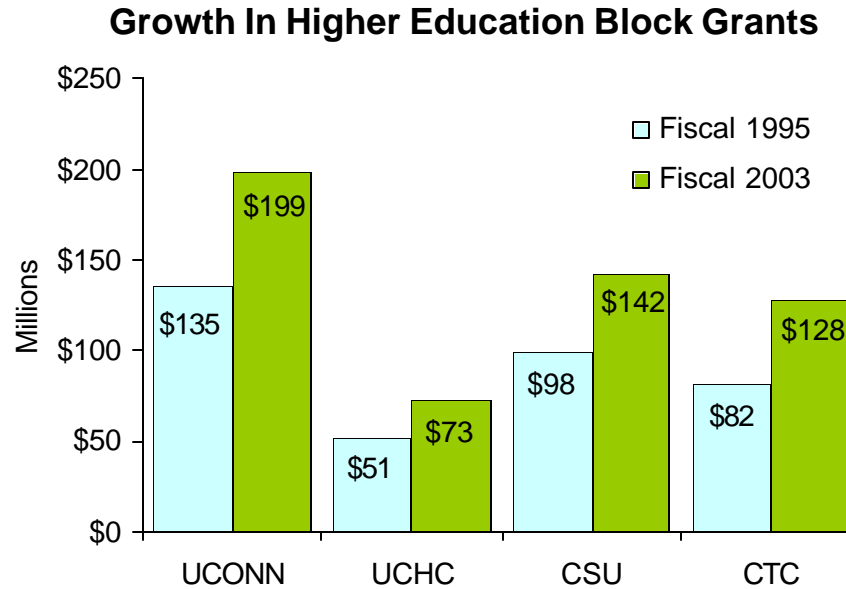
- In FY 2001-02, the three constituent units will receive 1 percent more than their estimated expenditures in the current fiscal year with the mid-year rescissions added back. In year two, the three units will receive 1 percent more than their current services budget for FY 2001-02
- The University of Connecticut Health Center is expected to reap significant new funding from increases in Medicaid and General Assistance reimbursements.
- Fund reserves indicate healthy unrestricted fund balances.

Higher Education Reserves (In Millions)	
University of Connecticut	\$ 33.3
University of Connecticut Health Center	24.1
Connecticut State University	13.4
Community-Technical System	<u>31.9</u>
Total	\$ 102.7

Enhancing Educational Opportunities

Higher Education Block Grants

- UCONN, CSU and CTC general fund expenditures have increased by 47%, 45% and 56%, respectively from FY 1994-95 to FY 2002-03



Higher Education Endowment Matches

- The budget also contains \$21 million in state matching funds for the constituent units of higher education

Enhancing Educational Opportunities

Capital Plans for CTCs and CSU

- New five-year commitment of about \$335 million for the community-technical college system and about \$400 million for the state universities

Governor Rowland's Latest CTC and CSU Capital Investment Plan

<u>Fiscal Year</u>	<u>Authorizations</u> <u>CTC</u>	<u>Authorizations</u> <u>CSU**</u>	<u>UConn</u> <u>2000**</u>
1996			\$ 112,542,000
1997*	\$ 11,277,986		112,001,000
1998	19,505,930	\$ 34,098,204	97,781,065
1999	69,705,000	30,451,500	64,311,000
2000	77,186,773	80,558,500	132,000,000
2001	74,854,700	88,352,000	120,000,000
2002-Proposed	\$ 67,469,611	\$ 86,692,000	100,000,000
Total	\$ 320,000,000	\$ 320,152,204	\$ 738,635,065
	<u>Recommended</u>	<u>Recommended</u>	
2003-Proposed	\$ 66,162,100	\$ 80,930,000	\$ 100,000,000
2004-Est	67,000,000	80,000,000	100,000,000
2005-Est	67,000,000	80,000,000	50,000,000
2006-Est	67,000,000	80,000,000	-
2007-Est	67,837,900	80,000,000	-
Total	\$ 335,000,000	\$ 400,930,000	\$ 250,000,000
Grand Total	\$ 655,000,000	\$ 721,082,204	\$ 988,635,065

Enhancing Educational Opportunities

More than 2/3 of all capital dollars each year are for education-related programs

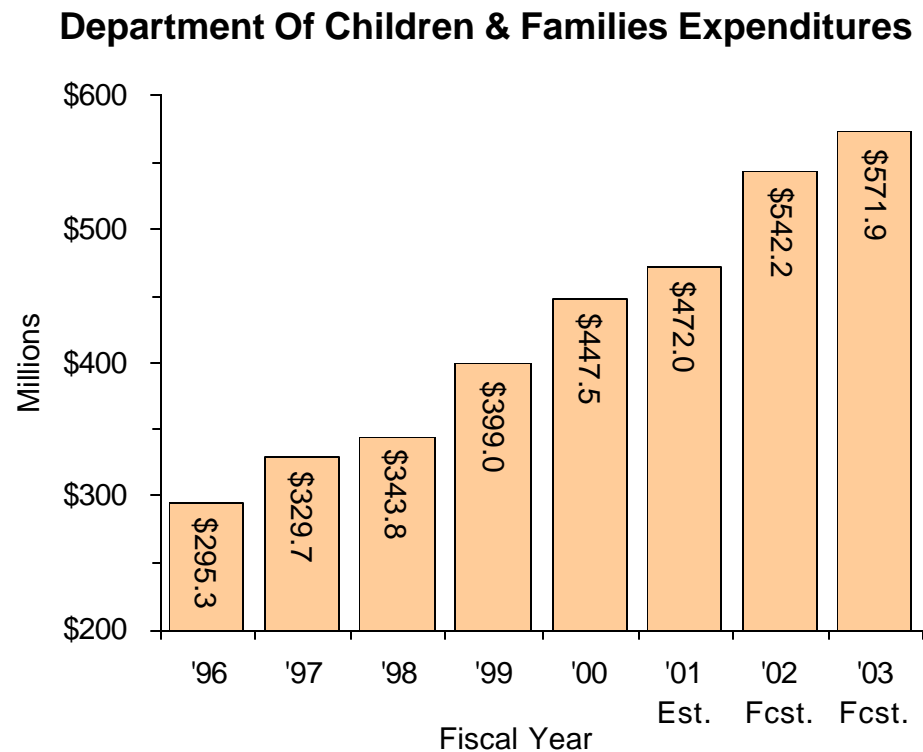
Governor Rowland's Education Commitments (In Millions)

	<u>FY '02</u>	<u>FY '03</u>
Department Of Education		
School Construction	\$535.7	\$616.2
Grants For Improvements	\$13.1	\$13.1
Vo-Tech Schools	\$15.0	\$15.0
School For The Deaf	\$10.0	\$10.0
Sub-Total	<u>\$573.8</u>	<u>\$654.3</u>
Connecticut State Universities	\$86.7	\$80.9
Community Technical Colleges	\$67.5	\$66.2
University of Connecticut	\$100.0	\$100.0
State Library	<u>\$3.5</u>	<u>\$3.5</u>
Grand Total	\$831.5	\$904.9

Investments in Children's Protection and Welfare

DCF Spending Increases

- DCF's budget increase is \$100 million over the biennium. Over the eight-year period, the increase in DCF's budget will be a whopping 123 percent.
- Adoptions Increase: In FY 1999-00, 602 adoptions were completed which was a 34 percent increase over the prior year and 116 percent increase in three years.

