Governor Rowland's FY 2003-05 Biennial Budget Introduction Supplement

(March 4, 2003)

Before passage of the bi-partisan deficit mitigation plan, HB 6495, last week, Governor Rowland's recommended FY 2003-05 Biennial Budget Plan had already gone to print. Because of the cost of reprinting a corrected budget document and in the interest of ensuring that no further time is lost for the legislature to review the Governor's budget submission, this supplement is being printed to walk interested parties through the major changes from the original budget documents.

No changes were made to the spending side of the Governor's recommended budget. So, in general, the following pages, sections, or parts in the budget summary and budget document are correct:

Governor's Budget Summary

- Pages 1-13, 19-30, and 53 to 151 in the introduction;
- Section B, (Agency-by-agency recommended budgets and significant changes)
- Section C (Appropriations Act)
- Section D (Capital Program)
- Section E (Municipal Aid)

Governor's Budget

- Part 2 -- Budget in Detail
- Part 3 -- Appropriations Act

However, in all cases, no reliance should be made in these sections to references to estimated expenditures in the current fiscal year because a proposed FY 2002-03 deficit reduction plan that the Governor incorporated in his budget submission is substantially different from the one passed by the Legislature. The statutory debt limit in Section D of the Budget Summary and in the Budget in Detail will be slightly off because of differences between the Governor's original revenue plan compared with what the legislature passed and the additional increases that the Governor is now recommending.

An updated municipal aid handout has already been prepared with correct FY 2002-03 estimated expenditure numbers. As well, a number of charts in the introduction section have been updated and are included at the back of this supplement. These charts have been updated with correct FY 2002-03 estimated expenditures or to reflect reductions made in the deficit plan passed by the legislature. All other charts in the introduction are generally correct except for some minor references to FY 2002-03. The only exception is that the table on page 54 of the introduction to the budget summary has not been updated and is unreliable in terms of the FY 2002-03 estimated column. The table on page 55 is correct.

Wherever possible, areas in the Governor's budget proposal that have already been passed in whole or part by the legislature in the deficit plan are noted in OPM's PowerPoint overview document.

In general, Section B of the Budget Summary and Part 1 of the Governor's Budget can be relied on if the charts, tables, or graphics refer to the spending side of the budget. They should not be relied on for the revenue side of the budget.

Best efforts have been made here to summarize major changes on the revenue side and to capture most of the information that cannot be relied upon in these books. Over the next several weeks, staff of the Office of Policy and Management will seek to update most information. While new documents will not be printed, they will be continuously updated on OPM's website (www.opm.state.ct.us).

Liquidating the FY 2002-03 Deficit

It is essential that Connecticut make structural changes in the biennial budget so as to preserve its bond rating and ensure that Connecticut remains competitive well into the future. But Connecticut must first balance the current fiscal year's budget.

With the passage of H.B. 6495, the bipartisan deficit reduction plan passed by the General Assembly last week, Connecticut takes an important first step to solving its structural budget problems. Governor Rowland fought hard to broker the bipartisan deficit mitigation plan in order to preserve the state's credit rating and to ensure the state's budgetary and economic health.

Further analysis of the deficit mitigation plan and additional steps the Governor is taking this fiscal year to reduce expenditures suggest that the state can end the fiscal year with a $47.8 million surplus and begin to build its Rainy Day Fund back up again.

How did the deficit come about?

The gross deficit for the current fiscal year, before any mitigation efforts, stands at about $638.3 million.

By far, the greatest problem is on the revenue side of the budget. The state received disappointing news throughout the fiscal year on tax revenues. As the accompanying chart shows, revenues in the general fund in total are about $388 million below budgeted amounts.

- Personal income taxes are actually down $421 million. The budget anticipated that withholding growth would be 6 percent for the fiscal year. Because of the continuing economic slowdown and the lack of bonus payouts in December and January, withholding is expected to be down about 1 percent from FY 2001-02. Estimates and finals payments, about half of which customarily is capital gains, were budgeted to come in at about 5 percent growth as it was expected that the market would rebound slightly from its huge slump. Because the market has deteriorated further, the drop is projected to be about 10 percent.

- The sales and use tax was anticipated to grow at a modest 4.3 percent. Because of the slumping economy, it will grow at just under 1 percent, meaning a revenue variance from budget of about $82 million.

- On the positive side, corporate revenue is expected to be almost $40 million better than budgeted, in large measure due to better the corporate profitability because of downsizing in the private sector.

FY '03 Major Revenue Shortfalls

	Assumed	Feb. 27th Forecast	Diff.
Personal Income Tax	$4,553.0	$4,132.0	($421.0)
Sales & Use Tax	3,141.3	3,059.4	(81.9)
Investment Income	28.0	13.6	(14.4)
Gaming Revenues	672.0	658.9	(13.1)
Miscellaneous Revenues	37.9	25.0	(12.9)
All Other	3,659.7	3,815.4	155.7
Total G.F. Revenues	$12,091.9	$11,704.3	($387.6)

On the spending side, the state is expecting that deficiency spending will be about $135.2 million.

- By far the largest deficiency is in the area of Medicaid, which is anticipated to be over budget by almost $100 million. The deficiency is caused in great measure by the softened economy, liberal eligibility rules, and health care inflation. The areas that the Medicaid budget is in deficiency include HUSKY enrollment for both adults and children, pharmacy expenditures due to inflation that has hit or exceeded 20 percent, and healthy home care enrollment.

FY 03 Additional Estimated Expenditures
(In Millions)

State Insurance and Risk Management Board	$ 1.2
Department of Mental Retardation	4.1
Department of Mental Health & Addiction Services	2.2
Department of Social Services	96.7
Department of Correction	3.3
Department of Children and Families	7.3
DAS Workers Compensation	6.5
State Employees Health Services	5.2
Retired State Employees Health Services	8.7
Total - General Fund Additional Requirements	**$135.2**

- The state is also experiencing major workers' compensation deficiencies across many agencies that total about $17 million.

- The state employee and retiree health accounts deficiency is about $16 million, before a surplus transfer, due to heavier-than-expected enrollment activity.

In addition, expenditures on a gross basis would be another $105.6 million over budget because of the lack of labor concessions from state employee unions and miscellaneous other expenditures. When the FY 2002-03 budget adjustments were passed last year, the legislature increased the lapse targets in the budget in anticipation that the administration would receive about $94 million in concessions for the current fiscal year. (A portion of the $94 million will be made up through savings from layoffs of up to 3,000 workers in this fiscal year in all appropriated and unappropriated funds and savings from the early retirement plan.)

Finally, in recent days, it became apparent that a portion of the Treasurer's escheat plan included as one-time revenue in the current fiscal year budget would not be garnered by year's end. Consequently, the deficit was adjusted upward another $10 million.

General Fund
Changes from Adopted Budget
(In Millions)

Beginning Balance	$ 0.1
Revenue Decline	(387.6)
Expenditure Increases	(135.2)
Lost Lapses/Miscellaneous Adjustments	(105.6)
Surplus/(Deficit)	$ (628.3)
Loss of Escheats	(10.0)
Final Surplus/(Deficit)	$ (638.3)

Deficit mitigation plan

As noted above, the gross deficit of $638.3 million can be totally liquidated by year's end and the state could deposit as much as $47.8 million in its Budget Reserve Fund with some additional steps the Governor is recommending. Rescissions made by the Governor in November and January and the deficit mitigation plan passed by the legislature closes a substantial portion of the gross deficit. The deficit reduction is as follows:

- The November allotment rescissions totaled $27.9 million, in addition to $35 million in Section 52 extraordinary rescissions already accounted for in the FY 2002-03 adjusted budget as passed last year.

- After accounting for duplication of rescissions in the legislative deficit mitigation plan, remaining true rescissions in the Governor's January plan are $9.1 million. A number of the forced lapses the Governor recommended in January were included in the legislative plan as well. Because the deficit can be fully closed, any remaining forced lapses not included in the deficit plan passed by the legislature are no longer being sought. Agencies will be notified that the monies are available for expenditure this fiscal year.

- An accompanying table shows that of the $222.5 million in savings included in the legislative deficit mitigation plan, $29.5 million in spending cuts and $85.4 million in lapses are unattainable, for a total of $114.9 million. Thus, $107.6 million is attainable. That is broken out to $63.4 million in spending cuts, $21.2 million from layoffs savings, and $23 million from anticipated early retirement savings. Included within the attainable cuts is $4.65 million in FY 2000-01 surplus previously dedicated for other projects.

ANALYSIS OF LEGISLATIVE DEFICIT MITIGATION PLAN
UNSUSTAINABLE CUTS AND LAPSES
(General Fund - FY 2002-03)

Cuts:	**Amount Not Achievable**
Comptroller	
Reduce Personal Services	$ 250,000
Reduce Other Expenses	100,000
Office of Policy & Management	
Drug Enforcement Program - Other	35,302
Office of Workforce Competitiveness	
Personal Services	100,000
Department of Information Technology	
Reduce Personal Services	300,000
Department of Public Works	
Other Expense - FY 03 Reductions	1,204,641
Management Services	476,091
Facilities Design Expenses	475,538
Department of Labor	
Other Expenses	84,911
DMHAS	
Special Populations Program	2,600,000
Department of Mental Retardation	
O.E. reduction	500,000
Employment Opportunities and Day Services	1,500,000
Social Services	
Suspend HUSKY Adult Program	4,000,000
Reduce Dispensing Fee to $3.60 *[vs. $3.50 in Gov's Plan]*	300,000
Eliminate Continuous and Guaranteed Eligibility	2,000,000
Establish Community Health Center Pharmacy Purchasing Program	950,000
Increase ConnPACE Co-Pay from $12 to $16.25 *[vs. $15 in Gov's Plan]*	591,000
Reduce Transitional Child Care Eligibility to 55% SMI *[vs. 50% in Gov's Plan]*	500,000
Delay Nursing Home Rate Increase	10,500,000
Reduce Other Expenses	1,000,000
State Library	
Basic Cultural Resources Grant	226,922
UCONN	
Tuition Freeze - 1.5% Reduction plan	29,637
CSU	
Tuition Freeze - 1.5% Reduction plan	41,013
Department of Correction	
PS	667,529
Equip	121,000
WCC	366,288
Judicial Department	
OE	570,169
Total Cuts	**$ 29,490,041**
Lapses:	
Union Concessions	$ 53,400,000
Additional 1.75% Rescission Authority	12,750,000
Corrections Initiative	10,000,000
Energy Savings due to ECLM swap	6,000,000
Freeze on Executive and Judicial travel	1,000,000
Fleet Reduction	2,250,000
Total Lapses	**$ 85,400,000**
Total Unachievable Cuts and Lapses	**$ 114,890,041**

- Within executive authority, the Governor and Secretary of the Office of Policy and Management can choose to lapse collective bargaining monies that have not yet been utilized for various purposes in the Reserve for Salary Adjustment (RSA). Approximately $29.5 million in RSA monies have been identified that are not immediately needed. Given the fiscal crisis, the state believes balancing the budget has to take precedence over setting aside dollars for yet-to-be-determined collective bargaining needs.

- Within executive authority, the Governor and Secretary of the Office of Policy and Management can choose to lapse collective bargaining monies that have not yet been utilized for various purposes in various agency personal services lines. Approximately $18.7 million in personal services dollars throughout state government have been identified for lapse for unsettled contracts. Because of the lack of reasonable labor concessions and the continuing fiscal crisis, the administration has no choice but to take this position. Unsettled union contracts cover about one quarter of unionized employees through 6/30/02 and will grow to one-half of unionized employees as of 6/30/04.

Fiscal Impact of House Bill 6495
OPM vs. OFA

			OPM			OFA			OPM vs. OFA		
	Section	Eff.	Fiscal 2002-03	Fiscal 2003-04	Fiscal 2004-05	Fiscal 2002-03	Fiscal 2003-04	Fiscal 2004-05	Diff 2002-03	Diff 2003-04	Diff 2004-05
Personal Income Tax											
Increase 4.5% rate to 5.0%	22-24	1/1/03	230.5	428.3	445.5	207.4	403.9	393.0	23.1	24.4	52.5
Accrue July non-withheld payments	38	1/1/03	10.0	-	-	12.0	-	-	(2.0)	-	-
Sub-total			240.5	428.3	445.5	219.4	403.9	393.0	21.1	24.4	52.5
Sales and Use Tax											
Reduce Clothing Exemption to $50	28	4/1/03	10.9	33.6	35.3	7.8	30.0	32.0	3.1	3.6	3.3
Newspapers & Magazines	58	4/1/03	17.5	69.8	73.3	17.2	68.0	66.0	0.3	1.8	7.3
Advertising Services at 3%	25-26	4/1/03	5.0	20.0	22.5	5.0	20.0	22.5	(0.0)	-	-
Health and Athletic Clubs	27	4/1/03	1.9	7.5	7.9	1.9	7.5	8.5	-	-	(0.6)
Additional Sales Tax due to Cigarette Tax		3/15/03	1.7	4.4	4.3	1.1	3.1	3.1	0.6	1.3	1.2
Sub-total			37.0	135.3	143.3	33.0	128.6	132.1	4.0	6.7	11.2
Corporation Tax											
Impose 20% surtax in IY 2003	32-35	1/1/03	45.6	24.6		32.4	33.0	-	13.2	(8.4)	-
Accrue to August 15th	37		7.0	-	-	10.0	-	-	(3.0)	-	-
Sub-total			52.6	24.6	-	42.4	33.0	-	10.2	(8.4)	-
Public Service Tax											
Quarterly estimates for Cable TV	54-55	1/1/03	15.2	-	-	15.0	-	-	0.2	-	-
Cigarettes											
Increase rate from $1.11 to $1.51	29-30	3/15/03	22.1	73.5	71.7	20.2	67.8	67.8	1.9	5.7	3.9
Floor Tax	31		6.6	-	-	6.2	-	-	0.4	-	-
Sub-total			28.7	73.5	71.7	26.4	67.8	67.8	2.3	5.7	3.9
Real Estate Conveyance											
Accrue to July 31st	39	1/1/03	12.0	-	-	12.0	-	-	-	-	-
Oil Companies											
Suspend transfer to the STF	36	7/1/02	20.0	-	-	20.0	-	-	-	-	-
Federal Grants											
Revenue impact due to budget changes			(13.8)	(43.7)	(43.7)	(15.4)	(43.7)	(43.7)	1.6	-	-
Transfers to/(from) the General Fund											
Reduce the Mashantucket/Pequot Grant	3		21.5	21.5	21.5	21.5	21.5	21.5	-	-	-
Fund Transfers											
Transfer from the STF	6e		52.0	-	-	52.0	-	-	-	-	-
Transfer from the Probate Court Admin. Fund	6f		10.0	-	-	10.0	-	-	-	-	-
Reduce Tourism Districts Hotel Intercept	41		1.0	1.0	1.0	1.0	1.0	1.0	-	-	-
Transfer from Commercial Recording Account	6g		2.5	-	-	2.5	-	-	-	-	-
Energy Conservation and Load Mgt.	20-21		6.0	12.0	12.0	6.0	12.0	12.0	-	-	-
Sub-total			71.5	13.0	13.0	71.5	13.0	13.0	-	-	-
Grand Total - General Fund			485.2	652.5	651.3	445.8	624.1	583.7	39.4	28.4	67.6

- The following table shows that total revenue raised in H.B. 6495 is substantial. The legislative Office of Fiscal Analysis estimates that the combination of tax increases and other one-time revenue sources, accruals, or transfers will infuse about $445.8 million into the general fund in the current fiscal year. However, the Governor's budget office, the Office of Policy and Management, suggests that the estimated revenue is about $39.4 million higher. That higher number is used in these

Tax Increases Contained in House Bill 6495
(In Millions)

General Fund	Eff.	Fiscal 2002-03	Fiscal 2003-04	Fiscal 2004-05
Personal Income Tax				
Increase 4.5% rate to 5.0%	1/1/03	230.5	428.3	445.5
Sales and Use Tax				
Reduce Clothing Exemption to $50	4/1/03	10.9	33.6	35.3
Newspapers & Magazines	4/1/03	17.5	69.8	73.3
Advertising Services at 3%	4/1/03	5.0	20.0	22.5
Health and Athletic Clubs	4/1/03	1.9	7.5	7.9
Corporation Tax				
Impose 20% surtax in IY 2003 *	1/1/03	45.6	24.6	-
Cigarettes				
Increase rate from $1.11 to $1.51	3/15/03	30.4	77.9	76.0
Total - Ongoing Tax Increases		296.2	637.1	660.5

* Temporary Tax Increase

calculations he re, as are higher numbers in the biennial years as well. As can be seen from another chart, the pure tax increases raise about $296.2 million in FY 2002-03, with an additional temporary corporate tax surcharge of $45.6 million in the current fiscal year. By far the largest increase in H.B. 6495 is the increase in the 4.5 percent income tax rate to 5 percent for all filers, which raises $230.5 million in the current fiscal year.

- Finally, the Governor is proposing a number of additional tax increases beyond what was passed in H.B. 6495 for the biennium in the table on the following page. Those additional tax increases raise about $8 million in additional revenue in the current fiscal year. The Governor is requesting that these increases be acted on expeditiously.

Again, instituting all of these changes would mean a transfer into the Budget Reserve Fund of up to $47.8 million. The deficit mitigation bill signed into law by Governor Rowland called for increasing the needed reserve on hand from 7.5 percent to 10 percent. Until last session, the threshold was at just 5 percent of general fund expenditures.

Governor's Revised Proposed Tax Increases - 2003 Session (Post Passage of Legislative Deficit Mitigation Plan)
(In Millions)
FY 2002-03

	Effective	FY 2002-03
Increase Cable TV Tax from 5% to 6%	4/1/03	1.6
Limit Insurance Company Tax Credits	1/1/03	1.5
Increase Real Estate Conveyance Rates	4/1/03	5.0
		$ 8.1

CLOSING THE FY 2002-03 DEFICIT
(In Millions)

Estimated Deficit 3/1/03 with No Labor Concessions	$ (638.3)
November Allotment Rescissions	27.9
Revised Deficit	(610.4)
Achievable Cuts in Legislative Deficit Mitigation Plan	63.4
Revised Deficit	(547.0)
Remaining January Rescissions After Legislative Action	9.1
Revised Deficit	(537.9)
ERIP/Layoffs Savings	44.2
Revised Deficit	(493.7)
Lapse Unsettled Collective Bargaining Funding	18.7
Revised Deficit	(475.0)
Lapse Reserve for Salary Adjustment Funds	29.5
Revised Deficit	(445.5)
Legislative Deficit Mitigation Plan Revenue Increases	485.2
Revised Operating Balance	39.7
Governor's Proposed Revenue Changes	8.1
Revised Operating Balance	47.8
Revised Operating Balance	47.8
Transfer to Budget Reserve fund	(47.8)
Revised Balance 6/30/03	$ -

The deficit mitigation plan offers a balanced approach to this fiscal year's deficit. All told, ongoing and temporary tax increases add up to $349.9 million, with $223.3 million coming from spending cuts embodied in layoffs, early retirements, lapsing of collective bargaining monies, and reductions in municipal aid, entitlements, and discretionary spending (including $30.5 million in cuts to Town Aid Road and Pequot Aid, which create revenue transfers into the general fund). Just $112.9 million comes from one-time transfers of revenue.

