INTRODUCTION

Back-to-Basics Budgeting

Nationwide, states collectively are facing the worst budget crises since World War II.

Much of what states are up against was spawned by events very much beyond their control. The irrational exuberance of the stock market in the mid to late 1990s and the bursting of the IT and telecom bubbles continue to have negative implications on all areas of state revenue growth. It was hard to imagine the rapidity and overwhelming negative trajectory that the market correction took. To make matters worse, the corporate fraud and abuse that gripped the headlines and read like a sordid novel continue to cause investor worry and muddle the equity markets.

The fallout of the events of 9/11 drove the nation deeper into its slumber and consequently we still teeter on the edge of a double-dip recession. Further, the anticipation of war with Iraq is battering consumer and business confidence and is forestalling the economic recovery that the principal economic measures seem to point to.

In the early 1990s, the advent of managed care made great strides in reducing waste and inefficiency in the health care system. But even with continuing vigilance against excesses, spiraling health care inflation has returned with a vengeance. Coupled with burgeoning public assistance enrollment in these times of need, health care costs are leading to double-digit increases in states' anticipated budgets -- at a time when revenues are actually dropping or, at best, are seeing meager growth.

But policy-makers and elected officials, too, bear some blame for the plight that states find themselves in. The roaring '90s allowed states the latitude to add significant new programs that today are draining coffers. Still enthralled with the frenzied atmosphere of tax cutting and program expansion, a blind eye was turned to the impending downturn. To deal with the softening of the economy and market corrections over the past few years, a myriad of quick fixes and one-time revenues were invented to paper the way back to budget balance and prosperity. It didn't work.

If the last paragraph sounds like a mea culpa – it is. While external events played a role, Connecticut, like most other states, failed to make the fundamental changes needed in 2001 and 2002 to right its budget mess. This document is all about recognizing that structural and permanent changes are needed in the state budget if we are to salvage the state's bond rating and balance the books over the long term.

Much is said about Connecticut's relative position as compared with a number of other states. We do not have the worst fiscal crisis, in large measure because the state's spending cap did act as a firewall against the uncontrolled spending increases that we saw in the late 1980s. (This fiscal year's deficit is just 5 percent of general fund expenditures. Next fiscal year's current services gap is about 15 percent of planned expenditures.) The restructuring of the state's economy over the last decade has meant a more diversified economy and with it a recession that is relatively mild compared with the one ten years ago. We retain some strategic advantages, including our highly skilled work force and budding clusters of the future, over other states. But these relative strengths should not and cannot be used as an excuse to do what we have done over the past several years. Indeed, if we put our financial house in order, our relative strengths will be our competitive edge moving into the future.

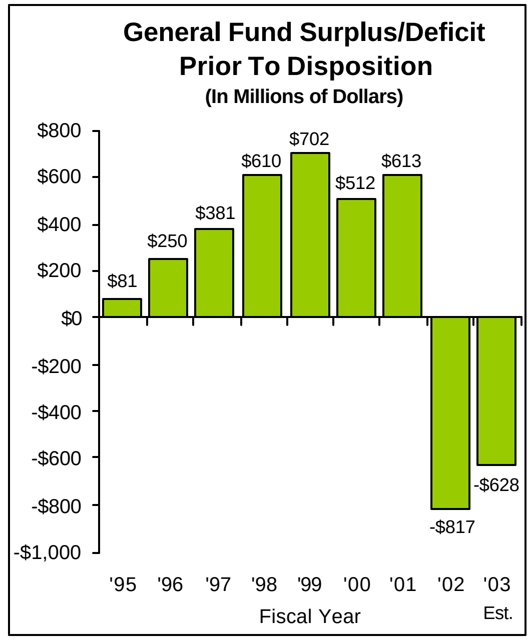
Thus, this budget – however reluctantly – raises taxes by hundreds of millions of dollars to help balance the budget. The tax increase plan attempts to ensure that the pain of balancing the budget is shared by all – income-earners at all levels, consumers, and businesses. Fundamental to the tax plan is that our economic competitiveness is not compromised.

This budget abides by the spending cap – which will become as much of the budget battle over the next few months as the revenue gap. Hundreds of millions of dollars in anticipated spending is reduced over the next two fiscal years. The reductions are aimed at protecting fundamental and basic services. It also recognizes that the years of unfettered entitlements – which called for gold-plated benefits for as many people as possible -- are gone and can no longer be sustained.