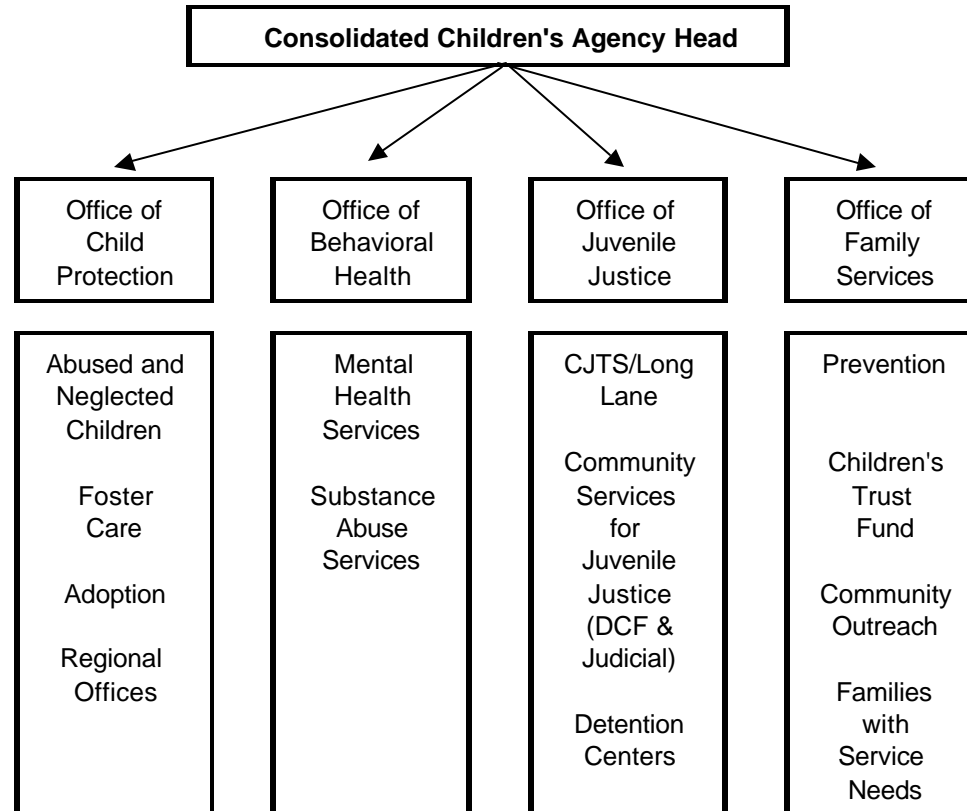


Investments in Children's Protection and Welfare

Reorganization of Children's Services Study

The Goal:

Comprehensive children's agency which would oversee child abuse and neglect, juvenile justice, behavioral health, and prevention



Investments in Children's Protection and Welfare

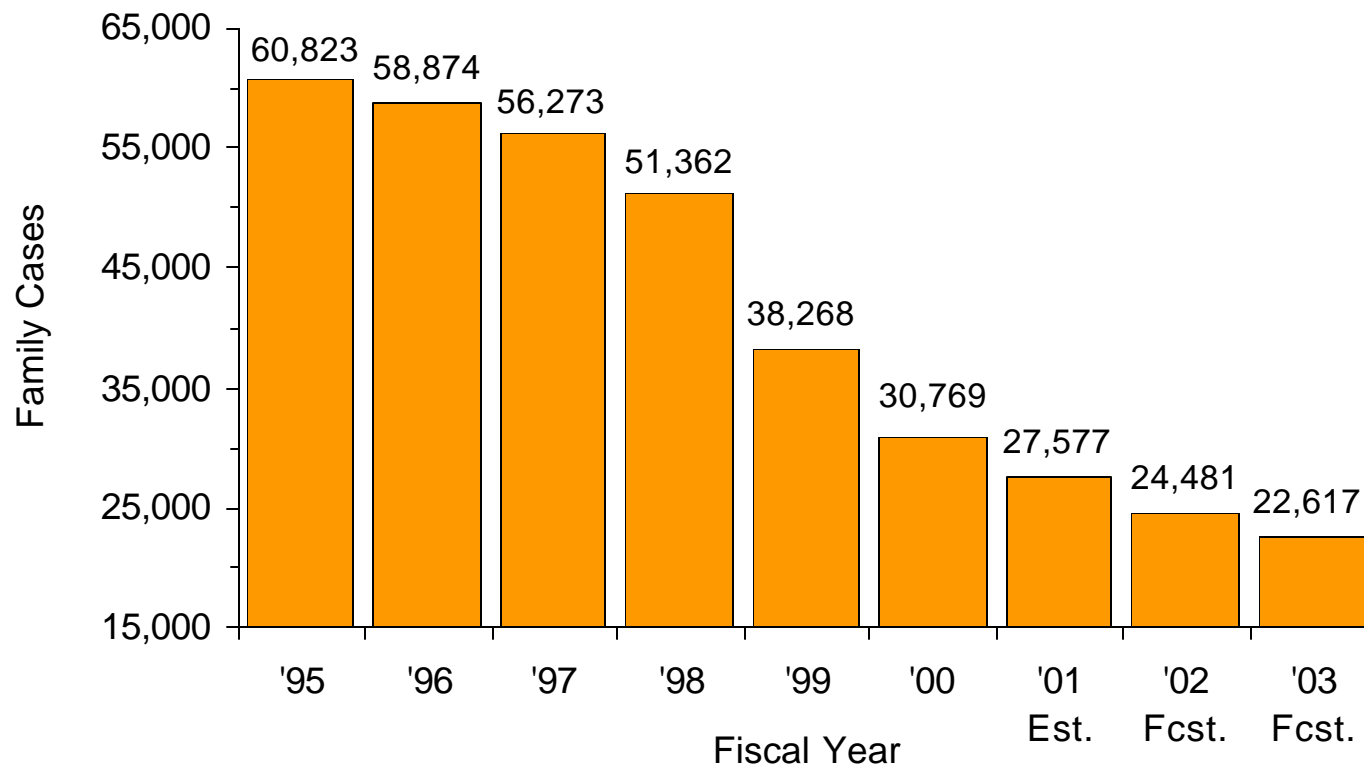
Juvenile Justice Reforms

- \$2.6 million from the surplus, and \$2.7 million from the previous surplus to support the new Juvenile Training School. Of the new surplus monies, \$1.1 million will be used to set up a computer tracking system.
- Facility for girls:
 - Added bonding of \$11 million (to augment the \$9 million existing authorizations) for a facility for 40 - 50 girls
 - Legislation to fast track the project
 - \$900,000 in year one and \$1.5 million in year two to augment services
- 30 revocation beds in the community for those who violate their parole. \$1 million per year, plus federal funds.
- Enhancing staffing in the Office of Child Advocate by \$153,000

Family and Work Agenda

- Governor Rowland's welfare to work policies have been extremely successful as a record number of participants are reporting employment and earnings