Thus, about one third of the deficit mitigation comes from spending reductions in one form or another, and 50 percent comes from tax increases. It's fair; it's equitable; and it balances the budget this fiscal year.

Comparing Governor's original deficit plan to legislative one

The budget summary outlines the now-defunct deficit plan the Governor would have proposed if not for a bipartisan deficit mitigation plan reached last week. The two plans are actually quite similar when comparing the achievable cuts in the legislative plan to the Governor's. The proposed final bottom line in the Governor's plan would have been $12.112 billion, as compared with an expected bottom line resulting from the legislative plan of $12.140 billion, or an increase of $28 million (including the lapsing of collective bargaining monies in each plan). While each plan has differing cuts, by and large the difference between the two is the level of municipal aid in the legislative plan and differing entitlement reductions. An accompanying chart outlines the major differences in the General Fund. Differences in municipal funding also occur in Pequot Aid and Town Aid Road in other funds.

Deficit mitigation plan rollout in the biennium

In addition to remedying the deficit situation this fiscal year, the plan passed by the legislature also significantly reduces the structural gap in the next biennium. It gives the Governor and the legislature critical breathing room to come to a consensus to close the remaining hole.

It is estimated that the achievable legislative spending cuts roll out to be about $126.4 million in year one of the biennium and $148.4 million in year two. Rolling out rescissions taken by the Governor in the current fiscal year adds another $61.2 million savings in each fiscal year. Early Retirement savings and layoff savings mean spending reductions of $277.7 million in year one and $284.6 million in year two.

General Fund FY 2003 Estimated Expenditures Reconciliation
Governor's Budget to Legislative Deficit Mitigation Plan
(In Millions)

FY 2002-03 Estimated - Governor's Budget		$12,111.9
Adjustments:		
Office of Policy and Management		
P.I.L.O.T. - New Manufacturing Machinery & Equip.	8.0	
Department of Social Services		
State Administered General Assistance	16.0	
Disproportionate Share Medical Emergency	(5.0)	
Department of Education		
Priority School Districts	4.1	
Constitutent Units of Higher Education		
Operating Expenses	(3.3)	
Dept of Mental Health and Addiction Services		
General Assistance Managed Care	7.5	
Department of Corrections		
Delay Opening - Somers	(2.4)	
Net All Other Adjustments	3.0	
Total Adjustments		$ 27.9
Total FY2003 Estimated Expenditures as Adjusted by HB 6495 as amended		$12,139.8

All told, the legislative deficit plan's spending cuts in conjunction with the Governor's rescissions, layoffs, and early retirement saves about $465.4 million in FY 2003-04 and $494.2 million in FY 2004-05.

With the revenue increases in FY 2003-04 and FY 2004-05 of $652.5 million and $651.3 million, respectively, in the legislative plan, total deficit mitigation is $1.118 billion in year one and $1.146 billion in year two.

The true current services gap before the passage of the plan was $2.007 billion in FY 2003-04 and $2.541 billion in FY 2004-05. Thus, the remaining gap in year one is now just $889 million in year one and $1.395 billion in year two. The gap has been cut by more than half in year one and by 45 percent in year two.

SPENDING IMPACT OF LEGISLATIVE DEFICIT MITIGATION PLAN ON FY 2003-04 & FY 2004-05

Agency #	Agency	FY '04 Rollout of HB 6495 Savings	FY '05 Rollout of HB 6495 Savings
1013	Commission on Children	$ (30,000)	$ (30,000)
1202	State Comptroller	-	-
1310	Office of Policy & Management	(17,048,500)	(17,048,500)
1315	OWC	(410,000)	(410,000)
1320	DAS	(300,000)	(300,000)
1324	Information Technology	(250,000)	(250,000)
1326	Department of Public Works	(1,278,000)	(1,278,000)
2000	Department of Public Safety	(2,850,000)	(2,850,000)
2610	DOL	(177,411)	(177,411)
3500	Economic & Community Development	(752,000)	(752,000)
4001	Public Health	(304,000)	(304,000)
4100	DMR	(2,000,000)	(2,000,000)
4400	DMHAS	(2,664,000)	(2,664,000)
6100	Social Services	(106,511,425)	(128,039,224)
7001	Dept. of Education	0	0
7104	State Library	(843,000)	(843,000)
7401	Charter Oak	(38,595)	(40,327)
7301	UConn	(3,061,955)	(3,222,757)
7302	UConn Health Center	(1,150,890)	(1,204,462)
7700	CTC	(1,968,645)	(2,063,206)
7800	CSU	(2,188,532)	(2,292,934)
8100	DCF	(2,665,756)	(2,665,756)
8129	Children's Trust Fund	(570,150)	(570,150)
9001	Judicial Department	(2,500,000)	(2,500,000)
Total - General Fund		**$ (126,466,948)**	**$ (148,409,816)**
Other Savings			
Early Retirement Program		(153,300,000)	(140,400,000)
Estimated Layoff Savings		(124,400,000)	(144,200,000)
Governor's Rescissions			
	Nov. 2002	(27,900,000)	(27,900,000)
	Jan. 2003 - Remainder after HB 6495	(9,100,000)	(9,100,000)
	Extraordinary Authority - Sec 52	(24,200,000)	(24,200,000)
Total - Other Savings		**$ (338,900,000)**	**$ (345,800,000)**
Total - General Fund		**$ (465,366,948)**	**$ (494,209,816)**

The FY 2003-05 Biennial Budget

In addition to the substantial revenue gaps in the biennium mentioned just above, current services calculations against allowable spending growth under the constitutional spending cap necessitates reductions in spending across all funds of about $ 763.2 million in the first year of the biennium and $ 1,054.6 million in FY 2004-05.

Given the magnitude of the gap and the constraints presented by the spending cap, Governor Rowland is proposing hundreds

FY'04 and FY'05 Current Services Gap
(In Millions)

	General Fund FY 2003-04	General Fund FY 2004-05
Gap Before Passage of Legislative Deficit Mitigation Plan	$(2,007.3)	$(2,540.8)
Revenue Gain	652.5	651.3
Expenditure Reductions	126.5	148.4
ERIP	153.3	140.4
Estimated Layoff Savings	124.4	144.2
Governor's Rescissions		
November 2002	27.9	27.9
January 2003 - Remainder after HB 6495	9.1	9.1
Extraordinary Authority - In Sec. 52 of FY '03 Budget	24.2	24.2
Total Mitigation Savings	$ 1,117.9	$ 1,145.5
Remaining Gap After Passage of Legislative Deficit Mitigation Plan	$ (889.4)	$ (1,395.3)

of millions of dollars in structural changes on each side of the ledger – major tax increases and major spending reductions.

While this biennial budget was difficult to put together, it represents what is needed to balance the budget and preserve the economic health of the state of Connecticut.

The spending plan

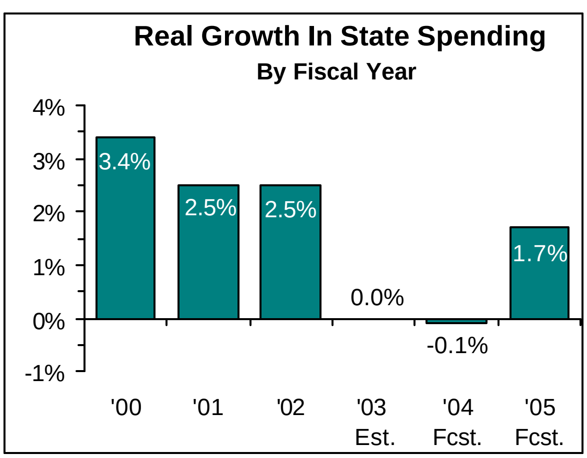
The all funds adjusted budget for the current fiscal year passed by the legislature last year amounted to $13.218 billion. After deficiencies, lost lapses and offsetting reductions because of savings outlined earlier, estimated expenditures for all appropriated funds for the current fiscal year are $13.224 billion, an increase of just $6 million despite huge deficiency spending. The final FY 2002-03 all funds expected growth rate from FY 2001-02 actual expenditures is projected to be about 2.1 percent. In real terms, the growth is zero.

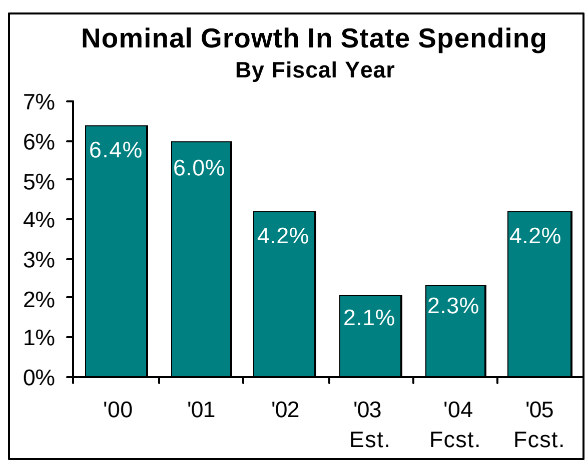
Appropriated Funds Of The State
(In Millions)

	Estimated FY 03	Recommended FY 04	Recommended FY 05
General Fund	$12,139.8	$12,476.5	$13,026.4
Special Transportation Fund	892.4	898.8	921.9
Mashantucket Pequot & Mohegan Fund	106.0	85.0	85.0
Soldiers', Sailors' & Marines' Fund	3.6	3.5	3.5
Regional Market Operating Fund	0.9	0.9	1.0
Banking Fund	15.6	15.2	15.5
Insurance Fund	20.8	19.8	19.8
Public Utility Control Fund	20.5	19.8	19.8
Workers Compensation Fund	23.4	21.8	22.1
Criminal Injuries Compensation Fund	1.4	1.4	1.4
Grand Total	$13,224.4	$13,542.7	$14,116.4

General fund appropriations for FY 2002-03 passed by the legislature last session were $12.092 billion. After deficiencies, lost lapses, and the savings outlined above, estimated general fund expenditures for the current fiscal year are $12.140 billion – an increase of $48 million. The final FY 2002-03 general fund growth rate from FY 2001-02 actual expenditures is projected to be 1.9 percent.

Governor Rowland is proposing a two-year all funds budget of $27.659 billion. For FY 2003-04, all funds appropriations are proposed at $13.543 billion. For FY 2004-05, all funds appropriations would be $14.116 billion.





The FY 2003-04 all funds proposal represents an increase of $318.3 million from estimated expenditures this fiscal year, or just 2.3 percent. In real terms, the growth is negative 0.1 percent. The FY 2004-05 all funds proposal represents an increase of $573.7 million over the recommended level for FY 2003-04, or an increase of 4.2 percent. In real terms, the growth is just 1.7 percent.

Governor Rowland is proposing a two-year general fund budget of $25.503 billion. For FY 2003-04, general fund appropriations are proposed at $12.477 billion. For FY 2004-05, general fund appropriations would be $13.026 billion.

The FY 2003-04 general fund proposal represents an increase of $336.7 million from estimated expenditures this fiscal year, or just 2.8 percent. The FY 2004-05 general fund proposal represents an increase of $549.9 million over the recommended level for FY 2003-04, or a percentage increase of 4.4 percent.

Because of the major tax increases in this budget, Governor Rowland has made a concerted effort to limit both the budgetary growth rates in the current fiscal year and in the first year of the biennium.

In the first year of the biennium, spending was reduced from current services a net $1.156 billion in the general fund and $1.257 billion in all funds. Thus, $1.257 billion of the $2.007 billion structural gap, or 63 percent, is being covered on the spending side.

In the second year of the biennium, spending was reduced over $435 million from current services in the general fund, for a total of $1.592 billion. In the second year, spending for all funds was reduced another $446 million from current services, for a total of $1.703 billion. Thus, about two-thirds of the $2.541 billion structural gap in the second year is covered on the spending side.

In an effort to be as fiscally prudent as possible in these uncertain times, the spending restraint proposed by the Governor in the first year of the biennium goes well beyond the dictates of the spending cap.

As noted earlier, current services spending for FY 2003-04 would have been $ 763.2 million over the constitutional spending cap. Because deficiencies always occur in budgeting, the Governor has always insisted that adequate room be left under the cap to appropriate for deficiencies throughout the fiscal year.

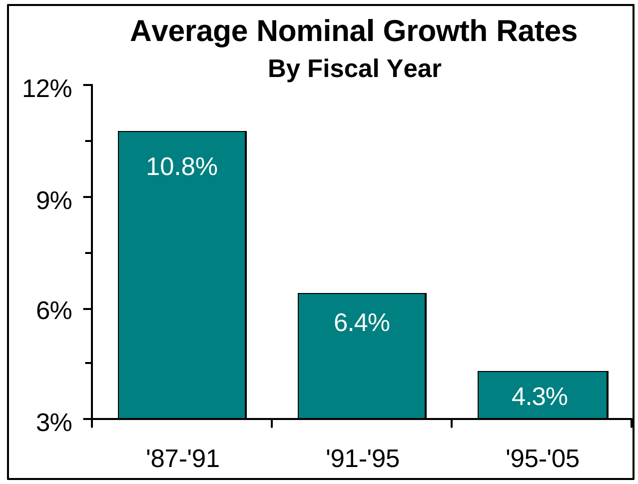
The average amount of deficiencies over the last five fiscal years has been about $93 million. Consequently, the Governor believes that leaving about $100 million in room under the cap is prudent, especially in the first year when passing a biennial budget (adjustments can be made to the second year). Thus, the Governor would view the FY 2003-04 budget as needing to pass with at least $ 863.2 million in spending cuts to afford sufficient room under the spending cap.

In fact, the Governor's proposal goes well beyond that good policy. The 2.3 percent all funds growth rate for FY 2003-04 puts the proposed budget at $333 million below the spending cap. In FY 2004-05, the

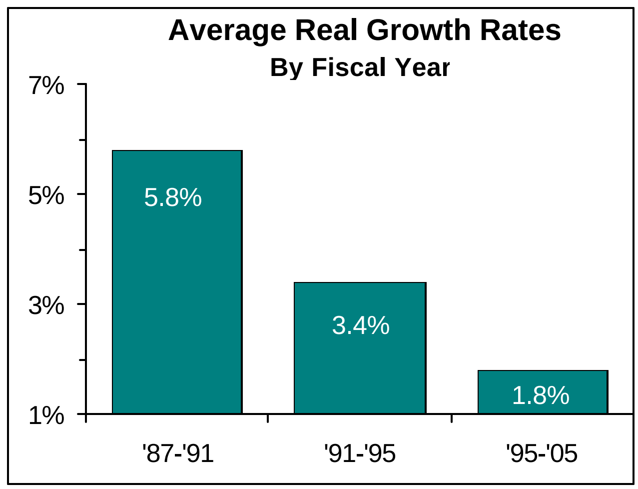
Biennial Budget Spending Plan
(In Millions)

	FY 2003-04	FY 2004-05
General Fund		
Recommended General Fund Revenue	12,477.0	13,026.7
Recommended GF Appropriations	12,476.5	13,026.4
Balance	0.5	0.3
All Appropriated Funds		
Allowable Capped Appropriation	13,875.7	14,182.0
Recommended Appropriations	13,542.7	14,116.4
Amount Over/(Under) Cap	(333.0)	(65.6)

proposal is $65.6 million below the cap, which might have to be modified in the adjustment year to push the amount closer to $100 million below.

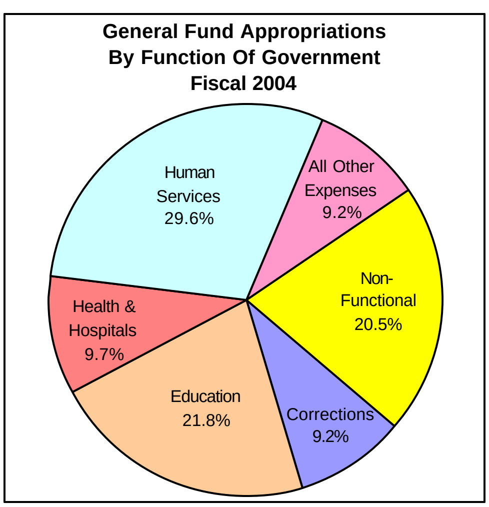


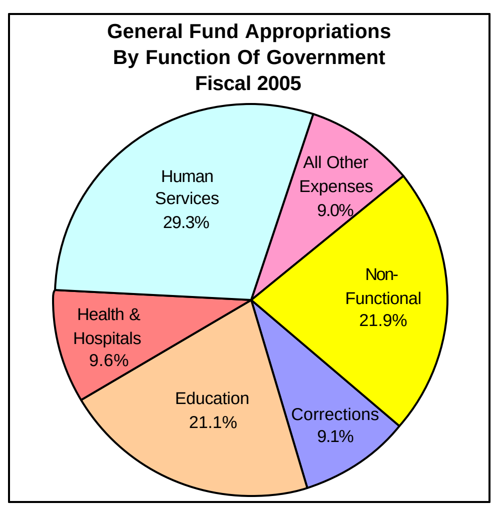
The frugality of this fiscal year's and next fiscal year's budgets are important components of the Governor's plan. Over these two years, state expenditures will increase just 4.5 percent. This continues an exemplary record of cost-containment under the Rowland administration. The total average annual growth for the ten budgets under his tenure is just 4.3 percent, compared with 6.4 percent annually on average under Governor Weicker and 10.8 percent annually on average from FY 1987-91.



Inflation adjusted average annual spending growth under Governor Rowland is just 1.8 percent for the ten budgets, compared with 3.4 percent under Governor Weicker and 5.8 percent from FY 1987-91.

As the accompanying charts show, in each year human services outlays continue to dominate general fund appropriations, at almost 30 percent. Including health and hospital outlays, such outlays approach 40 percent. The percentage dedicated to higher and lower education remains at just over one- fifth of the budget.

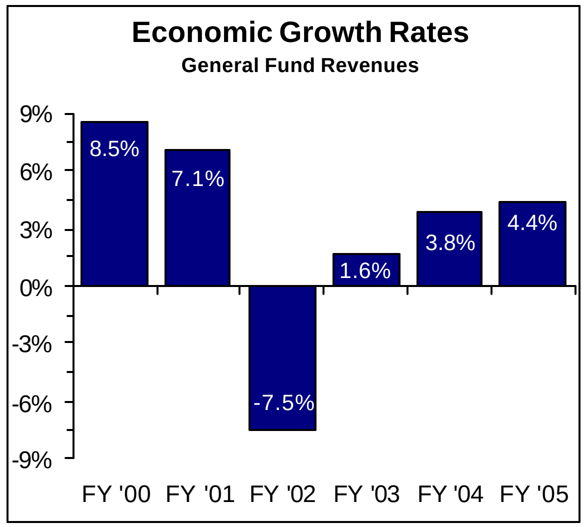




Revenue forecasts

The revenue side of the budget is based on prudent and realistic assumptions. As was outlined in the economic outlook section of the budget summary, revenue assumptions are based on the best we can forecast now – a slow and moderate recovery that points to a tangible but small increase in revenue growth in many areas.

In some cases, revenue growth rates on an economic basis may appear to be high. It should be remembered that they are based on extremely sluggish rates of growth or contraction during the past two years. In the case of the income tax, the predicted growth rates are based on a low income tax base caused by a real drop in the revenue category in the past two fiscal years.

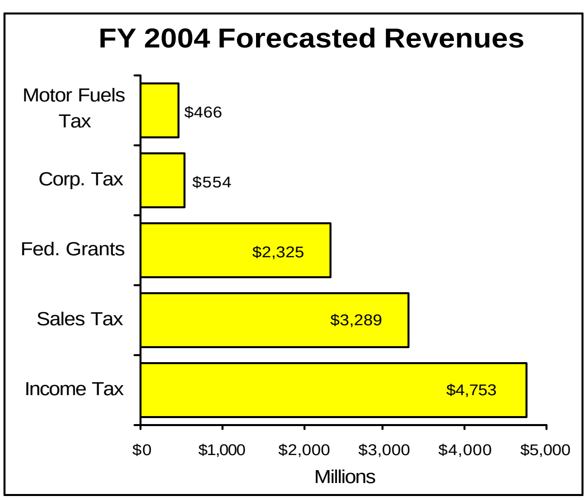


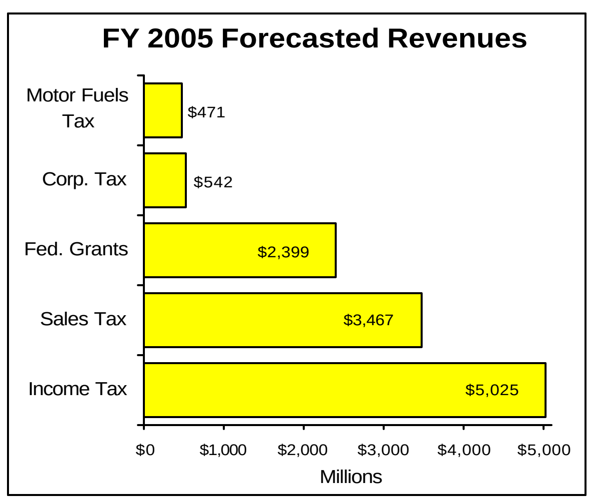
And because of the uncertainty surrounding the equities markets, the revenue assumptions assume only a modest rebound in capital gains realizations for state residents.

As can be seen from the accompanying charts, economic growth for revenues in the general fund was down 7.5 percent in FY 2001-02. In the current fiscal year, before any tax changes, the economic growth is expected to be a meager 1.6 percent. (Actual revenue growth was higher in FY 2001-02 and the current fiscal year because of the infusion of one-time revenues into the general fund to support spending.)

Moving into the biennium, growth is expected to rebound to 3.8 percent in FY 2003-04 and 4.4 percent in FY 2004-05. But those rates, under the current tax structure, are not enough to pay for the huge double-digit inflation the budget is experiencing. Thus, tax increases have become a necessity.

Tax increases will be discussed in greater detail shortly. But in summary, with tax enhancements adopted in the legislative deficit mitigation plan and additional increases proposed by the Governor, the state's largest revenue generator – the income tax – is expected to bring in just short of $4.8 billion next fiscal year, over $500 million of which comes from tax increases in this

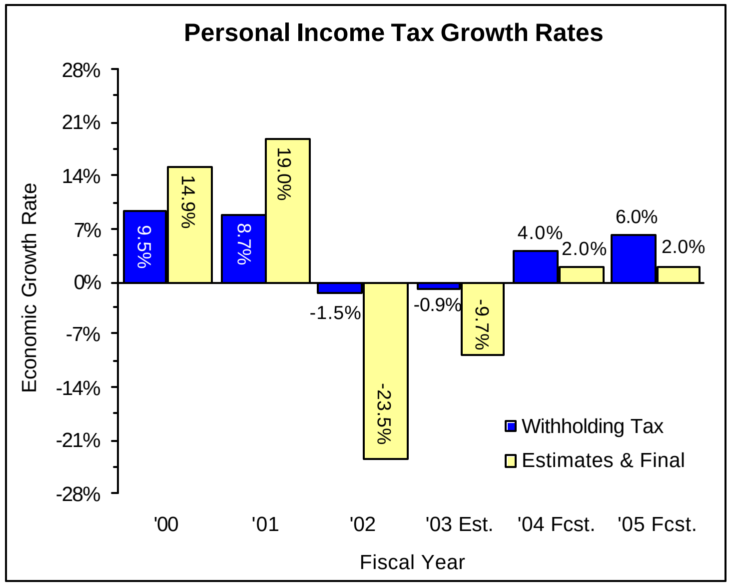


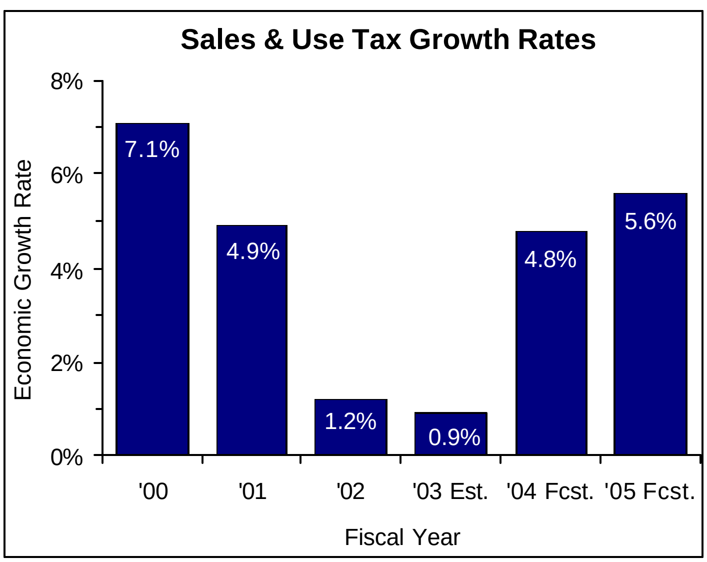


area. In FY 2004-05, the tax is forecast to bring in just over $5.0 billion. Both of these numbers are before refunds.

On the withholding side of the income tax, the budget assumes a modest 4 percent economic growth rate for FY 2003-04, up from a negative 0.9 percent this fiscal year. Personal income growth for the coming fiscal year is projected to be 4.8 percent, but the budget assumes a growth below that because year-end bonuses and stock gains (that end up in part in the withholding portion) are expected to be anemic. For FY 2004-05, withholding economic growth is expected to rebound to 6 percent as personal income growth goes over 5 percent and the markets begin a somewhat modest recovery.

As for the estimates and finals component of the income tax, caution is again being used. For the current fiscal year, estimates and finals are estimated to be down almost 10 percent on an economic growth basis, on top of a drop in FY 2001-02 of almost 25 percent. In FY 2003-04, the budget assumes a modest economic growth increase in this category of 2 percent. The growth is less predicated on an increase in the market (though a fourth major down-market year is presumed not to occur), but normal growth in earnings by self-employed individuals. The same 2 percent economic growth is assumed in the FY 2004-05 budget.





The state's second largest revenue generator – the sales tax – is expected to grow slightly under 1 percent this fiscal year on an economic basis. An economic growth rebound to 4.8 percent is forecast for FY 2003-04, in part related to the upswing in personal income growth and the artificially low base this fiscal year. An economic growth of 5.6 percent is estimated in the second year of the biennium. The sales tax is budgeted to raise almost $3.3 billion in year one and almost $3.47 billion in year two. Within these estimates are tax increases that amount to over $130 million annually.

Because businesses have downsized personnel and have returned to profit-making mode, the corporate tax has rebounded in the current year from a dreadful showing in FY 2001-02. It is growing at just over 8 percent this fiscal year. In FY 2003-04, based on a moderate recovery, corporate taxes are expected to grow again by about 6 percent, with a drop in growth to 4 percent in FY 2004-05. About $550 million in each fiscal year of the biennium, before refunds, is expected to be collected. These numbers include two years of corporate surcharges that the Governor is proposing to close the anticipated budget gaps.

The inheritance tax is expected to drop, prior to any proposed tax changes, from an estimated $165 million in the current fiscal year to $130 million in FY 2003-04 and $75 million in FY 2004-05. This is so because the revenue sharing under the federal estate tax is being phased out at roughly $50 million per year, for a total loss of $200 million in federal revenue by FY 2006-07. The Governor's proposed two-year deferral of the phase down of the tax will result in revenue collections of $141 million in FY 2003-04 and $101 million in FY 2004-05.

Indian gaming payments from the tribal compacts are expected to bring in about $390 million this fiscal year and will grow to over $409 million in the first year of the biennium. By FY 2004-05, it is anticipated that $430 million will be collected.

Cigarette taxes are expected to reach beyond $300 million in each year of the biennium, due to the major increase in the tax last session and the one adopted in HB 6495.

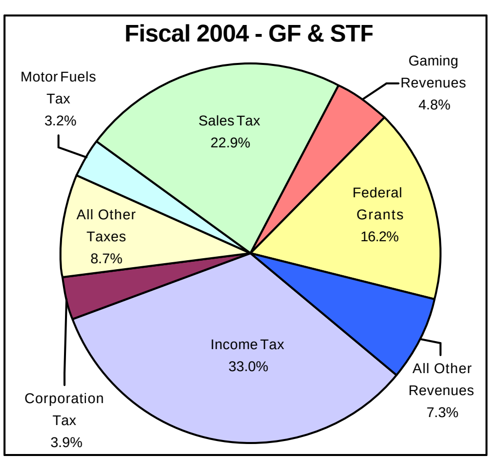
The master tobacco settlement payments are expected to bring in about $112 million in each year of the biennium.

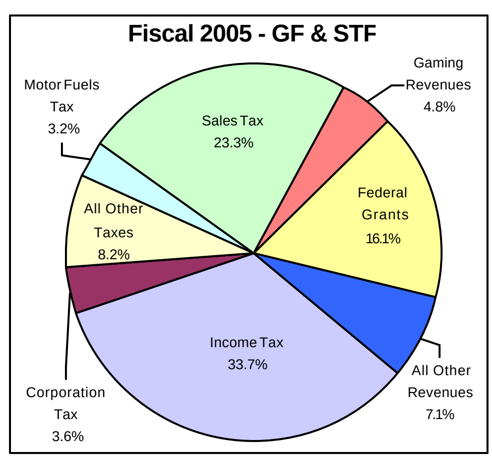
Motor fuels are assumed to grow in each year of the biennium by about 1 percent and should raise $466 million and $471 million, respectively.

No changes beyond those already passed are expected in the innovative research and development tax credit exchange program. Payments are expected to be $14 million this fiscal year, $23.4 million in FY 2003-04 and $21 million in FY 2004-05. Legislation is being submitted to correct an error made last session. The change will ensure that companies that are not profitable, but pay a minimal tax under the capital basis method, will still be able to participate in this program.

Federal grant revenue is estimated to bring in over $2.3 billion in year one and almost $2.4 billion in year two. The increases are primarily driven by caseload increases, rate increases for providers, and health-care inflation.

As can be seen from the pie charts, the general and transportation funds – which comprise more than 95 percent of state spending – continue to be supported by a diversity of revenue sources, with the income tax providing about one-third of all revenue and the sales tax about a quarter.





Closing the biennial budget gaps

Governor Rowland's biennial budget submission takes seriously the structural imbalance that has emerged over the last two years or so. It is important to note that Connecticut is suffering from both a revenue and spending problem. First, the aggressive revenue growth and revenue base that was spawned by the stock gains of the 1990s are gone. Connecticut will not soon see the type of growth – or, frankly, the free money – it did before.

Second, lawmakers have to understand, too, that entitlement growth and health care inflation are causing double-digit growth in the budget that simply cannot be sustained. No acceptable amount of taxes would make the spending programs affordable.

Third, the spending cap dictates that hundreds of millions be cut from current services if we are to afford any budget over the long haul. It, too, is in place to ensure our tax structure does not become uncompetitive, as it did in the late 1980s and early 1990s when we lost 158,200 jobs and hundreds, if not thousands, of businesses.

One-time revenues are dropped dramatically in the budget submission in recognition of our structural problems.

The accompanying chart shows how the substantial current services gaps were overcome and brought into balance.

CLOSING THE BIENNIAL BUDGET GAP
(In Millions)

	Fiscal Year 2003-04		Fiscal Year 2004-05	
Estimated General Fund Revenues-Current Services		$ 11,625.4		$ 12,077.0
Prior Year General Fund Appropriation	12,091.8		13,632.7	
Technical Adjustments	1,540.9		985.1	
Current Services		13,632.7		14,617.8
Balance 6/30		(2,007.3)		(2,540.8)
EXPENDITURE CHANGES				
Reductions	(1,186.4)		(1,635.1)	
Revised Balance		(820.9)		(905.7)
Expansion Options	30.2		43.6	
Revised Balance		(851.1)		(949.3)
REVENUE CHANGES				
HB6495 Revenue Changes	652.5		651.3	
Revised Balance		(198.6)		(298.0)
Income Tax Changes	80.0		88.6	
Revised Balance		(118.6)		(209.4)
Eliminate the Sales Tax on Hospital Services	(115.7)		(116.4)	
Revised Balance		(234.3)		(325.8)
All Other Sales Tax Changes	3.1		14.1	
Revised Balance		(231.2)		(311.7)
Eliminate certain Corporation Tax Credits	5.0		5.0	
Revised Balance		(226.2)		(306.7)
Impose 10% surcharge on Corps in '04	22.8		12.3	
Revised Balance		(203.4)		(294.4)
Increase Cable TV Tax to 6%	6.7		7.1	
Revised Balance		(196.7)		(287.3)
Increase Real Estate Conveyance Tax	25.0		25.0	
Revised Balance		(171.7)		(262.3)
Transfers from Other Sources	174.9		245.6	
Revised Balance		3.2		(16.7)
All Other Net Revenue Changes	(2.7)		17.0	
Revised Balance		$ 0.5		$ 0.3

- There was a $2.007 billion current services gap in the general fund for FY 2003-04 and one of $2.541 billion in FY 2004-05. Current services spending across all appropriated funds was $763.2 million over the spending cap in year one and $1.055 billion over in year two.

- Gross reductions to current services of $1.186 billion in FY 2003-04 and $1.635 billion in FY 2004-05 are included in the general fund budget. Expansion options of about $30 million are added in year one and approximately $14 million in year two in the general fund, for total expansions over the biennium of about $44 million.

- To comply with the spending cap, net reductions of $1.257 billion were taken in all appropriated funds in year one, with a total of $1.703 billion in all appropriated funds in year two.

- Net revenue increases in the general fund are $851.6 million in the first year of the biennium and $949.7 million in the second year. Of those revenue increases in each year, $821.7 million in year one and $854.6 million in year two are permanent tax increases, temporary tax increases, eliminations of previous tax cuts, or deferrals of previous tax cuts in the general fund. About $637 million and $661 million were passed as part of the legislative deficit mitigation plan for each fiscal year, and about $133 million and $168 million in each fiscal year are being proposed by the Governor here.

- Within the net revenue increase number in the general fund is the permanent elimination of the hospital sales tax, which means a loss of about $116 million in each year of the biennium against current services revenues.

- About $159 million in each year in one-time revenue transfers from off-budget sources are used in the general fund revenue stream.

Limiting the use of one-time revenues

Many states ignored the looming revenue collapse and structural problems in favor of one-time quick fixes to their budget problems. Indeed, Connecticut used about $400 million in one-time revenues to pass its FY 2002-03 budget last year. Additional tax amnesty collections pushed that number to about $475 million. And in an effort to control the current year deficit, total one-time revenues are expected to rise another $181 million, to about $656 million this fiscal year.

While this may be justified in the current fiscal year to balance the books and avoid bonding for a second year in a row, the practice of using one-time revenues to the tune of over 5 percent of the general fund is a poor fiscal practice. Indeed, the rating agencies have all pointed out that the state's future rating rests on whether structural changes are made to close the gap.

One Time Revenues Included In The Budget
(In Millions)

	FY 2002-03	FY 2003-04	FY 2004-05
Previously Enacted:			
- Transfer from quasi-public agencies			
- Connecticut Housing Finance Authority	$ 85.0		
- Connecticut Innovations, Inc.	7.5		
- Connecticut Development Authority	7.5		
- Transfer from Tobacco & Health & Biomedical Research Trust Funds	55.6		
- Redirect FY03 transfer from Tobacco and Health Trust Fund	12.0		
- Redirect FY03 transfer from Biomedical Research Trust Fund	4.0		
- Proceeds from Anthem Demutualization	127.2		
- Transfer from Private Occupational Student Protection Fund	1.0		
- Eliminate transfer from oil companies to Conservation Fund	1.0		
- Tax Amnesty Program	109.0		
- Suspend transfers to Underground Storage Fund for FY03	12.0		
- Accelerate escheats to state of Connecticut	20.0		
- Transfer from Home Construction Guaranty Fund	1.2		
- Transfer from Probate Administration Fund	5.0		
- Retroactive reimbursement on Home Care for dually eligible	26.0		
- Reduce Petroleum Tax transfer to Transportation Fund	1.0		
Total Previously Enacted	$ 475.0		
Enacted HB6495:			
- Accrue July Personal Income Tax non-withheld payments	$ 10.0	$ -	$ -
- Impose 20% Corporation Tax surcharge in IY2003	45.6	24.6	-
- Accrue Corporation Tax to August 15	7.0	-	-
- Quarterly estimates for Cable TV	15.2	-	-
- Accrue Real Estate Conveyance Tax to July 31	12.0	-	-
- Suspend Oil Companies transfer to the STF	20.0	-	-
- Transfer various amounts to resources of General Fund			
- Energy Conservation and Load Management Fund	6.0	12.0	12.0
- Special Transportation Fund	52.0	-	-
- Probate Court Admin. Fund	10.0	-	-
- Reduce Tourism Districts Hotel Intercept	1.0	1.0	1.0
- Commercial Recording Account	2.5	-	-
Total Enacted HB6495	$ 181.3	$ 37.6	$ 13.0
Proposed:			
- Impose 10%Corporation Tax surcharge in IY2004	$ -	$ 22.8	$ 12.3
- Transfer various amounts to resources of General Fund			
- Energy Conservation and Load Management Fund	-	72.0	72.0
- Clean Energy Fund	-	25.0	25.0
- Connecticut Housing Finance Authority	-	40.0	40.0
- Connecticut Innovations, Inc.	-	5.0	5.0
- Connecticut Development Authority	-	5.0	5.0
Total Proposed	$ -	$ 169.8	$ 159.3
Grand Total	**$ 656.3**	**$ 207.4**	**$ 172.3**
Total General Fund Revenue	**$12,197.6**	**$12,477.0**	**$13,026.7**
Percentage of Total General Fund Revenue	**5.4%**	**1.7%**	**1.3%**

This budget ensures that we make the structural changes on both the expenditure and revenue sides to afford the programs and benefits we are providing state residents over the long haul. While some one-time revenues are used, the percentage amount drops dramatically in recognition that economic circumstances will not change significantly over the next several years to close the structural hole.