Family-Cash Assistance Caseloads
Average Monthly Paid Caseload

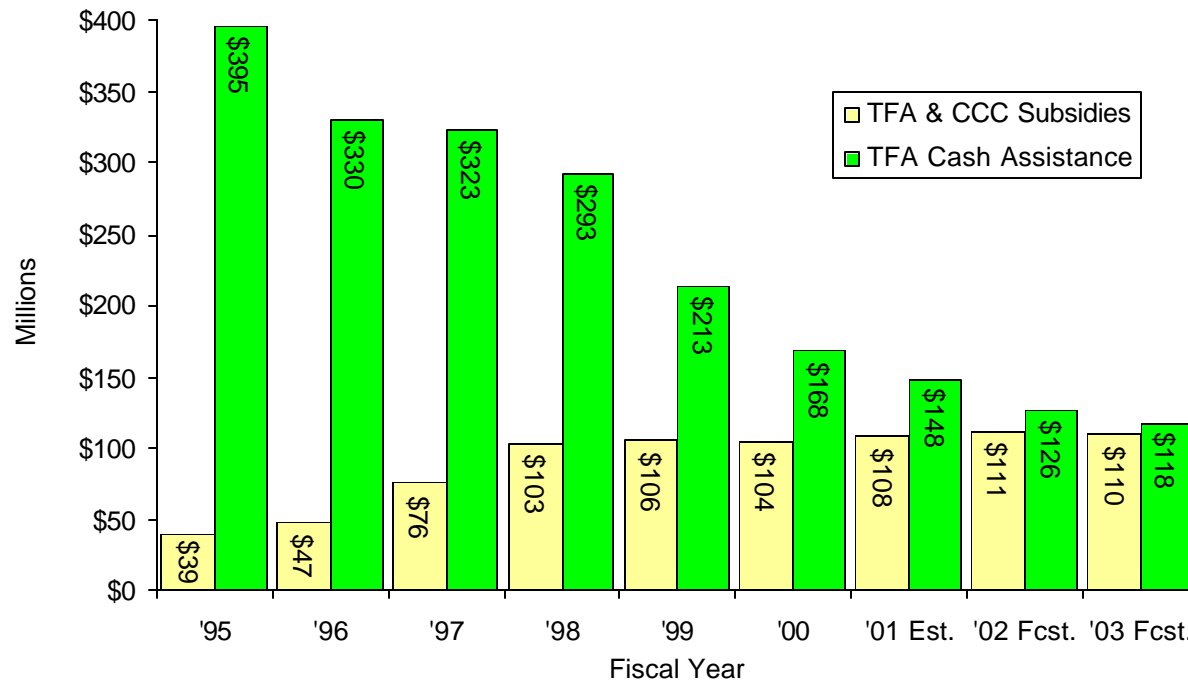


Family and Work Agenda

Child care: Growing the opportunity for work – building on our successes

- Ensuring Access: Expenditures have increased from \$39 million in FY 1994-95 to a projected \$110 million in FY 2002-03
- Ensuring Quality: The biennial budget amends the reimbursement policy for child care providing higher rates to child care providers that meet higher staff training and safety standards

All Child Care Subsidy Payments & TFA Cash Assistance



Family and Work Agenda

Transportation

- Good News Garage (GNG)
 - Based on similar programs in Vermont and Massachusetts, the GNG will provide safe, affordable and reliable private transportation for recipients who are making the transition from welfare to work
- Innovative transportation programs receive continued funding of \$3.9 million
- \$5 million for transportation funding out of the surplus to continue programs

Family and Work Agenda

- Expanding the Jobs Funnel Program
 - Provides individuals with remedial training and on the job apprenticeships primarily in the construction trades. \$5 million in surplus funds over the biennium to expand.
- School-to-Career funding
 - \$5 million in state funding, plus corporate matching funds, will be used to support the enhancement of our School-to-Career program
- Expand the hiring incentive tax credit by \$1 million
- Consolidating 35 housing programs into one flexible program
- Affordable housing commitment between GO Bonds and CHFA
- Expand housing tax credit by \$1 million

Aiding Private Providers and Home Care Agencies

- State contracted private agencies have long provided cost-effective quality care to our most vulnerable citizens
- Governor Rowland increased reimbursement rates and has crafted some ancillary programs to provide financial relief to these agencies:
 - COLAs of 2.3% and 1.5% during the biennium (medical providers contracting with DMHAS receiving higher increases)
 - Creation of a Technology and Infrastructure Fund using \$30 million from the surplus for various one-time activities
 - Initiation of a Non-Profit Application Service Provider pilot using \$3.5 million from the surplus
- Create a private provider health insurance plan administered by the State that will result in major administrative savings for the provider agencies

Enhancing Long-Term Care Alternatives

- Governor Rowland's biennial budget expends an additional \$33 million over the biennium for alternatives to nursing home care

Governor Rowland's Continuum of Care

<i>Jan. 1997</i>	No Waiting List Policy Instituted for Home Care Program
<i>Jan. 1998</i>	Home Care Program Waiting List Eliminated
<i>July 1998</i>	St. Jude Congregate Assisted Living Pilot Launched
<i>Oct. 2000</i>	Home Care Program Eligibility Expanded
<i>Jan. 2001</i>	Assisted Living in Congregate Housing Initiated
<i>Jan. 2001</i>	Assisted Living in HUD Pilots Initiated
<i>July 2002</i>	300 Subsidized Assisted Living Units Begin to Come Online
<i>July 2003</i>	800 Assisted Living Clients Covered by Medicaid and State-funded Programs

Investments in Human Services

The biennial budget also proposes a number of additional investments in human services

- Dental Access
 - \$2.5 million for purchasing and installing dental equipment for at least three new school-based dental clinics
 - \$500,000 in each year of the biennium to be earmarked from the Tobacco and Health Trust Fund to double the funding for DPH and the UConn Health Center for working with school-based health clinics, and for staff to conduct outreach, education and analytical work related to oral health
 - Reallocate / leverage \$35 million of Medicaid and General Assistance fee-for-service dollars and HMO dollars into a community-based system of care. \$1 million to hire dental care management firm.

Investments in Human Services

- HUSKY

Since 1998, more than 22,000 children have been enrolled, but there are tens of thousands more who are eligible. To encourage participation:

- \$26 million in the first year of the biennium and \$32 million in the second year due to the introduction of HUSKY Adults this fiscal year
- Provide presumptive eligibility to as many expanded sites as possible
 - to school-based health centers, community health centers, head start providers, WIC programs, and child care centers
- Revise the approval and renewal notices to make them easier for families to read, understand, and complete
- Enhance outreach efforts to encourage enrollment by targeting small businesses that do not offer medical insurance to their employees

Investments in Human Services

- Targeting Asthma
 - \$500,000 in each year of the biennium from the Tobacco and Health Trust Fund to expand the Hartford-based Easy Breathing Program to additional communities. The funding is contingent upon private matching efforts in these new communities.
- Work Performance Bonus
 - Connecticut is a recipient of a high performance bonus of \$2.6 million for best achievement in moving parents from welfare into jobs. Funding to go to:
 - The Good News Garage
 - Fatherhood Initiatives
 - Domestic Violence Programs
 - Teen Pregnancy Prevention Programs

Investments In Human Services

- Breast and Cervical Cancer
 - The Governor proposes funding for Medicaid services for uninsured women for the treatment of breast and cervical cancer diagnosed through a CDC site
- ConnPACE
 - The budget fully funds expected large enrollment increases partially caused by erosion of Medicare Risk HMOs
 - The Governor will implement ConnPACE Part B on a cost neutral basis, contingent on agreement by pharmacies and the drug industry
 - Savings could average \$250/year for each participant
 - \$2.4 million from the current surplus will be used to fund start-up costs

Investments in Human Services

- Restructuring Hospital Initiatives

When the \$75 million in tax relief is factored in from last session, the total hospital relief in FY 2002-03 will be \$111.7 million

Changes for Acute Care Hospitals (In Millions)

FY 2001-02

Eliminate Hospital Uncompensated Care Program	\$ (207.0)
Repeal Sales Tax on Hospital Services	111.4
Increase Medicaid/SAGA/DMHAS Rates	100.0
Increased Medicaid Payments to Hospitals due to Enrollment Growth	7.1
Payments to Hospitals due to New Husky Adult Program	<u>7.7</u>
Budgeted Hospital Increase	\$ 19.2
Elimination of the Hospital Gross Receipts Tax	<u>75.0</u>
Net Benefit to Hospitals FY 2001-02	\$ 94.2

FY2002-03

Eliminate Hospital Uncompensated Care Program	\$ (207.0)
Repeal Sales Tax on Hospital Services	114.0
Increase Medicaid/SAGA/DMHAS Rates	100.0
Increased Medicaid Payments to Hospitals due to Enrollment Growth	15.5
Payments to Hospitals due to New Husky Adult Program	9.5
Rate Adjustment - Hospital's Portion of Managed Care Increase	<u>4.7</u>
Budgeted Hospital Increase	\$ 36.7
Elimination of the Hospital Gross Receipts Tax	<u>75.0</u>
Net Benefit to Hospitals FY 2002-03	\$ 111.7

Investments in Human Services

- Hospital Grant Program
\$2 million for additional grants & collection of outpatient and other data
- Medicaid Rate Increases
 - HMOs will receive a 4 percent rate increase or \$11 million, providing a total add for HMOs of \$36 million more in year one. In year two, HMOs will receive nearly a 3 percent rate increase on the entire new base, for an increase of \$16 million. HUSKY B will have comparable rate hikes.
 - Nursing homes and other long-term care facilities will receive 2.5 percent in year one, or \$28.1 million, and 2 percent in year two, or an additional \$23.2 million.
 - Physician, dentists and other practitioners will receive a rate hike of 2.7 percent in year one only. Total add for these rate hikes is \$1.3 million in each year.
 - Providers under Medicaid home health, community care, state and federal home care program, TBI and PCA will receive a 2 percent increase in year one, or \$5.8 million, and 1.5 percent in year two, or an additional \$4.9 million.

Monitoring the Costs of Human Services

Given the major increases in medical caseloads and health care inflation, the biennial budget also proposes a series of cost-savings measures aimed at protecting the financial integrity of the programs over the long term while limiting the impact on clients.

- **Nursing Home Oversight**

- Connecticut has thirty-six nursing homes in either bankruptcy or operating under state receivership. Six additional staff included to review the financial condition of certain facilities.

Among the proposed actions are:

- Require a certificate of need (CON) review for all facility sales
- Require all future ownership of homes to be restricted to a single entity
- Require financial statements and certified audits if there is evidence of potential financial problems
- Prohibit property owners who have extracted excessive rent from receiving payments in receivership

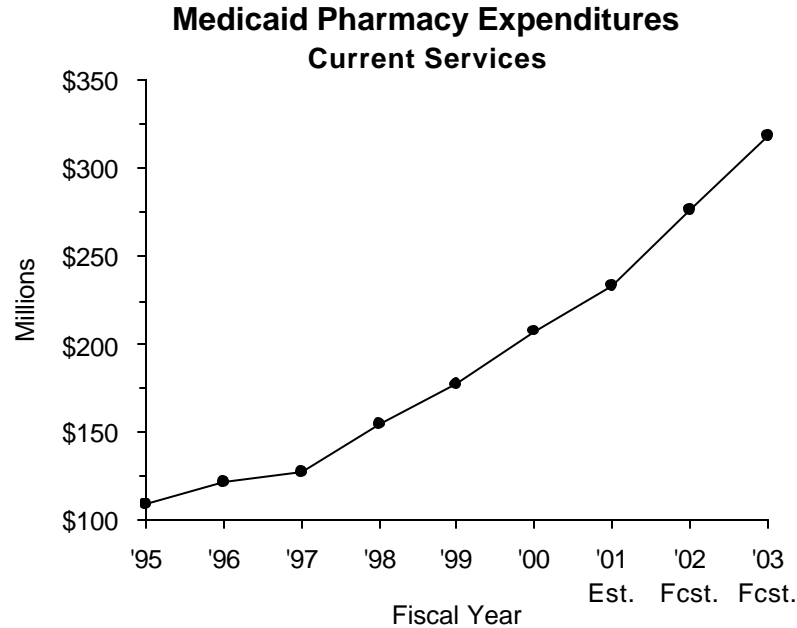
Monitoring the Costs of Human Services

- Pharmacy Costs

The state budget continues to be plagued with spiraling costs in the area of prescription drugs

There is clear evidence that drug costs throughout state government are crowding out other spending

	FY '01	FY '02	FY '03
Department Of Social Services	\$402.9	\$472.7	\$537.0
Department Of Mental Retardation	0.2	0.3	0.3
Department Of Mental Health & Addiction Services	6.0	6.3	6.5
Department Of Correction	12.3	13.6	15.3
Department Of Children & Families	0.5	0.5	0.5
Workers' Compensation	0.8	0.8	0.8
State Employees	113.2	135.9	163.1
Teachers	11.0	15.1	18.9
Grand Total	\$546.9	\$645.2	\$742.4



Monitoring the Costs of Human Services

- Pharmacy Savings

The Governor is proposing the following:

- Legislation to allow DSS to implement maximum acquisition cost controls in Medicaid fee-for-service, General Assistance, and ConnPACE to ensure the savings that were budgeted this fiscal year on an ongoing basis, providing a saving of \$5 million when fully implemented
- Legislation implementing the 50-cent reduction in the dispensing fee to \$3.60 that was budgeted to ensure the savings that were budgeted this fiscal year on an on-going basis, providing a savings of \$2.8 million
- Reduction in drug cost reimbursement to pharmacies from average wholesale price (AWP) minus 12 percent to AWP minus 13 percent, for a savings of \$3.6 million in the first year and \$4.8 million in the second

Savings in the budget submission is \$18 million in year one and \$22.6 million in year two, including some savings initiatives passed last session

Monitoring the Costs of Human Services

- General Assistance Reforms
 - GA will become a non-entitlement program. Enrollment will be closed when monies are projected to be unavailable. DMHAS will also restructure GA Behavioral Health to live within available dollars
 - Some services will be eliminated (home health, vision, other practitioner, durable medical equipment and non-emergency transportation)
 - Total savings in DSS in GA will be \$14.2 million in the first year and \$17.6 million in the second year. Total savings in DMHAS will be \$5 million in each year.
- Proposed Medicaid Equity and Asset Transfer Restrictions, including Probate Court restrictions, will save \$2.5 million in 2001-02 and \$9.7 million in 2002-03

Monitoring the Costs of Human Services

- Adjustments to Temporary Family Assistance, saving \$12.3 million in the first year and \$15.9 million in the second year
 - Control the number of extensions beyond the 21 month time to two six-month periods
 - Adhere to the federal 60 month time limit (excepting victims of domestic violence or other hardships)
 - Clarify DSS authority to impose sanctions (e.g. 50% required to attend employment services fail to show)
- Increase the DMR budget by \$64 million over the biennium to maintain services
 - While there is no new waiting list expansion, the budget provides major increases in Early Intervention, age-outs from the DCF system, high school graduates and cooperative placements growth. The budget also provides for the annualization of current year waiting list dollars.