As outlined in the accompanying chart, one-time revenues drop from 5.4 percent of the general fund revenue stream to just 1.7 percent in the first fiscal year of the biennium and to 1.3 percent in the second. They are just $207 million in FY 2003-04 on a general fund spending base of $12.477 billion. In the second year, the one-time general fund revenues are just $172 million on a base of $13.027 billion.

Tax Changes and Revenue Enhancements

The tax increases agreed to by Governor Rowland last week and the further increases included in this document go well beyond the minimalist approach to increases enacted during the last legislative session. They are permanent and far-reaching.

As distasteful as the hikes are to Governor Rowland, the political makeup of the legislature and the sheer size of the general fund's hole dictate this type of approach.

It should be noted, however, that the Governor has gone out of his way to ensure that the tax increases presented do not cause in fundamental damage to the economy or place the state's businesses on an unfirm footing. He will oppose any increases in the legislative session that strike at the heart of our economic competitiveness.

Further, despite these tax hikes, taxes on the whole still remain substantially below the levels they were at when Governor Rowland entered office. Citizens and businesses alike are still seeing real tax relief in a number of areas.

2002 session tax increases

To help close a major gap in the budget last session, the legislature and the Governor agreed on increasing taxes or deferring tax cuts to the tune of $250 million in FY 2002-03. Those increases or deferrals continue to raise approximately the same amounts in each year of the biennium.

Among the increases was a 61-cent increase in the cigarette tax to raise $129.3 million annually. On the business side, a $250 minimum tax was instituted for all LLCs, LLPs, and S-corporations to raise $28 million. These companies benefited from major tax reductions when they were converted from the corporation tax to the income tax.

Enacted Tax Changes
2002 Legislative Session
(In Millions)

General Fund Tax Changes ($M)	**FY 03 Impact**
Increase Cigarette Tax	129.3
Defer Singles Exemption	12.0
Defer Sales Tax Phase Down on Computer & Data Processing Services	10.0
Institute $250 Charge on LLCs, LLPs and S Corps	28.0
Modify R&D Credit Exchange	13.0
Reduction In Corporate Liability At No More Than 70%	30.0
Reduce Oil Company Transfer By the Increase in the Diesel Tax	25.0
Defer Gift Tax Phase Down	2.6
Total Tax Changes	**249.9**
November Special Session	
Delay Succession Tax Phase Out for Class B & Class C	11.0

Corporations saw a tax increase of at least $30 million when a law limiting the use of tax credits in any one tax year was enacted. When the plethora of tax credits were passed in the 1990s, it was not anticipated that businesses would extinguish their entire tax liabilities. The new law disallows corporations in any one year to extinguish more than 70 percent of their tax liability through the use of tax credits.

As noted earlier, the research and development tax credit exchange was modified last fiscal year, but no further changes are anticipated save for a technical correction to ensure all companies anticipated to be able to exchange credits can do so.

Income tax changes

The legislative deficit mitigation plan's single-largest tax hike was the increase in the 4.5 percent rate to 5 percent for all filers. That increased rate will hit after the first $10,000 or $20,000 in taxable income, depending on whether your filing status is single or joint.

The 0.5 percent across-the-board rate increase for the 4.5 percent rate raises about $231 million in FY 2002-03, $428 million in FY 2003-04, and $446 million in FY 2004-05.

The law passed last week increases withholding in March so as to collect a full six months worth of increases in the remaining months of the fiscal year. In effect, taxpayers would have additional amounts withheld from their pay in March, April, May and June to make up for January and February. New tax tables would be issued again for implementation in July, which would be the permanent ones. The tables are being set up this way so as to maximize the dollars coming in this fiscal year to deal with the deficit.

In addition, part of the legislative deficit mitigation plan also requires estimated tax filers to pay in the June quarterly payment what they are anticipated to pay under the new law. This is also a form of catch-up that helps close this fiscal year's deficit.

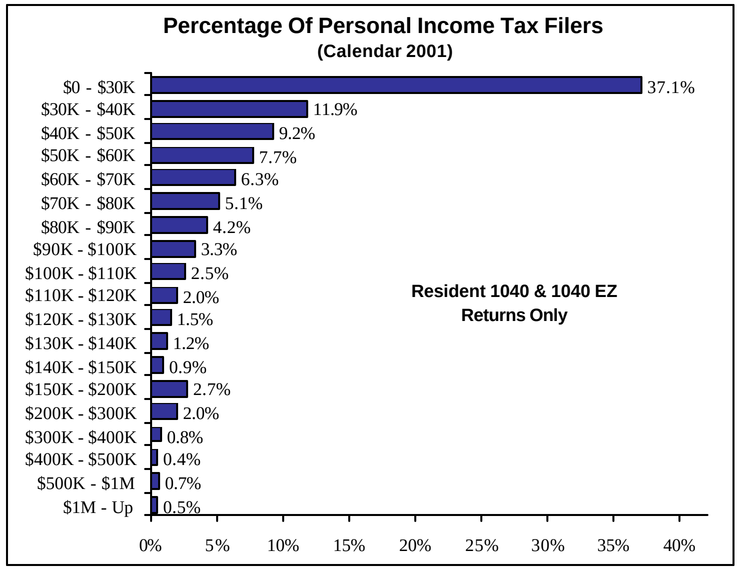
It is important to note that these income tax increases will be partially offset by lower federal income taxes in President Bush's plan and through itemization for some state residents. Based on a review of 2000 federal data, it is estimated that about 41 percent of Connecticut residents itemize for federal tax filing purposes, which means at least 41 percent of state income tax filers will be able to "write off" a portion of their state income tax increases by paying a lower federal tax. The number who can itemize may increase because of the higher state taxes as well. Although only 41 percent itemize, it is estimated that a whopping 29 percent of all the state income taxes paid are effectively written off through deduction to personal income at the federal level. So even with the lower Bush tax rates in the near term, at least one quarter of the state income tax increases will, in effect, be offset by lower federal taxes.

Why no millionaires tax?

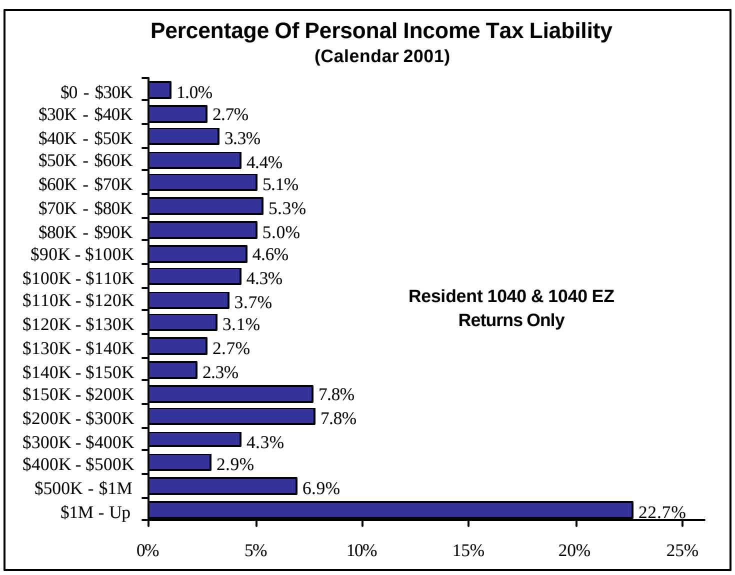
Why is the Governor no longer supporting a millionaires tax?

The Governor's earlier support for the tax was based more on the political landscape than economics. Indeed, in reassessing his support for the increase, it is clear that such a change would make the state's income revenue stream even more susceptible to economic and stock market fluctuations. In effect, it makes our income tax less stable, not more.

Already, in good years, such as income year 2000, millionaires paid about 30 percent of the income tax revenue that comes to state coffers. In poorer ones, as is the case in income year 2001 as shown in the graphics, millionaires – about one half of one percent of all filers – pay 23 percent of all state income taxes. Compare that to the lowest income filers. Those making $30,000 and less are 37 percent of filers, but pay just 1 percent of all income taxes.



And while the logic is given short shrift by many, the closer that marginal rates on high wealth individuals come to rates in neighboring states, the more likely that a high-wealth individual will decide to leave the state. The wealthy are not making their decisions on the marginal increase in the tax, but on the whole tax paid as compared with living in a non-income tax state. The millionaires tax taken to the extreme – and some Democrats want to see that – is tantamount to killing the golden goose. It is bound to backfire over time. Look at what happened in the late 1980s and early 1990s when business rates were exceedingly high and an additional increase of 20 percent was tacked on. Businesses left for sound economic reasons. Even at a 5.5 percent rate, the effective marginal rate increase is close to that same 20 percent.



Increasing the rate just on millionaires increases the imbalance and inequities. If everyone pays something, they will be vested in the current efforts to reduce state spending and in future efforts to control spending growth. Under our system, the lowest paid citizens still have a major exemption. And while middle-income earners may pay hundreds more, high-wealth individuals will pay thousands – in some cases tens of thousands. It's fair – but not discriminatory. And because of previous tax cuts in the income tax, middle-income earners will still be paying less than they did before Governor Rowland came to office.

Governor Rowland also does not support any further increase in any income tax rates beyond what he has already signed into law.

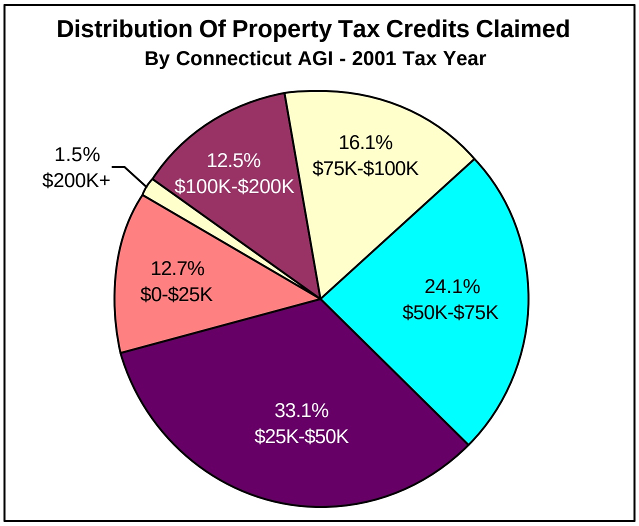
Reducing the property tax credit on all filers

In an effort to fully close next fiscal year's budget gap, however, Governor Rowland is reluctantly proposing to reduce the current $500 property tax credit to no more than $400 and remove the minimum $100 credit for higher income filers.

One reason for the reduction to $400 is the fact that the credit just recently, effective for income year 2000, went to the full $500. About 86 percent of all property tax credits claimed are for filers earning under $100,000.

Changes in Property Tax Credit	
Income Year	Maximum Amount
1996	$ 100
1997	$ 215
1998	$ 350
1999	$ 425
2000	$ 500
2001	$ 500
2002	$ 500
2003	$ 400

In order to make the reduction more equitable, the budget also proposes to phase out the minimum $100 property tax credit that everyone enjoys, even at higher income levels. The property tax credit begins to be phased down beginning at $54,500 for singles and $100,500 for joint filers. The current $100 minimum begins at $144,500 for singles and $190,500 for joint filers. That minimum credit will now go away. The phaseout of the $100 minimum alone will impact about 270,000 income tax filers.



The combination of these two proposals will mean that everyone who pays at least $500 in property taxes and files for the credit will see the $100 loss. Those who pay and claim less than $500 in property taxes will see a reduction of up to $100.

Phaseout of the Property Tax Credit

	Adjusted Gross Income	
Filing Status	**From**	**To**
Single	$54,501	$144,500
Head of Household	$78,501	$168,500
Joint	$100,501	$190,500

In tax year 2000, 988,684 filers claimed the property tax credit. Of that total, 509,927 claimed the full credit and an additional 100,824 claimed a credit, which under the Governor's proposal, will now drop to $400.

Filers
Claiming Property Tax Credit
Tax Year 2000

Credit Range	Returns
$0 - $99.99	61,817
$100 - $199.99	154,210
$200 - $299.99	71,700
$300 - $399.99	90,206
$400 - $499.99	100,824
Full $500.00	509,927
Total	**988,684**

The reduction of the property tax credit increases revenue in FY 2003-04 by $68 million and by $69.4 million in the second year. The property tax minimum phaseout saves the state about $12 million in each fiscal year of the biennium. There are no impacts in the current fiscal year.

Elimination of phase-in of higher singles exemption

Public Act 99-173 began gradually raising the $12,000 exemption level on the income tax for single filers to $15,000. This phase-in began for the income year commencing January 1, 2000 and was scheduled to be fully phased in by January 1, 2007. At the same time, the act raised the threshold amount where the exemption level begins to be phased out. This threshold amount was supposed to rise from $24,000 in income year 2000 to $30,000 by income year 2007.

Last session, the Governor proposed and the legislature passed a law suspending the phase-in for two years effective January 1, 2002. Under the law, the 2001 exemption level of $12,500 remains in effect until January 1, 2004.

The Governor's budget proposes to permanently repeal any further changes to the singles exemption. The exemptions and phaseout threshold will stay at the January 2001 levels permanently. Thus far, singles have received $15 million in benefits from the original 1999 law, which was supposed to save these filers about $95 million when fully phased in.

This change will save the state $7 million in the second year of the biennium and permanently reverse $81 million of the earlier tax cut.

Singles Exemption

Income Year	AGI Exemption Level: Current	AGI Exemption Level: Proposed
Pre-2000	$12,000	
2000	$12,250	
2001	$12,500	
2002	$12,500	
2003	$12,500	
2004	$12,750	$ 12,500
2005	$13,000	$ 12,500
2006	$13,500	$ 12,500
2007	$14,000	$ 12,500
2008	$14,500	$ 12,500
2009	$15,000	$ 12,500

Total income tax increases

The total income tax increases or repeal of past reductions amount to about $231 million in FY 2002-03, $508 million in FY 2003-04 and $534 million in FY 2004-05. Again, while distasteful, the increases are structured to provide equity across all income groups.

On the property tax credit, no filer gets hit with more than a $100 loss. On the rate side, every filer is paying 0.5 percentage points more for all income formerly taxed at the 4.5 percent rate – period. Critics will argue that lower and middle income individuals bear too much of a share of the burden, but the fact is that these individuals still enjoy lower taxes when compared to the tax code before Governor Rowland came to office. Wealthier individuals will see real increases.

Further, those families earning less than $100,000 pay less than $500 more than they did before – or less than $10 per week, some of which could be offset by lower federal income taxes because of

Total Income Year 2003 Income Tax Increases
Enacted HB6495 and Proposed
Sample Income Tax Payments By Selected Income Levels

Single Filer

CT Adjusted Gross Income	1995 Income Year Tax Due	2002 Income Year Tax Due	Enacted & Proposed 2003 Tax Due	Enacted & Proposed Change Relative To 2002	Enacted & Proposed Change Relative To 1995	2003 Bi-Weekly Increase	2003 Weekly Increase
$ 10,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -
$ 20,000	$ 234	$ -	$ -	$ -	$ (234)	$ -	$ -
$ 30,000	$ 972	$ 276	$ 433	$ 156	$ (540)	$ 6.01	$ 3.00
$ 40,000	$ 1,620	$ 985	$ 1,220	$ 235	$ (400)	$ 9.04	$ 4.52
$ 50,000	$ 2,115	$ 1,390	$ 1,670	$ 280	$ (445)	$ 10.77	$ 5.38
$ 60,000	$ 2,700	$ 2,090	$ 2,440	$ 350	$ (260)	$ 13.46	$ 6.73
$ 70,000	$ 3,150	$ 2,580	$ 2,980	$ 400	$ (170)	$ 15.38	$ 7.69
$ 80,000	$ 3,600	$ 3,070	$ 3,520	$ 450	$ (80)	$ 17.31	$ 8.65
$ 90,000	$ 4,050	$ 3,560	$ 4,060	$ 500	$ 10	$ 19.23	$ 9.62
$ 100,000	$ 4,500	$ 4,050	$ 4,600	$ 550	$ 100	$ 21.15	$ 10.58
$ 125,000	$ 5,625	$ 5,295	$ 5,970	$ 675	$ 345	$ 25.96	$ 12.98
$ 150,000	$ 6,750	$ 6,500	$ 7,300	$ 800	$ 550	$ 30.77	$ 15.38
$ 200,000	$ 9,000	$ 8,750	$ 9,800	$ 1,050	$ 800	$ 40.38	$ 20.19
$ 250,000	$ 11,250	$ 11,000	$12,300	$ 1,300	$ 1,050	$ 50.00	$ 25.00
$ 500,000	$ 22,500	$ 22,250	$24,800	$ 2,550	$ 2,300	$ 98.08	$ 49.04
$1,000,000	$ 45,000	$ 44,750	$49,800	$ 5,050	$ 4,800	$ 194.23	$ 97.12
$2,000,000	$ 90,000	$ 89,750	$99,800	$10,050	$ 9,800	$ 386.54	$ 193.27

Joint Filer

CT Adjusted Gross Income	1995 Income Year Tax Due	2002 Income Year Tax Due	Enacted & Proposed 2003 Tax Due	Enacted & Proposed Change Relative To 2002	Enacted & Proposed Change Relative To 1995	2003 Bi-Weekly Increase	2003 Weekly Increase
$ 10,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -
$ 20,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -
$ 30,000	$ 68	$ -	$ -	$ -	$ (68)	$ -	$ -
$ 40,000	$ 468	$ -	$ -	$ -	$ (468)	$ -	$ -
$ 50,000	$ 1,071	$ 316	$ 450	$ 134	$ (621)	$ 5.15	$ 2.58
$ 60,000	$ 1,944	$ 1,174	$ 1,400	$ 226	$ (544)	$ 8.69	$ 4.35
$ 70,000	$ 2,754	$ 1,984	$ 2,300	$ 316	$ (454)	$ 12.15	$ 6.08
$ 80,000	$ 3,240	$ 2,470	$ 2,840	$ 370	$ (400)	$ 14.23	$ 7.12
$ 90,000	$ 3,645	$ 2,875	$ 3,290	$ 415	$ (355)	$ 15.96	$ 7.98
$ 100,000	$ 4,410	$ 3,616	$ 4,108	$ 492	$ (302)	$ 18.92	$ 9.46
$ 125,000	$ 5,625	$ 4,945	$ 5,570	$ 625	$ (55)	$ 24.04	$ 12.02
$ 150,000	$ 6,750	$ 6,150	$ 6,900	$ 750	$ 150	$ 28.85	$ 14.42
$ 200,000	$ 9,000	$ 8,600	$ 9,600	$ 1,000	$ 600	$ 38.46	$ 19.23
$ 250,000	$ 11,250	$ 10,850	$12,100	$ 1,250	$ 850	$ 48.08	$ 24.04
$ 500,000	$ 22,500	$ 22,100	$24,600	$ 2,500	$ 2,100	$ 96.15	$ 48.08
$1,000,000	$ 45,000	$ 44,600	$49,600	$ 5,000	$ 4,600	$ 192.31	$ 96.15
$2,000,000	$ 90,000	$ 89,600	$99,600	$10,000	$ 9,600	$ 384.62	$ 192.31

itemization. Contrast that with the filer earning $500,000, who will pay $2,500 or $2,550 more, and the filer earning $1 million, who will pay $5,000 or $5,050 more. Almost three quarters of the increase in the income tax will be borne by those earning more than $100,000.

Lowering the sales tax exemption on clothing and footwear

The deficit mitigation bill passed last week lowers the per-item clothing and footwear exemption from $75 back to $50. During the 2000 legislative session, the per-item sales tax exemption for clothing and footwear was increased from $50 to $75 effective July 1, 2000. That change becomes effective April 1.

Changes in the Clothing Exemption

Date	Amount
Previously	$50
7/1/2000	$75
4/1/2003	$50

The change would mean increased revenue to the general fund of $10.9 million in the current fiscal year, $33.6 million in FY 2003-04 and $35.3 million in FY 2004-05.

In addition, the deficit plan as passed removes the exemption for advertising services (largely preparation) and applies a 3 percent tax rate. As well, in-state newspaper and magazine subscriptions and over-the-counter sales will again be subject to taxation at 6 percent. These two items raise about $90 million in year one and $96 million in year two.

Memberships in health and athletic clubs will now be taxed at 6 percent, raising about $7.5 million and $8 million in each year of the biennium.

Eliminating the sales tax free week

In addition, the Governor is calling for elimination of the sales-tax free week that occurs each year just before schools open. While a benefit to working families, it also has been in existence for only a short period of time – since 2000 – and is unaffordable given our fiscal exigencies. This repeal saves about $3 million in each year of the biennium.

Sales on business computer services

The Governor is proposing that the sales tax on computer and data processing services be permanently held at the 1 percent rate and that the phasedown be repealed. This tax is paid almost exclusively by businesses.

Changes in the Sales Tax on Computer and Data Processing Services

Effective	Current Rate	Proposed Rate
7/1/96	6%	
7/1/97	5%	
7/1/98	4%	
7/1/99	3%	
7/1/00	2%	
7/1/01	1%	
7/1/02	1%	
7/1/03	1%	
7/1/04	0%	1%
7/1/05	0%	1%

Beginning July 1, 1997, the sales tax began being phased down by 1 percentage point per year (from 6 percent). It was dropped to 1 percent on July 1, 2001. It was scheduled to be fully phased out on July 1, 2002, but the Governor proposed and the legislature enacted a provision that delayed the elimination until July 1, 2004. This change would raise about $11 million in year two of the biennium only as it was already frozen at 1 percent for the first year.

Elimination of certain corporate credits

Given the fiscal crisis, Governor Rowland is proposing the elimination of four tax credits. In total, the savings is $5 million in each year of the biennium. The number of impacted businesses is small. The credits being eliminated are: the Neighborhood Assistance Tax Credit, the Low and Moderate Income Housing Tax Credit, the Employer Assisted Housing Tax Credit and the Historic Housing Tax Credit.

Corporation Tax Credits to be Eliminated

Credit	Number Claimed In Tax Year 1999
Neighborhood Assistance Tax Credit	258
Low and Moderate Income Housing Tax Credit	62
Employer Assisted Housing Tax Credit	15
Historic Housing Tax Credit	N/A

While having a social benefit, the tax credits are not fundamental to keeping businesses strong. Further, the Governor believes corporations should have enough incentive to participate in bettering the communities they are located in – their vibrancy depends on it.

Tax credit limitation on insurance premiums tax

During the 2002 session, corporations were disallowed from wiping out their entire tax liability through the use of tax credits. The new law allows companies to reduce their tax liability by no more than 70 percent.

The current proposal simply brings the insurance premiums tax under the same rules as there is no corporate tax on insurers. The change will raise $2.5 million annually.

Corporate tax surcharge

The legislative deficit mitigation plan placed a 20 percent surcharge on corporations for income year 2003. This will help cover a part of the current fiscal year's deficit and bring in some revenue in FY 2003-04. To help cover a small additional part of the gap in the biennium, Governor Rowland is asking corporations in the state to temporarily pay more in corporation taxes in income year 2004.

The proposal would place a 10 percent surcharge on income year 2004. Both surcharges are calculated on pre-tax credit tax liability. Further, as in the case of the income tax, businesses will have to pay in estimated taxes what would have been owed if the tax were in place as of January 1.

Corporation Tax Surcharge Revenue
(In Millions)

Income Year	Surcharge	FY 2002-03	FY 2003-04	FY 2004-05	Total
2003	20%*	$ 45.6	$ 24.6	$ -	$ 70.2
2004	10%	$ -	$ 22.8	$ 12.3	$ 35.1
Total		**$ 45.6**	**$ 47.4**	**$ 12.3**	**$105.3**

* The 20% surcharge has already been enacted as part of HB6495.

The total impact of the two surcharges is about $105 million.

Total business impact

In crafting this budget, the Governor has been mindful that the state's business competitiveness is key to regaining jobs and moving forward. Over the past several years, the Governor has worked hard to bring the tax climate in Connecticut in line. While it once was a negative, today taxes are in effect a neutral element in business decision-making. With more reasonable business taxes in place, businesses now tend to weigh distinct negatives – such as high energy, workers' compensation and unemployment costs – against positives – such as our highly skilled and educated work force and our quality of life. Too many tax increases will push taxes into the negative column and reduce our attractiveness.

Admittedly, business taxes are on the rise in Connecticut. Last session, two major changes increased corporate expenses by at least $60 million. The surcharge will mean an over $100 million hit to businesses over the next three fiscal years. Keeping the computer and data processing services tax at 1 percent will mean a real $10 million plus increase on an ongoing basis, in addition to miscellaneous permanent increases of $7.5 million elsewhere. Businesses will also be impacted by the advertising tax at 3 percent and the real estate conveyance tax increase described below.

The changes proposed last session and now can be debated, but it is important to keep the following points in mind:

- In enacting them, the impacts are clear and businesses can plan for them. The changes are quantifiable as opposed to some of the actions taken in other states, such as New Jersey.
- The increases are relatively small, especially when compared with the overall structural gap, and do not undermine the state's competitiveness in any major way.
- The corporate surcharges are temporary and will be gone by income year 2005.
- Numerous corporate tax breaks that have been put on the books continue to aid businesses large and small, whether they be the research and development tax credits, the research and experimentation tax credits, single-factor apportionment in a number of areas, extended timeframes to capture net operating losses and unused tax credits, or the sales tax exemptions on manufacturing repair and parts.
- An across-the-board sales tax increase has been avoided because about 45 percent of it would be paid by businesses.

Permanent rescinding of the hospital sales tax

The biennial budget proposes the permanent rescinding of the hospital sales tax of 5.75 percent. The tax was suspended for the two-year period of the current biennium. Tax collection becomes effective again July 1, but under accrual practices hospitals would begin having to collect from patients and insurers and setting aside monies for services rendered beginning May 1. No hospital appears to have assumed the tax going back into effect when they adopted their current year budgets for October 1, 2002 through September 30, 2003. Thus, the Governor is asking for a quick repeal of the statute to ensure that hospitals stay within their budgets and audit standards.

More importantly, unless the state were to penalize the hospitals to the tune of over $100 million, the state would have to appropriate an equivalent amount in the uncompensated care line item as payments back to hospitals. Thus, there would not be net savings even if the tax came back. And in the current hospital fiscal year, hospitals would more than likely end up worse off.

A number of proponents argue that the tax helps us leverage increased federal dollars. True, but the state will be leaving fewer and fewer dollars on the table if it closes down the General

Assistance program and moves some of the monies to the uncompensated care pool, which is matched fifty-fifty by the federal government.

Every hospital in the state and the Connecticut Hospital Association oppose reinstitution of the tax. In any reinstitution, there would be winners and losers among the hospitals in terms of money going out in the form of a tax payment and monies coming in the form of state aid. Federal rules dictate that hospitals cannot be held harmless and the money distribution must have a valid public policy behind it. Urban hospitals tend to benefit from a tax structure (although that is not always the case), while suburban and rural hospitals are destabilized by it.

Even if there were ways to hold everyone harmless in the short run by putting the tax back in and gaining some federal revenue, hospitals understand more than anyone that over the long term state aid to providers is the first thing to go. As a case in point, the deficit mitigation plan just passed takes $5 million from hospitals midyear. Further, tax payments tend to inflate and there is no guarantee that appropriations would go up over time.

In the end, the tax would weigh heavily on all hospitals. There would be no real winners over the long haul because lawmakers and policy-makers cannot be trusted to not pick apart the system. It is not sound public policy to tax illness – and the tax should permanently go away.

Eliminations or deferrals of previous tax cuts

The proposed biennial budget includes a number of eliminations or deferrals of previously enacted tax cuts. The elimination of the singles exemption increase was outlined above. Two deferrals are also being recommended by the Governor in light of the fiscal crisis.

The state succession tax phaseout was delayed by one year during the November 2001 regular session. The delay preserved revenue in the current fiscal year. The Governor is proposing to extend that deferral for two more years through the biennium. Rates will not be reduced again until January 2005. This change will mean $11 million in increased revenue in FY 2003-04 and $26 million in the second year.

Delay or Elimination of Previously Enacted Tax Reductions
(In Millions)

	FY 2002-03	FY 2003-04	FY 2004-05
Personal Income Tax			
- Eliminate increase in singles exemption	$ -	$ -	$ 7.0
Inheritance and Estate Tax			
- Defer phasedown of succession tax for two years	$ -	$ 11.0	$ 26.0
Miscellaneous Taxes			
- Defer Gift Tax phasedown for one year (impact in outyears only)	$ -	$ -	$ -
Total	**$ -**	**$ 11.0**	**$ 33.0**

The state's scheduled gift tax phaseout for gifts under $1 million was delayed by two years during the last session. Under that plan, rates were frozen at the 2001 rates and would begin to be reduced again on January 1, 2004, with total elimination occurring in tax year 2008. The Governor is proposing to push the delay out one more year. Rates will not be reduced again until January 2005, making it roughly consistent with the succession tax schedule. No revenue gain is anticipated in the biennium.

Increasing the cable television gross receipts tax

While it will lead to higher cable television bills, the Governor is proposing an increase in the cable gross receipts tax portion of the public service tax from 5 percent to 6 percent. Beyond the clothing exemption change and the elimination of the sales tax free week, this is the only other widespread consumer-oriented tax increase proposed.

In addition, the deficit bill passed last week changes the way cable television companies pay the gross receipts tax. Currently, the companies collect the tax from consumers throughout a calendar year and remit it in one lump sum in April of each year. The companies, in effect, are earning interest on consumers' money.

The change provides that the companies remit the taxes on a quarterly basis beginning with the January to March quarter of 2003. The monies will be paid to the state in July and every three months thereafter. The payment that comes to the state each July will be accrued back to the previous fiscal year as is the case with numerous other taxes.

The rate increase will bring in $6.3 million in year one of the biennium and $6.7 million in year two. The state will also see increases in the sales tax because of the increase – roughly $400,000 in each fiscal year. The rate increase and the quarterly payment change will mean a revenue infusion of $16.6 million in the current fiscal year.

Cigarette tax increase

During the 2002 session, the legislature, at the Governor's urging, increased the cigarette tax from 50 cents per pack to $1.11. At the time, the increase would have put us at about the same rate as New York. Since that time, Massachusetts, New Jersey, New York, and Rhode Island have substantially increased their rates above Connecticut's.

Cigarette Tax Rates

State	**Tax Per Pack In Effect 2/1/03**
Connecticut	$1.11
Massachusetts	$1.51
New Hampshire	$0.52
New Jersey	$1.50
New York	$1.50
Rhode Island	$1.32
Vermont	$0.49

As such, the legislative deficit mitigation plan raises the cigarette tax rate to $1.51 -- the rate that is in effect in Massachusetts and one cent higher than New Jersey and New York. Throughout the nation, states are playing leap frog, moving their sin tax rates, especially in the area of cigarettes, above their neighbors to raise revenue.

This latest change, to be effective March 15, increases revenues to the general fund by $28.7 million in FY 2002-03, $73.5 million in FY 2003-04, and $71.7 million in FY 2004-05. In addition, $1.7 million in increased sales taxes will occur this fiscal year, with about $4 plus million in each of the years of the biennium.

Cigarette Tax Increase to $1.51 Per Pack
Additional Revenue In Millions

	FY 2002-03	**FY 2003-04**	**FY 2004-05**
Cigarette Tax	$ 22.1	$ 73.5	$ 71.7
Floor Tax	$ 6.6	$ -	$ -
Sales and Use Tax	$ 1.7	$ 4.4	$ 4.3
Total	**$ 30.4**	**$ 77.9**	**$ 76.0**

Increases in the real estate conveyance tax

The biennial budget plan proposes that the state real estate conveyance tax be increased effective April 1. (The local tax was increased in the legislative deficit mitigation plan.) Under current law, a tax of 0.5 percent is imposed on homes under $800,000 in value. Homes over

$800,000 in value are taxed at a 0.5 percent rate on the first $800,000 of value and at 1 percent on the portion over $800,000. Commercial property is taxed at 1 percent on the entire value.

Under the Governor's proposal, there will be no increase in the real estate conveyance tax on homes valued at or under $300,000 or on the first $300,000 of a home's value. The incremental portion of a home's value between $300,000 and $800,000 will be taxed at 0.75 percent as opposed to 0.5 percent. The portion of a home over $800,000 will be taxed at an incremental rate of 1.5 percent as opposed to 1 percent. The commercial rate will increase from 1 percent to 1.5 percent.

Real Estate Conveyance Tax Rates (In Thousands)

House Price	Current Rate	Proposed Rate
$0 to $300	0.5%	No Change
$300 to $800	0.5%	0.75%
Over $800	1.0%	1.50%
Commercial	1.0%	1.50%

The proposal will raise $5 million in the current fiscal year and $25 million in each year of the biennium.

While the increase in these rates will concern many, it should be noted that capital gains taxes have fallen at the federal level on real estate gains. Up until the late 1990s, there was a one-time capital gains exclusion of $125,000 for those 55 years of age or older. At the time of the federal change Connecticut chose not to decouple from the federal tax code. Now, the first $250,000 of gains for singles and $500,000 of gains for joint filers of any home conveyance is no longer taxed at the federal level as long as certain liberal ownership and use tests are met.

Tourism funding changes

The Governor's budget proposes a radical change in the way tourism is funded in this state.

In his budget, Governor Rowland is proposing the combination of four small entities, the Historical Commission, the Commission on the Arts, the Film Commission and the Tourism Office. This new commission, the Commission on the Arts, Culture, and Tourism, will combine to cultivate Connecticut's history, arts, and filmmaking for the purpose of attracting tourism and other economic development activities to the state.

Tourism Related Program Changes

Revenues		**FY 2003-04**	**FY 2004-05**
		(In Millions)	
Hotel Occupancy Tax - Repeal transfer for the payment to Tourism Districts and Convention Center		16.6	17.4
Misc. Tourism Items - Eliminate transfers from the Hotel Occupancy Tax for the following items		1.8	1.8
CHC - Freedom Trail	$ 40,000		
DECD - Freedom Trail	$ 50,000		
Impressionists Arts Trail	$ 50,000		
Historical Resource Inventory	$ 30,000		
Central Tourism Account	$ 500,000		
CT Film, Video, & Media Office	$ 412,000		
CT DOT Ferries	$ 688,202		
Tourism Account Surcharge-$1/day on rental of passenger cars Repeal the payment to the Tourism Account		4.6	4.8
Total Revenues		23.0	24.0
Expenditures			
Discovering CT		12.2	12.2

Note: In addition to the Discovering Connecticut Grant the costs of positions supported in DECD by the Tourism Fund will be transferred to General Fund appropriations.

The Governor is also proposing a financing system that brings greater oversight and accountability to the system. The current tourism districts will be disbanded and the central commission will determine what local entities should be set up and the funding they should receive.

The previous intercepts that existed will be ended and the money will accrue to the general fund. Monies for tourism will now be appropriated and subject to executive and legislative oversight.

The tourism districts previously received about $16.6 million from the hotel occupancy tax and the tourism account received $4.6 million from the $1-per-day car rental charge. Further, a $1.8 million off-budget diversion of hotel occupancy tax monies supported various other activities. All of this funding will become part of the general fund.

Tourism will receive about $12.9 million for its operations – about one-half of the previous district's intercept and the entire rental car surcharge. The balance will be general fund revenue to support other agencies and programs.

The bulk of the appropriated funding will go to the Commission's new Discovering Connecticut account to create incentive financing for historical preservation, tourism (and any entities created by the commission), arts, filmmaking, and other cultural projects that promote the state and its economy.

Previously funded entities, such as the Tourism Bureaus, will be allowed, with all other qualified bidders, to request funding from the Discovering Connecticut account. However, certain support from the Discovering Account will be earmarked to the Capital City Development Authority to support the start up and operation of the convention center.

Escheating unclaimed bottle deposits to the State of Connecticut

The Governor again is proposing that unclaimed deposits on unreturned beverage containers be escheated to the state.

Since 1980, Connecticut consumers of beer and soft drinks have paid bottle deposits of five cents per container. A significant portion of bottles and cans are never returned with the distributors keeping the unclaimed nickels. This proposal would ensure that money for the unreturned containers be escheated to the state, as is other abandoned property, and that these resources belonging to the public be returned to them for public good and public use.

This proposal would become effective on passage, with the first quarterly payment based upon the quarter beginning April 1, 2003 through June 30, 2003. This proposal would bring in an estimated $18 million in FY 2003-04 and $20 million in FY 2004-05.

While the administration favors the escheats proposal, it is willing to consider alternatives. The Governor notes that an alternative practiced in New Jersey, which would amount to the repeal of the bottle bill and an assessment on manufacturers, distributors, and retailers, has met with some success. Its recycling rate of 50 percent is well above the national average and Connecticut's.

The caveats to supporting alternatives are that it must truly promote a cleaner environment and it must raise revenue equal to what escheats does. While New Jersey sends monies from the assessments back to towns to promote recycling, the Governor is proposing to keep the escheats monies in the general fund. Those monies go to help support general fund services that otherwise would have to be cut further, including municipal aid.

Transfers to the general fund

As outlined earlier, efforts have been made to limit the amount of one-time revenues transferred to the general fund. As noted, one-time revenues will amount to 1.7 percent in FY 2003-04 and 1.3 percent in the following year.

The major one-time revenues that will help support the budget in the biennium are shown in the accompanying table.