Economic and Workforce Development

- The Governor has also committed \$35.1 million in his budget for a series of Workforce Development initiatives

WORKFORCE DEVELOPMENT INITIATIVES	
(In Millions)	
Expansion of Jobs Funnel Project	\$ 5.0
School to Career	5.0
Workforce Investment Act Business System	5.0
Industry Cluster Initiatives	7.2
High-Tech Scholarships	3.0
Jobs Access Bus Line	5.0
Gear Up Scholarships	4.0
Good News Garage	<u>0.9</u>
Total - Workforce Development Initiatives	\$ 35.1

Economic and Workforce Development

- Governor Rowland has committed \$7.2 million to expand his Industry Cluster initiative and to attract and retain highly desirable businesses by:
 - Marketing Clusters - \$5.5 million
 - Activating new Clusters - \$800,000
 - Strengthening direct investment efforts - \$200,000
 - Creating an Office of Bio-Science - \$700,000
- The budget also includes capital bonding investments:
 - Urban Act - \$142 million
 - Manufacturing Assistance Act - \$30 million
 - New Haven economic development - \$30 million
 - Hartford economic development - \$26 million
 - New London economic development - \$20 million
 - Norwalk economic development - \$20 million

Improving Public Safety and Criminal Justice

- Driving Under the Influence
 - Lower Connecticut's standard for blood alcohol from .10 to .08
 - Prohibit open alcohol beverage containers in the passenger compartments of motor vehicles and require repeat DUI offenders to install an "ignition interlock device"
- The budget funds 1,248 state troopers - the June class will take us to that level. An additional class of 50 state troopers in the biennium will maintain the mandated level
- Protecting sworn personnel by making the murder of a police officer an aggravating factor in capital felony cases

Improving Public Safety and Criminal Justice

- Criminal Justice IT System

Connecticut will be the first state in the country to integrate executive and judicial branch criminal justice agencies and systems, and create and maintain a new centralized data repository.

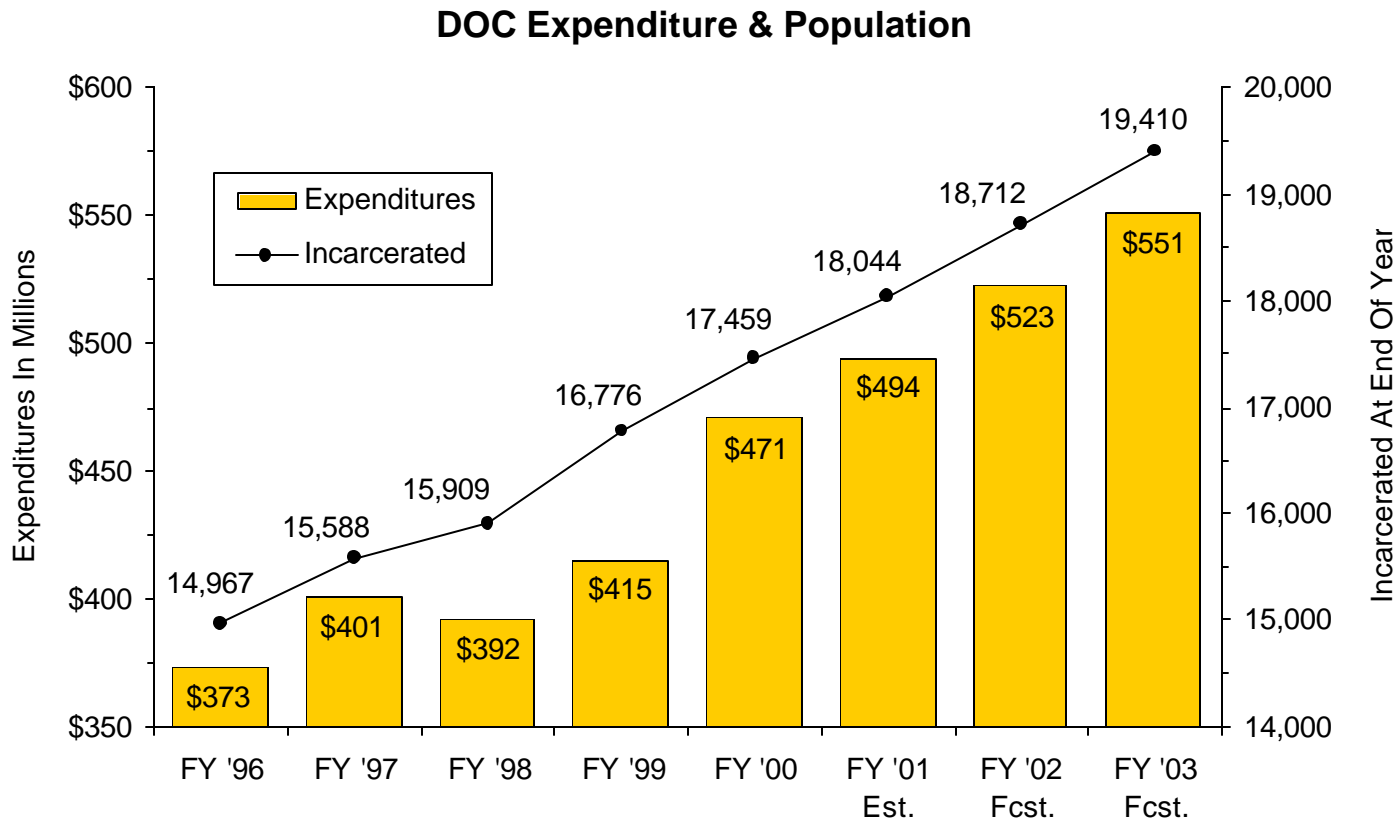
\$16.1 million to expand and complete the project, including:

- COLLECT management system
- Upgrading the state's fingerprint system
- Enhancing online booking
- Instant check system for firearms
- Integrating registry systems:
 - sexual offender
 - traffic stop
 - racial profiling
 - warrant management systems

Criminal Justice Information System Bond Authorizations and Recommendations (In Millions)		
<u>Authorized</u>		25.9
Allocated	12.4	
Unallocated	13.5	
<u>FY 2001-02 Recommended</u>		12.5
AFIS	8.0	
OBTS	3.0	
Mobile Data, CJIS	1.5	
<u>FY 2002-03 Recommended</u>		3.6
(COLLECT SYSTEM)	1.5	
OBTS	1.5	
State's Attorney/OBTS	0.6	
TOTAL		42.0

Improving Public Safety and Criminal Justice

- Increases in the Department of Correction
 - Additional capital authorizations for prison construction of \$75 million in the first year of the biennium
 - \$12.2 million in the first year and \$12.3 million in the second for the out-of-state prison contract - up to 500 beds



Improving Public Safety and Criminal Justice

- \$3 million from the surplus to purchase thermal imaging equipment for fire departments and fire districts
- \$1.53 million from the surplus to extend the Safe Neighborhoods program for one year
- \$370,000 in each fiscal year for helicopter operating funds. \$600,000 to renovate two other helicopters for the Office of Emergency Management
- \$10 million to renovate and expand the municipal police academy

Ending the Gridlock – A Comprehensive Transportation Strategy

- Strategic transportation planning is critical to sustain the state's economic growth and quality of life
- The Transportation Summit created a Transportation Strategy Board (TSB) to recommend short and long-term solutions for integrating transportation and economic development and improving air, rail, road and water service modes
- Governor Rowland has proposed earmarking \$50 million from the surplus for short-term, high-priority projects and key programs already identified by the TSB; additional dollars for projects if surplus is over \$531 million
- Capital budget proposes \$196 million in each year of the biennium to maximize federal TEA 21 funds set aside for Connecticut

Good Government Initiatives

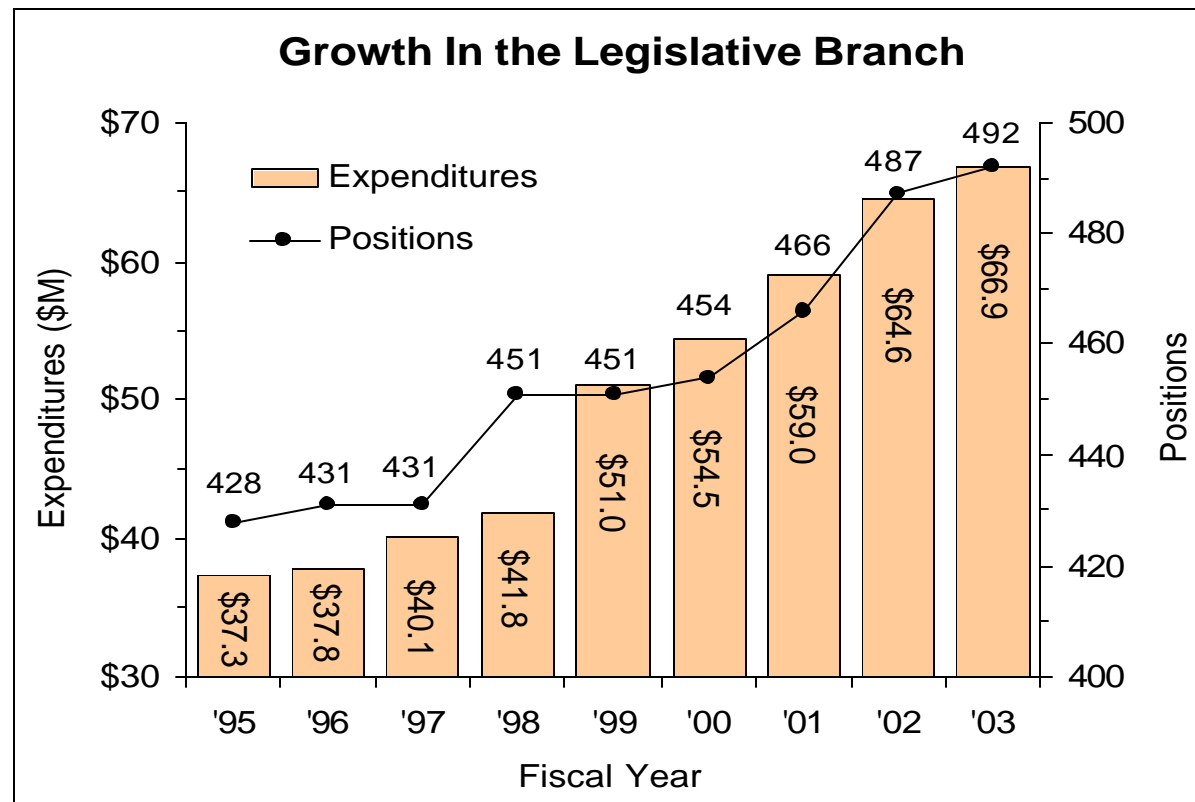
- To improve the delivery of state services, the Governor is submitting legislation to study the following:
 - Merging Departments of Banking and Insurance
 - Moving housing program management from Department of Economic and Community Development to the Connecticut Housing Finance Authority
 - Merging Department of Public Health and University of Connecticut Health Center labs
 - Improving State Vo-Tech School curriculum and capital plants
 - Restructuring Governance of Higher Education
 - Restructuring children's services into a consolidated agency

General Government Efficiencies

- Governor Rowland has proposed a number of cost-savings measures in the General Government area:
 - Restructuring the Emissions Program
 - Eliminating safety inspections of older vehicles
 - Implementing other DMV changes
 - revision of vision screening
 - extending license renewal period
 - reduction of branch office hours
 - Selling certain Worker's Compensation Claim liabilities
 - Reducing Agency personal services accounts by \$20 million in first year, \$32 million in second year of the biennium

General Government Efficiencies

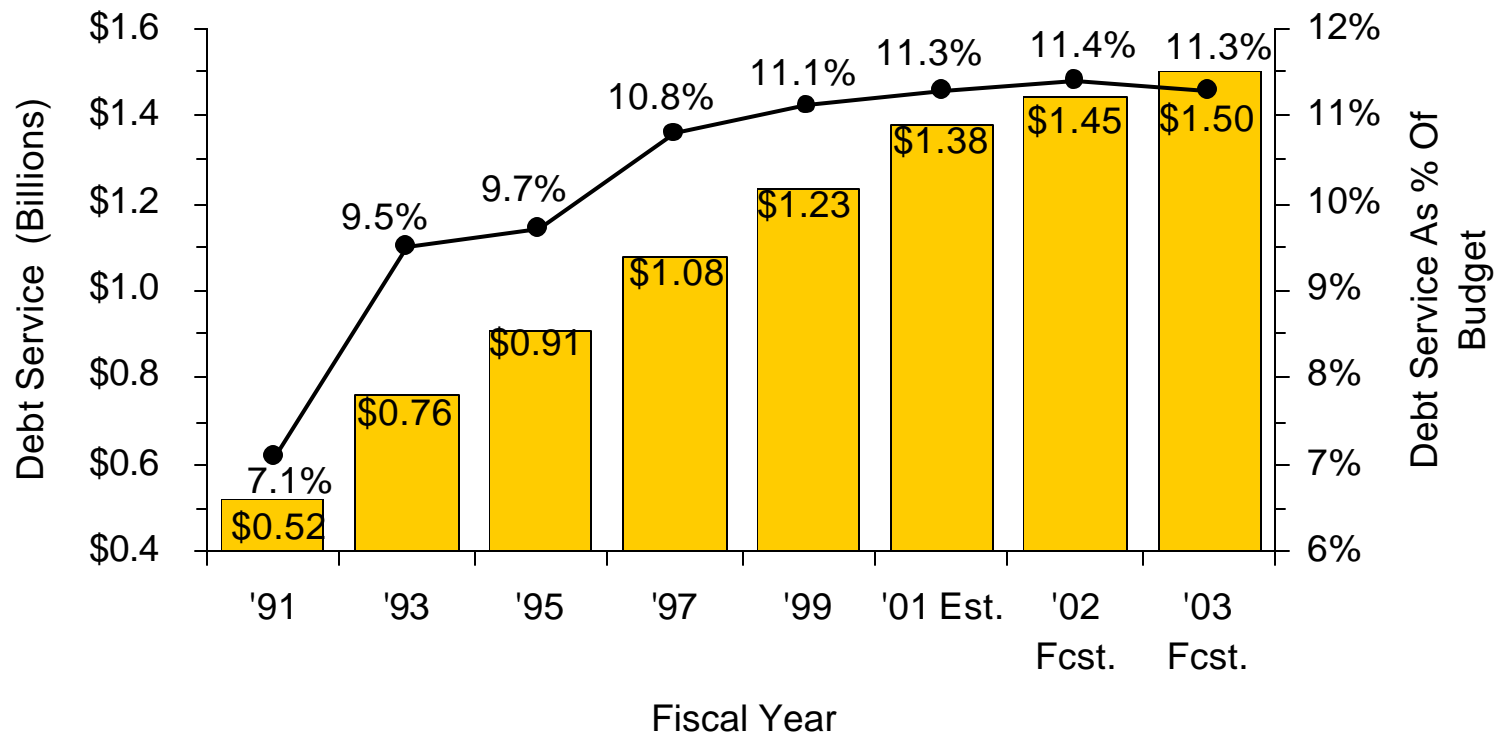
- It is also proposed to increase the Legislative lapse to \$6.1 million in year one and \$5.2 million in year two of the biennium (Growth has approached 10% annually over the last 8 years)



Capital Budget

- While debt service continues to grow, it will soon drop as a percentage of expenditures