- In the current fiscal year, $85 million of revenue in the Connecticut Housing Finance Authority, a state quasi-public agency, is being transferred to the general fund. A housing loan portfolio is being transferred to CHFA to help offset the loss of revenue. In FY 2003-04 and FY 2004-05, $40 million per year is being proposed to be transferred to the general fund from CHFA. There is no proposal to transfer any further loans owned by the state.
- For both fiscal years of the biennium, the entire $84 million per year that is expected to come into the Energy Conservation and Load Management Fund is proposed to be deposited into the general fund. The ECLM fund grants monies to individuals and businesses to become more energy efficient and to save utility and energy costs. The $84 million comes from assessments on consumer and business utility bills passed in the electric deregulation bill.
- For both fiscal years of the biennium, $25 million due to go to the Clean Energy Fund is proposed to be deposited into the general fund. The CEF grants monies to businesses to develop and promote cutting-edge clean energy sources, including fuel cell technology. Its main goal is to lessen our reliance on fossil fuels and to promote a cleaner environment.
- During the biennium, $5 million per year is being proposed to be transferred from Connecticut Innovations Inc. to the general fund. CII is a state quasi-public that invests in cutting edge biotechnology companies and other innovative firms. A total of $7.5 million was transferred to the General Fund for this fiscal year.
- During the biennium, $5 million per year is being proposed to be transferred from the Connecticut Development Authority to the general fund. CDA is a state quasi-public that partners with DECD to make economic development loans. A total of $7.5 million was transferred to the General Fund for this fiscal year.

No doubt, the proposals outlined above will generate significant controversy. But the following things should be considered:

- It is not a question of being against promoting energy conservation, promoting renewable or clean energy, or funding housing or economic development programs. It is a question of whether we can afford to do those things during this fiscal crisis. Given the huge increase in taxes and severe cuts in the budget, is it not better to mitigate further tax increases and preserve critical programs from further reductions?
- It is clear that all of these sources are taxpayer dollars in one form or another. Taxpayer dollars have helped infuse capital in the quasi-publics and continue to do so. The ECLM fund and CEF are funded by taxpayers each month on their

Transfers to Resources of The General Fund
(In Millions)

	Amount in Fiscal Year	
From	**2004**	**2005**
Energy Conservation and Load Management Fund	$ 84.0	$ 84.0
Clean Energy Fund	$ 25.0	$ 25.0
Connecticut Housing Finance Authority	$ 40.0	$ 40.0
Connecticut Innovations, Inc.	$ 5.0	$ 5.0
Connecticut Development Authority	$ 5.0	$ 5.0
Total	**$ 159.0**	**$ 159.0**

electric bills. This is a form of taxation that should probably be diverted for the time being to help with the budget situation.

- Before criticisms come flying, critics should specifically outline what further tax increases they would like to see and what spending reductions they would endorse.

Increased tax collections due to state-of-the-art tax collection system

The Department of Revenue Services currently uses as its primary data processing system a Master Business Data Base developed in 1977 that is severely limited as to increases in productivity and customer services.

The Governor's bond package will include about $20 million in each year of the biennium to continue implementing a new integrated tax administration system (ITAS). Almost $19 million has been spent developing and installing the first portion of this single fully integrated state of the art operating system to administer over 40 different taxes and approximately $10 billion in revenue.

Because of its state-of-the-art nature, ITAS will generate tens of millions in new revenue. Beginning in FY 2004-05, the system should be developed enough so as to increase collections in the income, sales and corporate taxes by $49 million.

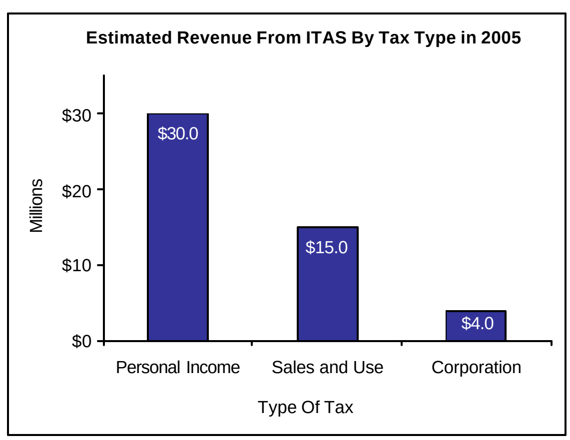
In May 2002, the Department of Information and Technology issued a contract award to Accenture, LLP for the initial phase (1A) of this project using the above 1995 authorization. This phase, slated to be completed in December 2003, focuses on the replacement of the systems that support the registration, return processing, taxpayer accounting and revenue accounting for the Sales and Use, Corporation, and Withholding taxes.

Phase 1B, in addition to replacing the existing antiquated system, will provide for the development of a data warehouse, to support research and discovery activities, which will result in additional revenues to the state.

The foundation built in phases 1A and 1B for business taxes, will be extended to support the personal income tax in phase 2 and the data warehouse will be expanded to incorporate personal income tax data directly from the ITAS system.

Phase 3 will focus on enhancing the ability to identify potential increases in tax revenue.

Finally, phase 4 provides functionality for document management, enhancements to revenue collection and enforcement and customer service.



Once completed, ITAS will provide for integrated applications that support all of the Department of Revenue Services' tax administration activities. It will allow DRS to retire fragmented applications and will provide opportunities for improved operational efficiencies, compliance tools, and enhanced decision-making capabilities. ITAS will ensure that the State's current revenue stream is not at risk, and will provide tools to ensure that all taxpayers pay their fair share.

Tobacco and health trust fund and biomedical research trust fund

In the current fiscal year, almost all of the Tobacco and Health Trust Fund and the Biomedical Research Trust Fund were swept and the revenues deposited into the general fund to support programs. The Governor is proposing again not to make transfers of $12 million to the tobacco fund and $4 million to the biomedical fund but rather have the dollars go to the general fund.

Further, it is the Governor's belief that we no longer have the luxury of putting dollars aside for such purposes. They are better spent on the health and welfare programs in the general fund. Thus, the annual transfers and statutes are proposed for repeal and all tobacco settlement dollars will be earmarked to the general fund in the future.

In FY 2003-04, with the fund eliminations, it is expected that about $112 million will flow to the general fund to support programming.

Judicial fee increases

The proposed budget calls for sweeping into the General Fund judicial and court fees that were increased as part of the legislative deficit mitigation plan. Last session, the following fees were increased: the jury fee, small claims entry fee, motion to modify judgment fee and the application fee for wage/property execution.

The fees are noted in the accompanying chart. The fee increases will raise just short of $5 million annually.

Judicial Fees

Fee Type	Current Fee	Proposed Fee
Complex litigation fee	$0	$250
Bank executions	$0	$35
Motion to open small claims matters	$0	$25
Wage and property execution	$20	$35
Civil filing fee	$190	$225
Civil filing fee (if amount in demand is < $2,500)	$80	$125
Prejudgment remedy application fee	$50	$100
Copy of certificate of judgment in foreclosure action	$20	$25
Copy of judgment file	$10	$15
Certified copy of judgment file	$15	$25

DMV fee increases

Prior to January 1, 2003, the Department of Motor Vehicles charged contractors who purchase driver histories a five-dollar fee for each history. Contractors then provide this information to insurance companies, employers and car rental companies. The general public has been charged a fee of ten dollars for a copy of their own driver history.

Effective January 1, 2003, the Department increased the fees for contractors to ten dollars, equaling the fee charged the general public. This increase in the fee will generate an additional $4.5 million in FY 2002-03 and an annual amount of $9 million annually in each fiscal year thereafter and is reflected in current services revenues.

In addition, the Governor's budget includes an increase in the fees of an additional five dollars to a total fee of fifteen dollars effective July 1, 2003. The additional increase will generate $9 million more annually.

Further, the Department charges fees for copies of records that it maintains that range from $3.50 to $17.50. The Department is proposing that fees for copies of DMV records be standardized at a set rate of twenty dollars. This will generate $1.1 million annually in additional revenue.

The monies will help sustain the transportation fund expenditures and, in part, have allowed the transfer of the Town Aid Road Grant back to the transportation fund to help balance the general fund in the biennium.

Elimination of motor fuels intercepts

The transfer of $2 million annually from motor fuels taxes in the transportation fund to the environmental conservation (EC) fund to support fisheries activities is proposed for elimination, as is a $250,000 transfer from the same source to the EC's boating account.

The amounts are needed to help support the long-term programming in the transportation fund.

Pequot fund

Because of the proposed reduction of $50 million annually in payments to towns – it is dropping from $135 million to $85 million – from the Pequot and Mohegan fund, $50 million more in revenue is generated to preserve general fund spending. In addition, $35 million more is being retained from slot machine revenues in the first year of the biennium and carried forward into the following year to support the $85 million in payments to towns. This is a revenue-smoothing technique that has been practiced in a number of bienniums.

Internet sales tax

Connecticut, like all states, has been losing a significant amount of sales tax revenue due to transactions that occur over the internet or via mail order. It is estimated that for FY 2003-04, Connecticut will lose approximately $280 million in sales tax revenue.

Thirty-nine states are currently participating in the Streamlined Sales Tax Project (SSTP) of which five states, including Connecticut, are non-voting participants in the project. The SSTP is an effort by state governments to streamline and simplify the sales tax codes across the U.S. to make them more conducive to the collection of sales tax by out-of-state retailers. The remote vendors could then voluntarily participate in a system that would administer the collection of sales taxes.

Even if the effort failed to enlist retailers on a voluntary basis, it would arguably remove the complexity argument that was cited in a U.S. Supreme Court decision from the 1960s and pave the way for taxation. That decision absolved retailers without nexus in a state from collecting sales taxes. The court essentially ruled that while such taxation was not a per se violation of the commerce clause, given the complexity of collecting multi-state sales taxes, the law was determined to be an unreasonable burden on interstate commerce.

The project has already resulted in some retailers coming forward even to Connecticut. Six vendors have voluntarily offered to collect the tax for Connecticut. Total taxable sales from these vendors amounted to $6.5 million per year, which would yield about $400,000 of sales tax annually to the State. These vendors have also requested an amnesty for prior business periods.

Estimated Revenue Loss
Due to Internet and Mail Order Sales
(In Millions)

Fiscal Year	Revenue Loss
2000	$ 136.5
2001	$ 153.4
2002	$ 181.2
2003	$ 220.6
2004	$ 277.8
2005	$ 366.3

In the past, Governor Rowland has opposed the collection of taxes on internet sales. But given the fiscal crisis and the continued erosion of sales tax revenues, the Governor proposes to change Connecticut's status on the Streamlined Sales Tax project from observer status to voting participant status. In time, this should ensure that Connecticut begins recouping some of the lost sales tax revenues that are putting a strain on our budget and services. It, too, would put the so-called Main Street retailers on a level playing field.

Tough decisions

The tax package outlined here looks like no other proposed by Governor Rowland. Total ongoing tax increases proposed by Governor Rowland here are $214.1 million. Including the deficit plan passed last week, total ongoing tax increases are about $851 million.

Enacted Tax Increases Contained In House Bill 6495
And Proposed In The Governor's Budget
(In Millions)

Tax & Description	Effective	FY 2002-03	FY 2003-04	FY 2004-05
Income Tax				
Increase 4.5% rate to 5.0%	1/1/03	230.5	428.3	445.5
Reduce $500 property tax credit to $400	1/1/03	-	68.0	69.4
Phase-out remaining $100 property tax credit	1/1/03	-	12.0	12.2
Eliminate Increase in Singles Exemption		-	-	7.0
Sales & Use Tax				
Computer & Data Processing Services at 1%	4/1/03	-	-	10.8
Reduce Clothing Exemption to $50	4/1/03	10.9	33.6	35.3
Newspapers & Magazines	4/1/03	17.5	69.8	73.3
Advertising Services at 3%	4/1/03	5.0	20.0	22.5
Health and Athletic Clubs	4/1/03	1.9	7.5	7.9
Rescind Sales Tax Free Week	7/1/03	-	3.1	3.3
Corporation Tax				
Impose 20% Surcharge in IY 2003 *	1/1/03	45.6	24.6	-
Impose 10% Surcharge in IY 2004 *	1/1/03	-	22.8	12.3
Repeal various minor tax credits	1/1/03	-	5.0	5.0
Public Service Tax				
Increase Cable TV tax from 5% to 6%	4/1/03	1.5	6.3	6.7
Additional sales tax collections due to change	4/1/03	0.1	0.4	0.4
Inheritance & Estate				
Defer phase-down in succession tax for 2 years	1/1/03	-	11.0	26.0
Insurance Companies				
Limit credits to no more than 70% of tax	1/1/03	1.5	2.5	2.5
Cigarette Tax				
Increase rate from $1.11 to $1.51	3/15/03	30.4	77.9	76.0
Real Estate Conveyance				
Increase tax rates	4/1/03	5.0	25.0	25.0
Total - Ongoing Tax Increases		$ 304.3	$ 770.4	$ 828.8

***** Temporary Tax Increase

As difficult as some of these tax increases are, they still do not substantially take away from the process of making Connecticut a more economically competitive state. There are still major tax breaks that remain on the books that ensure Connecticut businesses can thrive and compete in the global marketplace, especially for our struggling manufacturers. The tax breaks also embrace the new entrepreneurial clusters that will be our seed bed of future employment growth.

The income tax remains a moderate one. Its rates are well below other states. In and of itself, that promotes growth in jobs and population.

When all is said and done, Governor Rowland signed into law $2.064 billion in tax cuts during his tenure. Counting the 2002 session tax increases, last week's deficit mitigation plan tax increases, and the ones proposed here, tax hikes under his tenure will have been a total of $1.103 billion.

In the end, taxes will still be down almost $1 billion.

Major Tax Cuts

Income Tax
- Added lower tax rate
- Added a property tax credit
- Phase in of higher standard deduction for single filers from $12,000 to $12,500

Sales and Use Tax
- Eliminated the tax on hospital services
- Exempted college text books
- Phase out of property repair services such as painting, roofing, paving, etc.
- Exempted manufacturing repair and replacement parts
- Phase down of tax on computer and data processing services to 1%

Corporation Tax
- Reduced tax rate from 11.5% to 7.5%
- Instituted single factor apportionment for manufacturers, broadcasters, and financial services
- Phased out S-corporation tax
- Extended the carry forward for NOL's from 5 years to 20 years
- Expanded credit & permitted exchange of unused R&D credits for smaller firms
- Instituted an Urban Reinvestment credit worth $500 million over 10 years

Inheritance Tax
- Phase out of the Succession tax for all classes

Motor Fuels Tax
- Reduced tax 14 cents or approximately 36%

Hospital Gross Receipts Tax
- Eliminated tax

Tax Cuts Fully Implemented
(In Millions)

Tax Type	Pre-2002 Session	Enacted in 2002 Session	HB 6495 2003	Governor's Proposal 3/4/2003	Net Tax Cut/ (Increase)
Income Tax	$ 711.5	$ -	$ (428.3)	$ (161.0)	$ 122.2
Sales Tax	193.3	(8.3)	(135.3)	(14.3)	35.4
Corporation Tax	496.6	(58.5)	-	(5.0)	433.1
Hospital Tax	190.4	-	-	-	190.4
Cigarette Tax	-	(122.0)	(73.5)	-	(195.5)
Inheritance Tax	158.1	-	-	-	158.1
Gasoline Tax	190.2	(25.7)	-	-	164.5
Local Business Property Taxes	66.1	-	-	-	66.1
Other Taxes	57.8	(36.9)	-	(33.8)	(12.9)
Total	$ 2,064.0	$ (251.4)	$ (637.1)	$ (214.1)	$ 961.4

State of Connecticut General Fund Revenues (In Millions of Dollars)

		Fiscal Year 2002-03					Fiscal Year 2003-04					Fiscal Year 2004-05				
Taxes	Actual Revenue 2001-02	OPM 2/20/2003 Letter	HB6495 Changes (OPM)	Current Rates Forecast 2002-03	March 4 Proposed Changes 2002-03	Proposed Revenue 2002-03	Baseline Forecast 2003-04	HB6495 Changes (OPM)	Current Rates Forecast 2003-04	March 4 Proposed Changes 2003-04	Proposed Revenue 2003-04	Baseline Forecast 2004-05	HB6495 Changes (OPM)	Current Rates Forecast 2004-05	March 4 Proposed Changes 2004-05	Proposed Revenue 2004-05
Personal Income Tax	4,265.9	4,132.0	240.5	4,372.5	-	4,372.5	4,245.0	428.3	4,673.3	80.0	4,753.3	4,461.0	445.5	4,906.5	118.6	5,025.1
Sales & Use Tax	2,997.7	3,059.4	37.0	3,096.4	0.1	3,096.5	3,247.3	135.3	3,382.6	(93.8)	3,288.8	3,391.8	143.3	3,535.1	(67.8)	3,467.3
Corporation Tax	381.0	508.8	52.6	561.4	-	561.4	502.0	24.6	526.6	27.8	554.4	521.0	-	521.0	21.3	542.3
Public Service Tax	166.6	170.8	15.2	186.0	1.5	187.5	173.3	-	173.3	6.3	179.6	176.3	-	176.3	6.7	183.0
Inheritance & Estate Tax	153.1	165.0	-	165.0	-	165.0	130.0	-	130.0	11.0	141.0	75.0	-	75.0	26.0	101.0
Insurance Companies Tax	217.4	224.8	-	224.8	1.5	226.3	230.5	-	230.5	2.5	233.0	236.3	-	236.3	2.5	238.8
Cigarettes Tax	160.9	241.5	28.7	270.2	-	270.2	235.5	73.5	309.0	-	309.0	229.6	71.7	301.3	-	301.3
Real Estate Conveyance Tax	120.7	123.5	12.0	135.5	5.0	140.5	117.3	-	117.3	25.0	142.3	110.0	-	110.0	25.0	135.0
Oil Companies Tax	24.3	88.9	20.0	108.9	-	108.9	75.7	-	75.7	(10.5)	65.2	78.9	-	78.9	(10.5)	68.4
Alcoholic Beverages Tax	41.6	42.0	-	42.0	-	42.0	42.2	-	42.2	-	42.2	42.4	-	42.4	-	42.4
Admissions & Dues Tax	26.9	29.0	-	29.0	-	29.0	28.5	-	28.5	-	28.5	29.3	-	29.3	-	29.3
Miscellaneous Tax	26.3	25.0	-	25.0	-	25.0	23.7	-	23.7	4.6	28.3	21.1	-	21.1	4.8	25.9
Total Taxes	8,582.4	8,810.7	406.0	9,216.7	8.1	9,224.8	9,051.0	661.7	9,712.7	52.9	9,765.6	9,372.7	660.5	10,033.2	126.6	10,159.8
Less Refunds of Tax	(829.6)	(787.0)	-	(787.0)	-	(787.0)	(805.0)	-	(805.0)	-	(805.0)	(823.0)	-	(823.0)	-	(823.0)
Less R&D Credit Exchange	(21.9)	(14.0)	-	(14.0)	-	(14.0)	(23.4)	-	(23.4)	-	(23.4)	(21.0)	-	(21.0)	-	(21.0)
Total - Taxes Less Refunds	7,730.9	8,009.7	406.0	8,415.7	8.1	8,423.8	8,222.6	661.7	8,884.3	52.9	8,937.2	8,528.7	660.5	9,189.2	126.6	9,315.8
Other Revenue																
Transfers-Special Revenue	277.6	268.9	-	268.9	-	268.9	274.3	-	274.3	-	274.3	279.8	-	279.8	-	279.8
Indian Gaming Payments	369.0	390.0	-	390.0	-	390.0	409.5	-	409.5	-	409.5	430.0	-	430.0	-	430.0
Licenses, Permits, Fees	137.5	128.8	-	128.8	-	128.8	142.8	-	142.8	4.7	147.5	132.0	-	132.0	4.7	136.7
Sales of Commodities	30.5	30.9	-	30.9	-	30.9	31.5	-	31.5	-	31.5	32.1	-	32.1	-	32.1
Rents, Fines, Escheats	47.6	83.2	-	83.2	-	83.2	49.1	-	49.1	18.0	67.1	49.5	-	49.5	20.0	69.5
Investment Income	23.8	13.6	-	13.6	-	13.6	16.0	-	16.0	-	16.0	23.2	-	23.2	-	23.2
Miscellaneous	114.3	114.7	-	114.7	-	114.7	117.7	-	117.7	-	117.7	118.8	-	118.8	-	118.8
Less Refunds of Payments	(0.4)	(0.5)	-	(0.5)	-	(0.5)	(0.5)	-	(0.5)	-	(0.5)	(0.5)	-	(0.5)	-	(0.5)
Total - Other Revenue	999.9	1,029.6	-	1,029.6	-	1,029.6	1,040.4	-	1,040.4	22.7	1,063.1	1,064.9	-	1,064.9	24.7	1,089.6
Other Sources																
Federal Grants	2,142.3	2,362.4	(13.8)	2,348.6	-	2,348.6	2,384.4	(43.7)	2,340.7	(16.0)	2,324.7	2,505.4	(43.7)	2,461.7	(62.4)	2,399.3
Transfer to Resources of the G.F.	-	287.1	71.5	358.6	-	358.6	-	13.0	13.0	147.0	160.0	-	13.0	13.0	147.0	160.0
Transfer From Tobacco Settlement	120.0	130.0	-	130.0	-	130.0	96.0	-	96.0	16.0	112.0	96.0	-	96.0	16.0	112.0
Transfers From (To) Other Funds	(147.7)	(114.5)	21.5	(93.0)	-	(93.0)	(135.0)	21.5	(113.5)	(6.5)	(120.0)	(135.0)	21.5	(113.5)	63.5	(50.0)
GAAP Implementation	-	-	-	-	-	-	17.0	-	17.0	(17.0)	-	17.0	-	17.0	(17.0)	-
Total - Other Sources	2,114.6	2,665.0	79.2	2,744.2	-	2,744.2	2,362.4	(9.2)	2,353.2	123.5	2,476.7	2,483.4	(9.2)	2,474.2	147.1	2,621.3
Total - General Fund Revenues	10,845.4	11,704.3	485.2	12,189.5	8.1	12,197.6	11,625.4	652.5	12,277.9	199.1	12,477.0	12,077.0	651.3	12,728.3	298.4	13,026.7

General Fund Revenue - Explanation of Changes

Personal Income Tax
Reduce the property tax credit from $500 to $400 and phase-out the remaining $100 at higher income levels. Defer the increase in the singles exemption permanently. Changes effective for the 2003 income year.

Sales and Use Tax
Permanently repeal the tax on hospital services. Eliminate phase-out on computer & data processing services by maintaining the rate at 1%. Rescind the sales tax free week and eliminate certain intercepts of hotel occupancy tax revenue.

Corporation Tax
Impose a 10% surcharge on corporate entities for income year 2004. Eliminate various minor tax credits.

Public Service Tax
Increase the tax on Cable TV service from 5.0% to 6.0%, effective April 1, 2003.

Inheritance Tax
Defer scheduled phase-down of tax by two years.

Insurance Companies Tax
Limit tax credits to no more than 70% of pre-tax liability.

Real Estate Conveyance
Increase the tax from 0.5% to 0.75% for transfers between $300,000 and $800,000 and increase the tax from 1.0% to 1.5% for transfers greater than $800,000. Increase the tax from 1.0% to 1.5% for commercial property transfers. All changes effective April 1, 2003.

Oil Companies
Transfer funds to the Emergency Spill Response Fund in fiscal years 2003-04 and 2004-05.

Miscellaneous Taxes
Deposit Tourism Account surcharge into the General Fund.

Licenses, Permits, Fees
Amend HB6495 to deposit various Judicial Fee increases into the General Fund

Rents, Fines & Escheats
Escheat the unclaimed bottle deposits to the General Fund.

Federal Grants
Reflects impact of recommended expenditure changes.

Transfers to the Resources of the General Fund
Transfers from the Energy Conservation & Load Management Fund, the Clean Energy Fund, the Connecticut Housing Finance Authority, the Connecticut Development Authority, and Connecticut Innovations, Inc.

Transfer from the Tobacco Settlement Fund
Eliminate the transfers to the Tobacco and Health Trust Fund and the Biomedical Research Trust Fund.

Transfers From (To) Other Funds
Reduce the Mashantucket Pequot & Mohegan Fund revenue intercept and set aside a portion of the revenue deposited in fiscal 2003-04 for use in fiscal 2004-05.

GAAP Implementation
Repeal the implementation of GAAP accounting.

State of Connecticut Special Transportation Fund Revenues (In Millions of Dollars)

		Fiscal Year 2002-03					Fiscal Year 2003-04					Fiscal Year 2004-05				
Taxes	Actual Revenue 2001-02	OPM 2/20/2003 Letter	HB6495 Changes (OPM)	Current Rates Forecast 2002-03	March 4 Proposed Changes 2002-03	Proposed Revenue 2002-03	Baseline Forecast 2003-04	HB6495 Changes (OPM)	Current Rates Forecast 2003-04	March 4 Proposed Changes 2003-04	Proposed Revenue 2003-04	Baseline Forecast 2004-05	HB6495 Changes (OPM)	Current Rates Forecast 2004-05	March 4 Proposed Changes 2004-05	Proposed Revenue 2004-05
Motor Fuels Tax	430.3	462.5	-	462.5	-	462.5	466.3	-	466.3	-	466.3	471.0	-	471.0	-	471.0
Oil Companies Tax	46.0	20.0	(20.0)	-	-	-	21.0	-	21.0	-	21.0	21.0	-	21.0	-	21.0
Sales Tax - DMV	65.2	64.1	-	64.1	-	64.1	67.1	-	67.1	-	67.1	70.8	-	70.8	-	70.8
Total Taxes	541.5	546.6	(20.0)	526.6	-	526.6	554.4	-	554.4	-	554.4	562.8	-	562.8	-	562.8
Less Refunds of Taxes	(7.8)	(8.4)	-	(8.4)	-	(8.4)	(8.6)	-	(8.6)	-	(8.6)	(8.8)	-	(8.8)	-	(8.8)
Total - Taxes Less Refunds	533.7	538.2	(20.0)	518.2	-	518.2	545.8	-	545.8	-	545.8	554.0	-	554.0	-	554.0
Other Sources																
Motor Vehicle Receipts	200.7	203.6	-	203.6	-	203.6	210	-	210.0	-	210.0	213	-	213.0	-	213.0
Licenses, Permits, Fees	130.7	139.9	-	139.9	-	139.9	147.7	-	147.7	10.1	157.8	149.6	-	149.6	10.1	159.7
Interest Income	40.5	29.2	-	29.2	-	29.2	30.9	-	30.9	-	30.9	30.9	-	30.9	-	30.9
Federal Transit Administration	3.3	3.3	-	3.3	-	3.3	3.3	-	3.3	-	3.3	3.3	-	3.3	-	3.3
Transfers From (To) Other Funds	(9.5)	(8.5)	(52.0)	(60.5)	-	(60.5)	(9.5)	-	(9.5)	2.3	(7.2)	(9.5)	-	(9.5)	2.3	(7.2)
Release from Debt Service Reserve	-	2.6	-	2.6	-	2.6	-	-	-	-	-	-	-	-	-	-
Less Refunds of Payments	(2.5)	(2.8)	-	(2.8)	-	(2.8)	(2.9)	-	(2.9)	-	(2.9)	(3.0)	-	(3.0)	-	(3.0)
Total - Other Sources	363.2	367.3	(52.0)	315.3	-	315.3	379.5	-	379.5	12.4	391.9	384.3	-	384.3	12.4	396.7
Total - STF Revenues	896.9	905.5	(72.0)	833.5	-	833.5	925.3	-	925.3	12.4	937.7	938.3	-	938.3	12.4	950.7

SPECIAL TRANSPORTATION FUND
STATEMENT OF FINANCIAL CONDITION
(In Millions of Dollars)

Actual & Projected Revenues	2003	2004	2005	2006	2007	2008
Motor Fuels Tax, Motor Vehicle Receipts,						
Licenses, Permits, Fees	806.0	824.0	833.6	836.6	845.4	854.2
Sales Tax - DMV	64.1	67.1	70.8	74.7	78.0	81.6
Oil Companies Tax	20.0	21.0	21.0	21.0	21.0	21.0
Federal Transit Administration (FTA)	3.3	3.3	3.3	3.3	3.3	3.3
Interest Income	29.2	30.9	30.9	30.9	31.4	31.9
Transfers from / (to) Other Funds	(8.5)	(9.5)	(9.5)	(9.5)	(9.5)	(9.5)
Release from Debt Service Reserve Account	2.6	-	-	-	-	-
Total Revenues	916.7	936.8	950.1	957.0	969.6	982.5
Refunds of Taxes	(11.2)	(11.5)	(11.8)	(12.0)	(12.2)	(12.4)
Total Net Revenues	905.5	925.3	938.3	945.0	957.4	970.1
Projected Debt Service and Expenditures						
Projected Debt Service on the Bonds	392.4	412.2	424.5	432.4	434.9	436.2
Projected Debt Service on Transportation related GO Bonds	17.3	13.8	4.5	4.6	3.6	3.2
DOT Budgeted Expenses	347.5	355.0	371.9	380.6	388.4	396.3
DMV Budgeted Expenses	54.7	59.2	61.7	62.0	63.3	64.6
Other Budget Expenses	85.4	92.8	102.1	106.4	111.0	115.9
Program Costs Paid from Current Operations	16.0	16.4	16.8	17.2	17.6	17.9
Estimated Unallocated Lapses	(7.7)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Total	905.6	939.4	971.5	993.2	1,008.8	1,024.1
Projected Excess (Deficiency)	(0.1)	(14.1)	(33.2)	(48.2)	(51.4)	(54.0)
Cumulative Projected Excess (Deficiency)	189.6	175.5	142.3	94.1	42.7	(11.3)
Proposed Revenue Changes						
Suspend transfer from the Oil Co. Tax	(20.0)	-	-	-	-	-
Increase Fees for Drivers' Histories and Record Copies	-	10.1	10.1	10.2	10.2	10.3
Transfer from / (to) Other Funds (G.F.)	(52.0)	2.3	2.3	2.3	2.3	2.3
Total Revenue Changes	(72.0)	12.4	12.4	12.5	12.5	12.6
Total Revised Revenues	833.5	937.7	950.7	957.5	969.9	982.7
Proposed Expenditure Changes						
Town Aid Road	(9.0)	12.5	12.5	12.5	12.5	12.5
Adjust Bus and Rail Fares	-	(15.0)	(19.9)	(19.9)	(19.9)	(19.9)
Savings from Employee Layoffs	(6.0)	(15.3)	(16.6)	(16.9)	(17.4)	(17.8)
Reduction for Unsettled Contracts and ERIP Savings	(2.4)	(16.4)	(17.7)	(15.5)	(15.6)	(15.8)
Remove Inflation and Annualize FY03 Reductions	(2.9)	(3.5)	(5.0)	(5.1)	(5.1)	(5.2)
Miscellaneous DOT and DMV Adjustments	7.1	(1.0)	(1.1)	(0.7)	(0.7)	(0.7)
Repeal Legislation Effective July 1, 2003	-	(1.9)	(1.8)	(1.9)	(1.9)	(2.0)
Total Expenditure Changes	(13.2)	(40.6)	(49.6)	(47.5)	(48.1)	(48.9)
Total Revised Expenditures	892.4	898.8	921.9	945.7	960.7	975.2
Revised Projected Excess (Deficiency)	(58.9)	38.9	28.8	11.8	9.2	7.5
Revised Cumulative Excess (Deficiency)	130.8	169.7	198.5	210.3	219.5	227.0

INTRODUCTION

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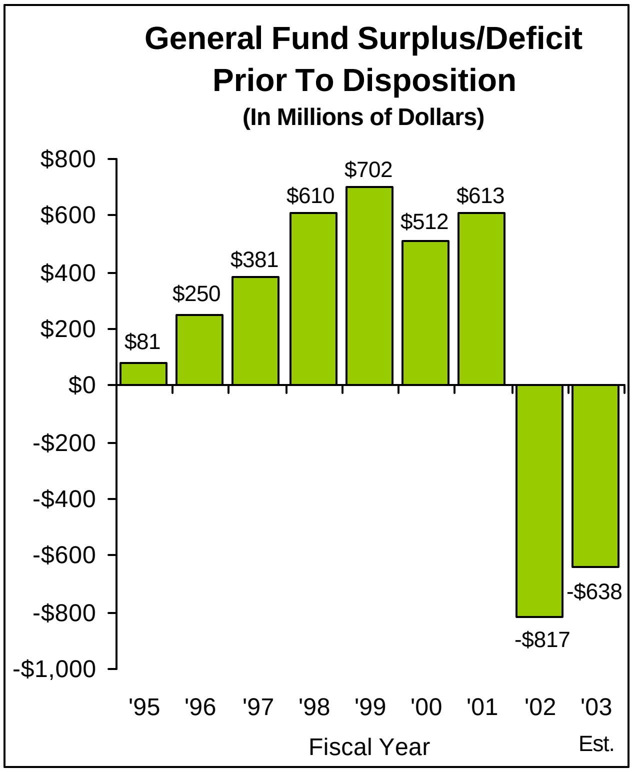

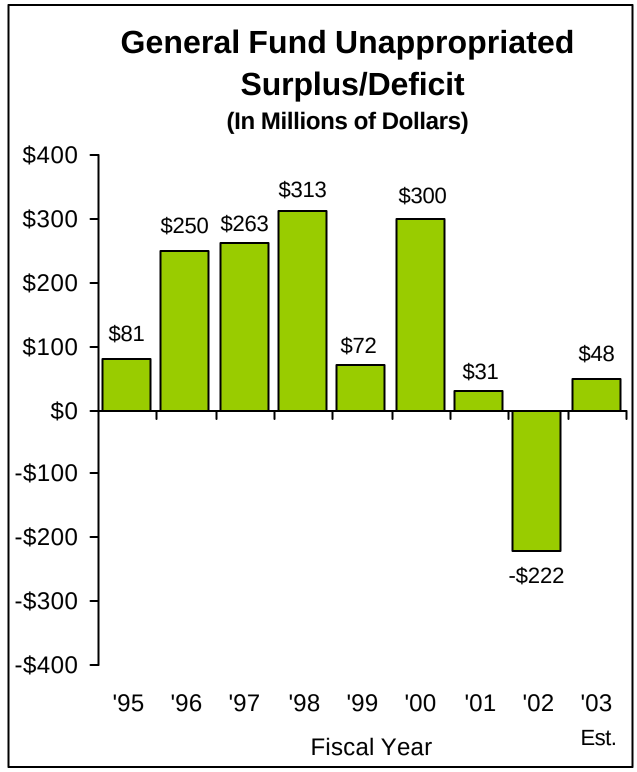

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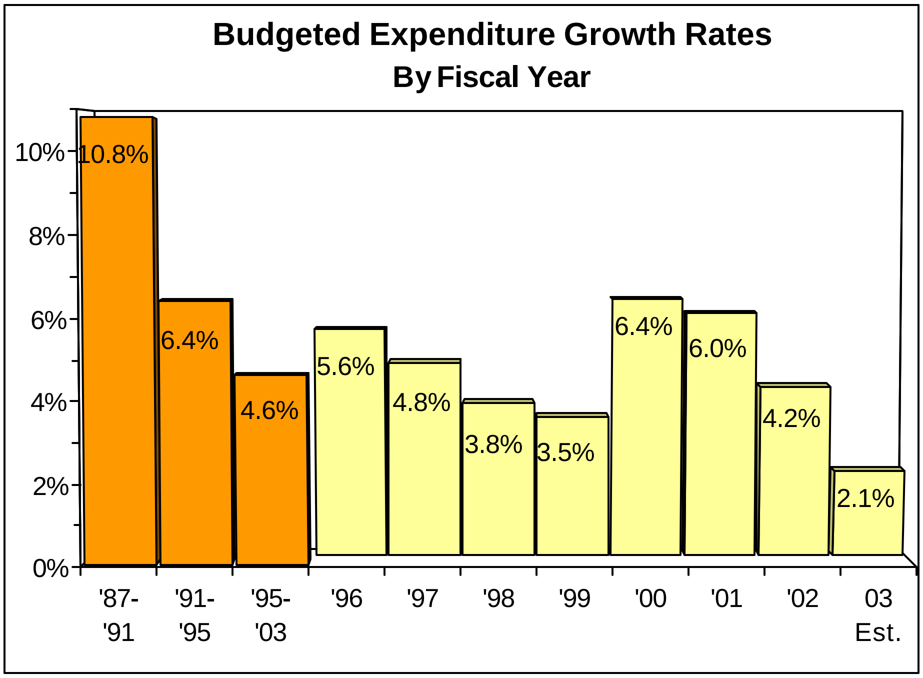

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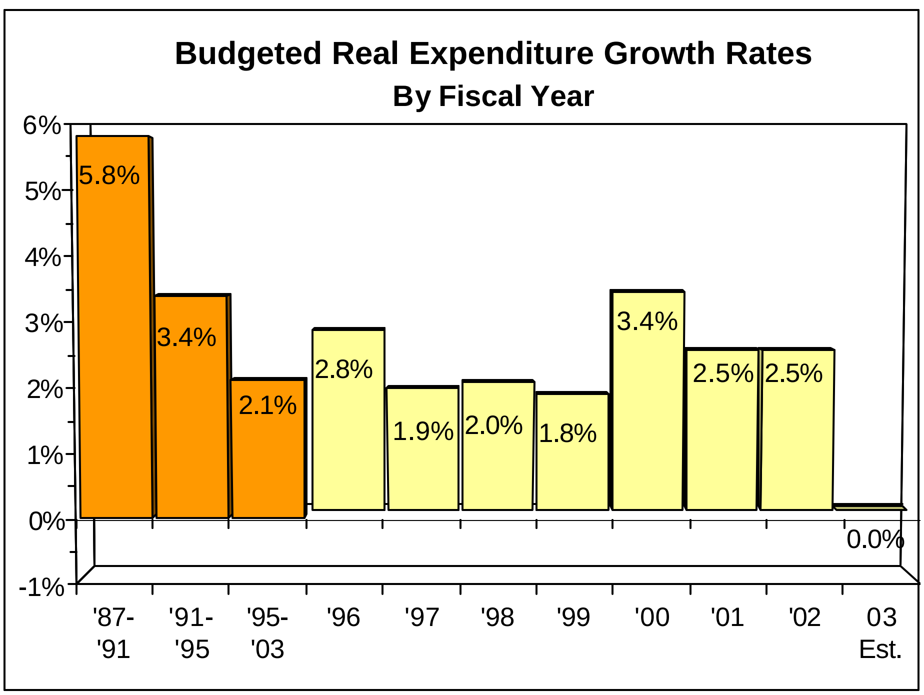