Debt Service Expenditures General & Special Transportation Funds



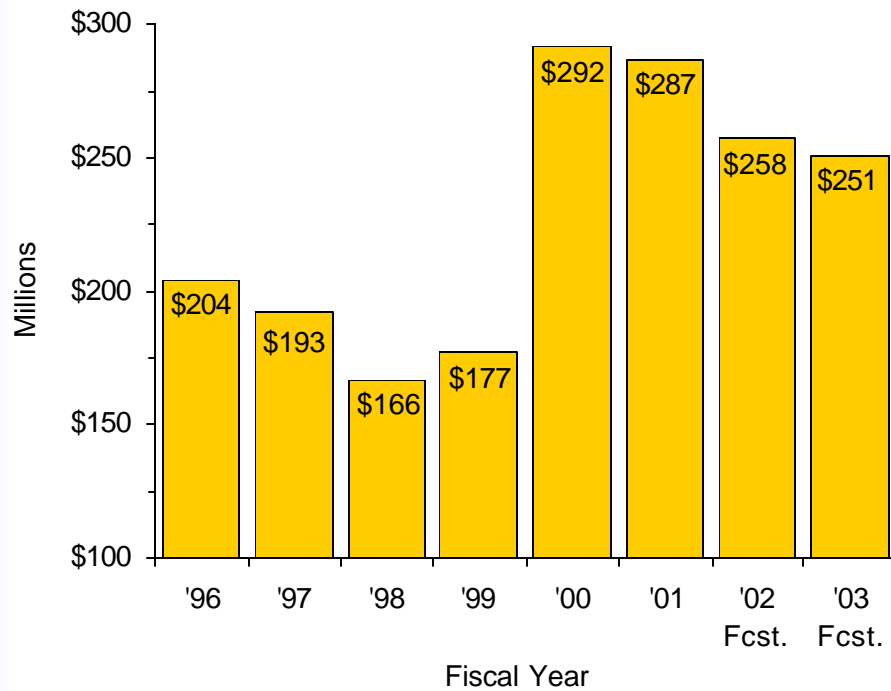
Capital Budget

- To avoid future debt, the Governor is recommending about 60% of the surplus be used for:
 - \$120 million for school construction projects
 - \$50 million for transportation infrastructure
 - \$20 million for the educational technology program
 - \$20 million for workers' compensation sale of certain liabilities
 - \$17 million for the residential underground storage tank program
 - \$8 million for initial federal HIPAA insurance compliance
 - \$2.5 million for the core financial system project

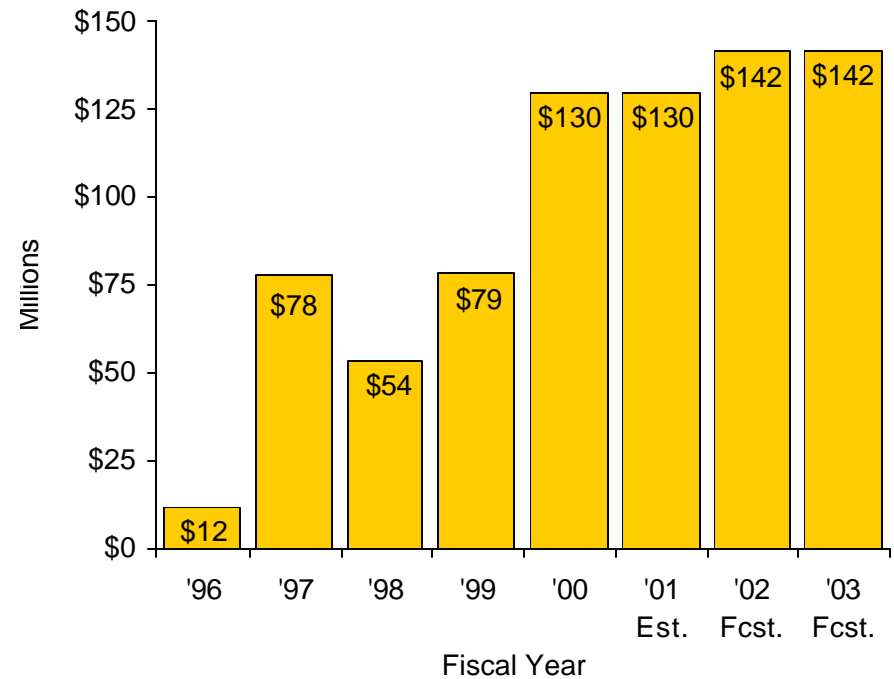
Capital Budget

- The Governor's commitment to education and urban revitalization

Higher Education Authorizations

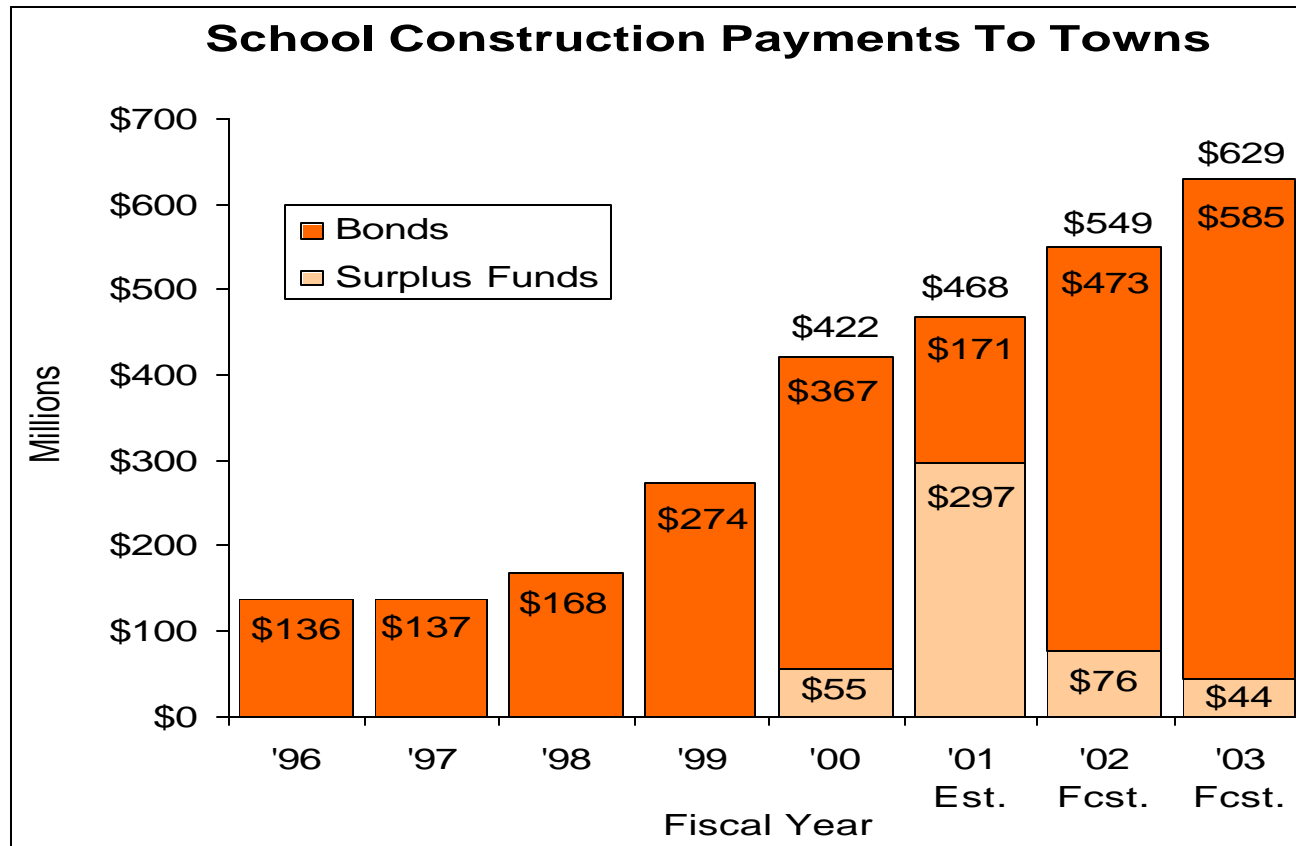


Urban Act Authorizations



Capital Budget

- Most notable is the continued major increase for school construction projects totaling \$550 million in FY 2002 and \$630 million in FY 2003



Capital Budget

Private Activity Bond Commission Volume Cap Allocation (In Millions)

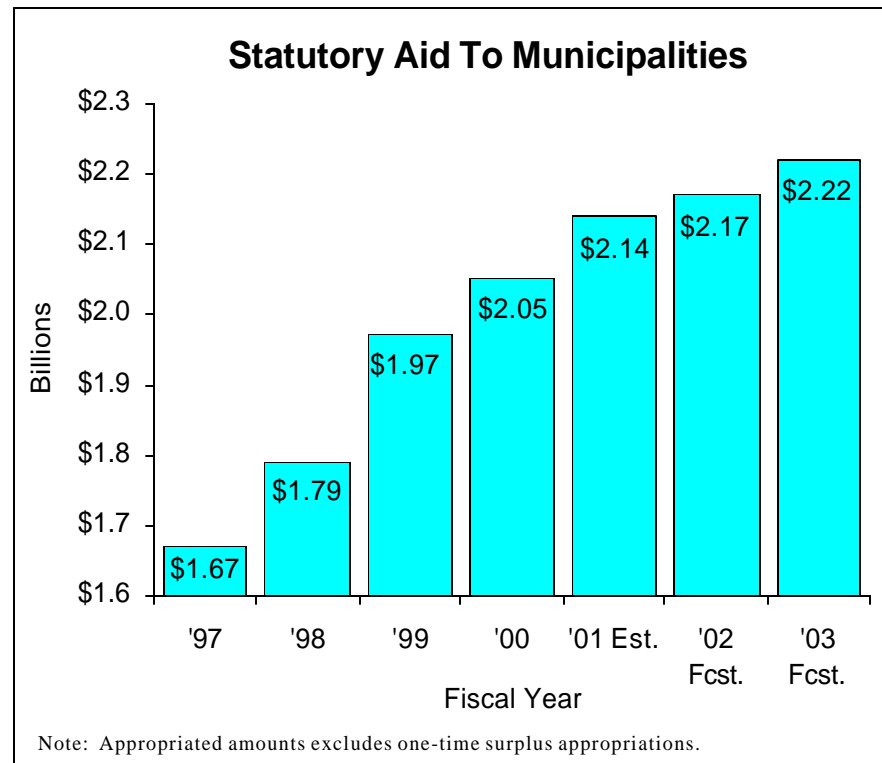
<u>Issuer</u>	<u>Existing Allocation</u>	<u>Calendar 2000 Existing</u>	<u>Calendar 2001 Existing Law</u>	<u>Proposed 2001 Allocation Percentage</u>	<u>Calendar 2001*</u>	<u>Proposed 2002 Allocation Percentage</u>	<u>Calendar 2002*</u>
CHFA	40%	\$ 65.64	\$ 85.14	60%	\$ 127.71	60.0%	\$ 153.27
CDA	32%	\$ 52.51	\$ 68.11	15%	\$ 31.93	12.5%	\$ 31.93
Municipal	18%	\$ 29.54	\$ 38.31				
Contingency	10%	\$ 16.41	\$ 21.29	25%	\$ 53.21	27.5%	\$ 70.25
Total	100%	\$ 164.10	\$ 212.85	100%	\$ 212.85	100%	\$ 255.45

* Allocation for calendar year 2001 is \$212,848,000 based on population of 3,406,000 @ \$62.50 per capita and for calendar year 2002 is \$255,450,000 based on population of 3,406,000 @ \$75 per capita.

Source: FFIS, January 8, 2001

Local Aid

- Overall state formula aid to localities will increase by \$85 million over the biennium
- Since Governor Rowland took office, state aid to localities has increased by \$615 million or 38% - roughly matching the overall growth in the State budget



Local Aid

- The bottom line of Governor Rowland's budget is that aid to local government goes up

Summary - Estimated Formula Grants to Municipalities (Appropriated, In Millions)			
Grant	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>
State-Owned PILOT	\$66.1	\$65.7	\$65.7
College & Hospital PILOT	97.2	97.2	97.2
Pequot Grant	135.0	110.0	85.0
Town Aid Road Grant	35.0	35.0	35.0
LoCIP	30.0	30.0	30.0
Miscellaneous General	30.2	30.6	29.6
Machinery & Equipment	<u>76.6</u>	<u>73.7</u>	<u>73.5</u>
Sub-total - General Government	\$470.1	\$442.2	\$416.0
Public School Transportation	\$45.2	\$47.5	\$50.0
Non-Public School Transportation	4.8	5.0	5.3
Adult Education	17.9	18.2	19.1
Education Cost Sharing	1,388.0	1,453.0	1,511.5
Miscellaneous Education Grants	<u>209.4</u>	<u>202.4</u>	<u>218.4</u>
Sub-total - Education	\$1,665.3	\$1,726.1	\$1,804.3
Total - Formula Grants	\$2,135.4	\$2,168.3	\$2,220.3

Local Aid

- Governor Rowland is proposing increasing local aid by transferring of \$25 million and \$50 million respectively of Pequot aid over two years to ECS to advance phase out of the cap in accordance with existing law

ECS Cap Towns

Andover	East Haddam	Kent	Portland	Voluntown
Ansonia	East Hartford	Killingworth	Redding	Wallingford
Avon	Derby	Litchfield	Ridgefield	Warren
Berlin	East Haven	Lyme	Roxbury	Washington
Bloomfield	East Lyme	Madison	Salem	Waterbury
Bolton	East Windsor	Manchester	Salisbury	Waterford
Branford	Eastford	Mansfield	Seymour	Westbrook
Bridgeport	Easton	Meriden	Sharon	West Hartford
Bridgewater	Ellington	Middlebury	Sherman	West Haven
Bristol	Essex	Middlefield	South Windsor	Weston
Canaan	Fairfield	New Canaan	Southbury	Westport
Canton	Farmington	New Hartford	Southington	Wethersfield
Colchester	Glastonbury	New Milford	Stamford	Wilton
Colebrook	Goshen	Newington	Stratford	Windsor
Columbia	Granby	Old Lyme	Suffield	Windsor Locks
Cornwall	Greenwich	Old Saybrook	Thomaston	Wolcott
Cromwell	Haddam	Orange	Tolland	Woodbridge
Darien	Hamden	Plainville	Torrington	Woodbury
Deep River	Hampton	Pomfret	Trumbull	Woodstock

Reallocation of Pequot/Mohegan Fund To ECS Grant

(In Millions)

	FY '01	FY '02	FY '03	Increase From FY '01
ECS Grant	\$1,388.0	\$1,453.0	\$1,511.5	\$123.5
Pequot/Mohegan Fund	<u>\$135.0</u>	<u>\$110.0</u>	<u>\$85.0</u>	<u>(\$50.0)</u>
New Total	\$1,523.0	\$1,563.0	\$1,596.5	\$73.5

Local Aid

- To facilitate state spending reductions at the local level:
 - Flat fund State-owned property PILOT at \$63.8 million per year; savings to the State is \$4.6 million in both years of the biennium
 - Flat fund College and Hospital PILOT at \$97.2 million per year; two year savings to the State over the biennium is \$8.5 and \$9.7 million respectively
 - Under the Manufacturer's Machinery and Equipment PILOT, require towns to cover 20% of the abatement and eliminate trucks over 55,000 lbs. The savings to the State for both changes is \$8.3 million in the first year and \$14.3 million in the second year.
 - Eliminate the non-profit tax abatement and PILOT for housing authorities programs: savings to the State is \$5.1 million annually

Conclusion

***“Those who cannot remember the past are
condemned to repeat it.”***

– George Santayana (1863-1952)

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