INTRODUCTION (CONT'D)

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Where's the Growth In General Fund Budget?
(In Millions)

Major Categories	**Estimated FY 03**	**Current Services Add FY 04**	**Growth Rate**
State Employee Health Insurance	296.4	75.0	25.3%
Retirees Health Insurance	240.9	53.1	22.0%
State Employee Pension Fund	285.7	53.8	18.8%
Teachers' Retirement Pension Fund	179.8	90.7	50.4%
Debt Service	999.1	203.4	20.4%
Wages and Salaries	1,999.8	161.4	8.1%
Other Expenses	1,478.9	238.8	16.1%
Higher Ed Block Grants	529.6	31.6	6.0%
Medicaid (Excluding DSH)	2,705.9	239.3	8.8%
Education Cost Sharing	1,516.3	74.7	4.9%
Grants to Towns (excluding ECS)	573.0	131.0	22.9%
All Other (Net)	1,334.4	140.1	10.5%
Total	12,139.8	1,492.9	12.3%

Replaces Graphic on Page 10

Where Do the Dollars Go?
Estimated General Fund FY 2002-03
(In Millions)

Total Personnel Services Costs	$3,625.6
Debt Service	999.1
Private Providers	1,029.8
Medicaid	2,705.9
HUSKY	22.3
SAGA/DMHAS GA/ConnPACE	254.9
Hospital DSH/Psychiatric DSH	204.2
Education Cost Sharing	1,516.3
Other Payments to Local Governments (Excludes ECS)	573.0
Inmate Medical Services	73.3
All Other Programs	1,135.4
Total Estimated General Fund Expenditures	$12,139.8

EDUCATION

Replaces Graphic on Page 58

PROGRAMS TO IMPROVE URBAN EDUCATION AND REDUCE RACIAL ISOLATION

	FY 95 Actual	FY 02 Actual	FY 03 Estimated	FY 04 Recomm	FY 05 Recomm
IMPROVE URBAN EDUCATION					
Family Resource Centers: Holistic family services in 60 schools	$0.8	$6.1	$5.3	$5.3	$5.3
Head Start Enhancement: To subsidize full year operations for 24 Head Start programs.	$1.0	$1.9	$1.8	$1.8	$1.8
Priority Schools: Provide additional funding for the 14 academically and economically neediest communities for Priority School District grants, School Readiness, Extended School Hours, School Accountability, and Early Reading Success.	$11.0	$82.6	$84.2	$82.5	$82.5
Early Reading Program: Grant to improve K-3 reading; funds for full-day kindergarten, reduce K-3 class size and/or early intervention reading		$2.0	$2.1	$2.2	$2.2
TOTAL	**$12.8**	**$92.6**	**$93.4**	**$91.8**	**$91.8**
REDUCE RACIAL ISOLATION					
Interdistrict Magnet Schools: State subsidy for students attending Magnet Schools. In the 2002-2003 school year, about 11,000 students are in Magnet Schools statewide.	$3.2	$32.6	$44.8	$59.2	$73.0
Charter Schools: $7,000 per pupil subsidy provided to state charter schools. For the 2002-2003 school year, subsidy is available for 2,200 students statewide.		$14.2	$15.8	$15.9	$16.8
Interdistrict Cooperation Grants: Programs for 60,000 students that promote a greater understanding and appreciation of cultural diversity for students in preschool through 12th grade.	$2.1	$13.0	$13.0	$13.5	$14.2
Coordinate Interdistrict Activities: Funding for the Regional Educational Service Centers (RESCs) to plan and administer an interdistrict school choice program and to provide minority educator recruitment services to school districts; lease funds also provided.	$2.0	$3.1	$2.6	$1.6	$1.6
OPEN Choice Program: In 2003, about 1,600 primarily urban students attend suburban schools in this voluntary program	$1.0	$6.9	$8.7	$9.0	$10.6
Lighthouse Schools: Grant to provide specialized curriculum in an existing school.		$0.3	$0.3	$0.3	$0.3
TOTAL	**$8.3**	**$70.1**	**$85.2**	**$99.5**	**$116.5**
GRAND TOTAL	**$21.1**	**$162.7**	**$178.6**	**$191.3**	**$208.3**

Replaces Graphic on Page 65

Block Grants For all Units FY 03 through FY 05
(In Millions)

	FY 03	FY 04 *	FY 05 *
UCONN	$182	$186	$190
UCONN Health Center	$74	$75	$76
Charter Oak State College	$1	$1	$1
Community-Technical Colleges*	$122	$119	$121
Connecticut State University*	$131	$129	$129

*FY 04 and FY 05 have been reduced to reflect the proposed merger of the Chancellor's Offices with DHE.

EDUCATION (CONT'D)

Replaces Graphic on Page 66

STATE SUPPORT FOR HIGHER EDUCATION

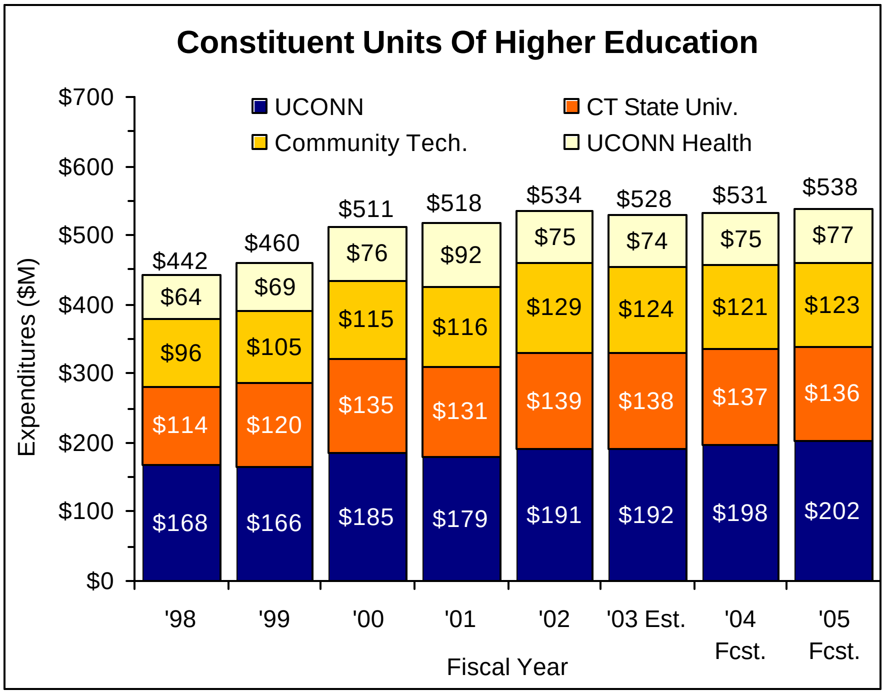
(In Millions)

CONSTITUENT UNIT	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	EST. FY 03	REC. FY 04	REC. FY 05
UCONN											
General Fund Expenditure	$135	$139	$148	$168	$166	$185	$179	$191	$192	$198	$202
Est. Fringes	$ 48	$ 41	$ 41	$ 48	$ 48	$ 60	$ 60	$ 68	$65	$69	$71
GO Bond Authorizations	$153	$130	$121	$ 93	$ 64	$132	$120	$100	$100	$100	$100
Total	**$336**	**$310**	**$310**	**$309**	**$278**	**$377**	**$359**	**$359**	**$357**	**$367**	**$373**
UCONN Health Center											
General Fund Expenditure	$ 39	$ 57	$ 59	$ 64	$ 69	$ 76	$ 92	$ 75	$ 74	$ 75	$ 77
Est. Fringes	$ 14	$ 17	$ 18	$ 21	$ 22	$ 27	$ 25	$26	$26	$26	$27
GO Bond Authorizations	$ 15	$ 10	$ 10	$ 5	$ 8	$ 4	$ 3	$ -	$ -	$ -	$ -
Total	**$ 68**	**$ 84**	**$ 87**	**$ 90**	**$ 99**	**$107**	**$120**	**$101**	**$100**	**$101**	**$104**
Community-Technical Colleges											
General Fund Expenditure	$ 82	$ 90	$ 94	$ 96	$105	$115	$116	$129	$124	$121	$123
Est. Fringes	$ 29	$ 26	$ 28	$ 31	$ 33	$ 42	$ 40	$ 46	$43	$42	$43
GO Bond Authorizations	$ 7	$ 18	$ 15	$ 20	$ 70	$ 77	$ 75	$ 69	$ 26	$134	$ 70
Total	**$118**	**$134**	**$137**	**$147**	**$208**	**$234**	**$231**	**$244**	**$193**	**$297**	**$236**
Connecticut State University											
General Fund Expenditure	$ 98	$101	$110	$114	$120	$135	$131	$139	$138	$137	$136
Est. Fringes	$ 35	$ 30	$ 32	$ 37	$ 37	$ 46	$ 44	$ 49	$46	$47	$46
GO Bond Authorizations	$ 20	$ 47	$ 56	$ 34	$ 31	$ 81	$ 88	$ 89	$ 65	$120	$ 80
Total	**$153**	**$178**	**$198**	**$185**	**$188**	**$262**	**$263**	**$277**	**$249**	**$304**	**$262**

NOTES:

1. The totals include Expenditures as reported by the Comptroller, Estimated Fringe Benefits, and Annual Bond Authorizations.
2. The totals include $16 million in General Fund Endowment State Match to UCONN but do not include additional General Fund Endowment matches of: $19 million for UCONN, 2.4 million for CSU, and $1.6 million for the C-TCs.
3. One time Deficit Reduction adjustment of $20 million is included in fiscal year 2001 for UCHC.
4. In FY's '98-'01, various adjustments are made for Year 2000 and other Information Technology items.
5. CSU and CTS have lower recommended appropriations because of proposed merger of Chancellor's Offices with DHE.

Replaces Graphic on Page 67



HUMAN SERVICES

Replaces Graphic on Page 91

Disproportionate Share - FY 00 - FY 05
General Fund Appropriation
(In Millions)

	Actual			Est.	Projected	
	FY 00	**FY 01**	**FY 02**	**FY 03**	**FY 04**	**FY 05**
Connecticut Children's Medical Center	7.0	6.8	7.0	6.8	6.8	6.8
University of Connecticut Health Center					1.7	1.7
Disproportionate Share - Acute Care Hospitals	204.5	205.5	85.0	71.7	142.0	142.0
Urban Disproportionate Share - Acute Care Hospitals			15.0	26.6	26.6	26.6
Total	211.5	212.3	107.0	105.1	177.1	177.1
Taxes Paid	(173.7)	(103.5)	0.0	0.0	0.0	0.0
Total	**37.8**	**108.8**	**107.0**	**105.1**	**177.1**	**177.1**

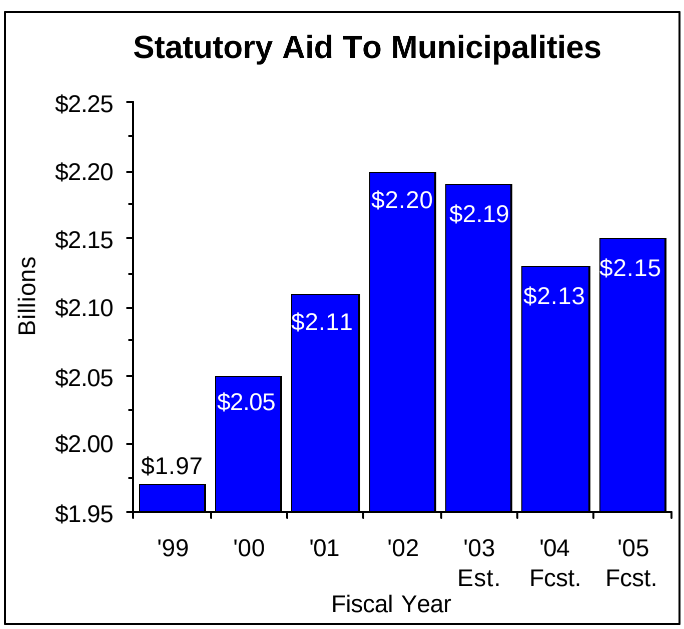
MUNICIPAL AID

Replaces Graphic on Page 146

Summary - Estimated Formula Grants to Municipalities (In Millions)

Grant	Estimated Fiscal 2003	Recommended Fiscal 2004	Fiscal 2005
State-Owned PILOT	$67.0	$67.1	$67.7
College & Hospital PILOT	100.9	100.9	100.9
Pequot Grant	106.0	85.0	85.0
Town Aid Road Grant	16.0	12.5	12.5
LoCIP	30.0	30.0	30.0
Miscellaneous General	22.6	16.8	17.2
Machinery & Equipment	56.1	47.7	44.3
Sub-total - General Government	$398.6	$360.0	$357.6
Public School Transportation	$43.1	$43.1	$43.1
Non-Public School Transportation	4.3	4.3	4.3
Adult Education	16.9	16.9	16.9
Education Cost Sharing	1,514.9	1,488.0	1,488.0
Miscellaneous Education Grants	208.1	221.3	236.6
Sub-total - Education	$1,787.3	$1,773.6	$1,788.9
Total - Formula Grants	$2,185.9	$2,133.6	$2,146.5

Replaces Graphic on Page 150



Other Initiatives/Changes in Governor's FY 2003-05 Biennial Budget Submission

Hospital pharmacies

The administration is sponsoring a bill that would change the pharmacy statutes to allow hospitals to establish pharmacy operations off site to help reduce costs and medical errors.

The change would allow hospitals to take advantage of robotics, computerization, and other cost-saving technology to dispense drugs off site. The change would also help hospitals to band together in partnerships to establish these operations and reduce overall costs.

Once the drugs are dispensed off site (most likely bar-coded by unit dosage), the drugs can then be moved back to on-site and dispensed at the bed side. By use of the barcode technology and computerization, medial errors should go down dramatically.

The legislation is not anticipated to increase those eligible to receive drugs from the hospital pharmacy, but is simply a more economical way to dispense drugs for existing patients and to help better safeguard their health by reducing medical errors.

Annual budget

The Governor is submitting legislation that would repeal the statutory requirement for biennial budgets. It is clear that the biennial budget act has not served its purpose as numerous changes are made for both policy and fiscal reasons in the adjustment year and the act has not served its so-called planning purpose. The act would apply to the fiscal year beginning July 1, 2005.

Magnet school funding

Although funding for a critical existing school choice option, magnet schools, has grown significantly, funding for Regional Educational Service Center (RESC) sponsored schools has not been adequate.

Currently, RESC magnet schools receive state subsidies along with local support for students attending their schools. Since the magnet schools are not "owned" by the communities that they serve, these communities feel less compelled to fully support the educational costs for the schools. This has created financial difficulties for RESC magnets, especially in the Hartford area.

As part of his legislative package, Governor Rowland is proposing a solution to this problem. The measure would create a more equitable distribution of funding for the RESC Magnet Schools. Communities that are served by the schools will be required to increase their financial support of students attending RESC magnet schools. The bill is fair: communities will be asked to pay 75 percent of the difference between the RESC magnet's cost per pupil and the sum of the state magnet subsidy and local subsidy paid on behalf of a student. In no event would the district be obligated to pay a subsidy in any form that is more than their average per pupil expenditures.

Safety net services and transitionary rental assistance

Because of the passage of the deficit mitigation plan, monies have been restored for Safety Net Services for FY 2002-03. However, the Governor is recommending no funding in the biennium for this program. In contrast, Transitionary Rental Assistance is funded in each year of the biennium at roughly the current fiscal year level.

FY2003 – FY2005 Biennium
Governor's Budget Summary
ERRATA SHEET

1. Pages 68-69. In the "Renewed commitments to CSU and CTC's" section, the last paragraph, second sentence "His commitment to the state university system (CSU) has increased by about **$176 million,** and to the community colleges (CTCs) about $30 million." should read, "His commitment to the state university system (CSU) has increased by about **$17 million,** and to the community colleges (CTCs) about $30 million."

2. Page 69. In the "Total capital commitments for higher education" section, the first sentence "Since he came to office, Governor Rowland has ensured that **over $1.7 billion** in higher education capital authorizations have been passed through FY 2002-03." Should read, "Since he came to office, Governor Rowland has ensured that **almost $3.2 billion** in higher education capital authorizations have been passed through FY 2002-03."

3. Page 93. In the "State Median Income Levels" table, the Proposed 50% column should be:

Family Size	Proposed 50%
2	**28,119**
3	**34,735**
4	**41,351**
5	**47,967**

4. Page 98. In first full paragraph on page, second sentence "The department will have to live within its appropriation each fiscal year by limiting intake or reducing the menu of services offered." Should read "The department will have to live within its appropriation each fiscal year by limiting intake, reducing the menu of services offered, or establishing or increasing asset tests and cost-sharing."

5. Page 114. In "Bus and rail fare increases" section, first sentence of the last paragraph on the page "In addition to the increase in bus fares, rail fares will be increased by approximately **20 percent**." Should read, "In addition to the increase in bus fares, rail fares will be increased by approximately **15 percent**."

6. Page 126. In the first paragraph, the last sentence "The merger means a reduction of 8 positions and savings of $500,000 **million** in FY 2003-04 and $574,000 **million** in FY 2004-05." should read, "The merger means a reduction of 8 positions and savings of $500,000 in FY 2003-04 and $574,000 in FY 2004-05."

7. Page 138. In the "Summary of Layoffs and Other Separations" table, the information for the Office of Consumer Counsel, Department of Public Utility Control, Office of Managed Care, Department of Consumer Protection, Department of Labor, Office of Victim Advocate, Commission on Human Rights and Opportunities, Office of Protection and Advocacy for Persons with Disabilities, Workers' Compensation Commission, Department of Agriculture, and Department of Environmental Protection is repeated. They are not double counted in the total.

8. Page 139. In the "Employees Eligible for the Proposed Retirement Incentive Program" table, "Total - All Funds **2,161**" should be "Total - All Funds **10,538**."

9. Page 144. In the fifth bullet, the second sentence "This list will be reduced to $600 million in new projects in addition to the $400 million moved from the December **2002** list." should read, "This list will be reduced to $600 million in new projects in addition to the $400 million moved from the December **2001** list".

10. Page 147. In the "Pequot aid" section, the first sentence "About **$6.75** million was reduced from the Pequot grant utilizing the Governor's extraordinary rescission authority this fiscal year." should read,

“About **$6.71** million was reduced from the Pequot grant utilizing the Governor’s extraordinary rescission authority this fiscal year.”

11. Page 149. In the “Remove the COLA adjustment for needs-based programs” section, the third sentence “It would also provide that the income levels for these programs remain at $26,400 for unmarried persons or $32,300 for married couples.” should read, “It would also provide that the income levels for these programs remain at $26,100 for unmarried persons or $31,900 for married couples.”