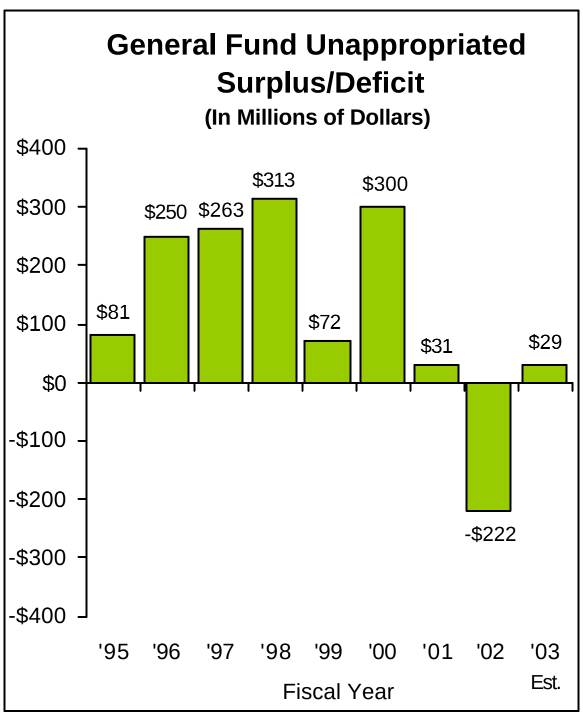
This document gets us back to the basics: This budget is all about balance – balancing tax increases and spending cuts in an ultimate attempt to balance the budget. The use of one-time revenues and other gimmicks is minimal. People may disagree with its spending priorities – but it attempts to recognize that to stay competitive on the tax front, spending must be limited to absolute necessities.

From boom to bust

Like many other states, Connecticut saw its budgetary balances go from boom to bust almost in the blink of an eye. On a gross basis, Connecticut enjoyed unprecedented surpluses in the mid and late 1990s. In the four years prior to Connecticut registering a deficit, surpluses were between $500 million and $700 million annually. The following year, the state registered a whopping $800 plus million gross deficit. In actuality, if not for a special session that moved prior year surplus to cover a portion of the deficit and some mid-year spending cuts, the gross deficit would have been in excess of $1.2 billion.



To solve its fiscal woes, the state was forced to draw down on its entire approximate $600 million Rainy Day Fund at the end of FY 2001-02 – something that was never anticipated. Even then, it had to bond the remaining deficit of just over $220 million for five years. The first of the full payments of about $50 million is due in the coming fiscal year. In retrospect, despite abiding by the spending cap for ongoing program growth, the state should have placed additional dollars in a Budget Reserve Fund as opposed to concentrating its one-time surplus dollars on debt avoidance and debt retirement. Learning from that mistake, the Governor proposed legislation and the statute was changed to provide that at least 7.5 percent of general fund expenditures are built, over time, into the Rainy Day Fund in the future.



Today, with no Budget Reserve Fund left, the state faces a gross deficit of $628 million in the current fiscal year because of the continuing dreary fiscal climate. (As will be outlined later, the Governor is proposing a new deficit mitigation plan that will totally close the deficit and mean a $29 million deposit in a new Budget Reserve Fund.)

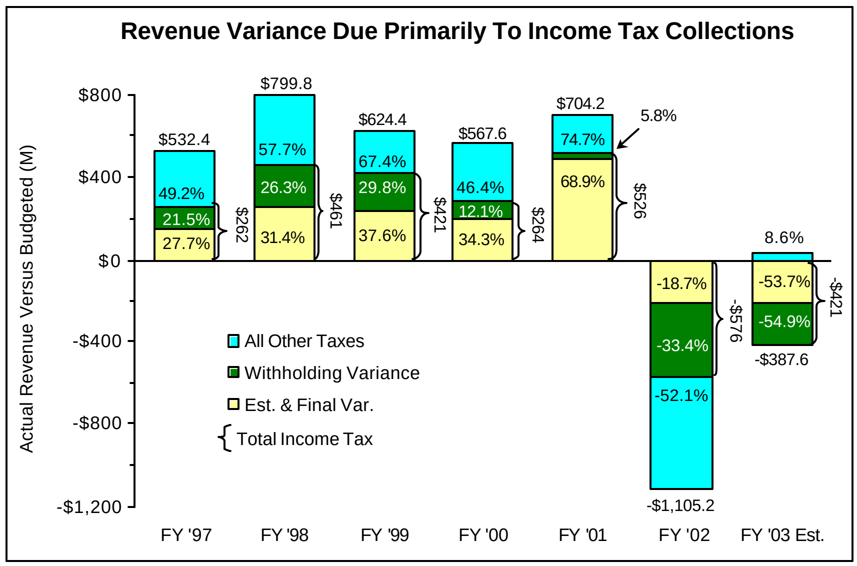
How could state finances change so quickly and see a swing of as much as $1.8 billion? The answer lies in the huge stock roll up in the mid to late 1990s and the collapse of the equity markets in 2000 and 2001. Capital gains realizations drove much of the surpluses we saw in the 1990s and into the beginning of the current century. As can be seen from the federal data capital gains realizations chart, Connecticut residents' capital gains realizations increased by booming double-digit growth for

Capital Gains Realizations Reported By CT Residents
(In Millions)

Income Year	Capital Gains	Percent Change
1994	$2,547	-16%
1995	$3,832	50%
1996	$4,732	23%
1997	$7,787	65%
1998	$9,867	27%
1999	$11,800	20%
2000	$15,435	31%

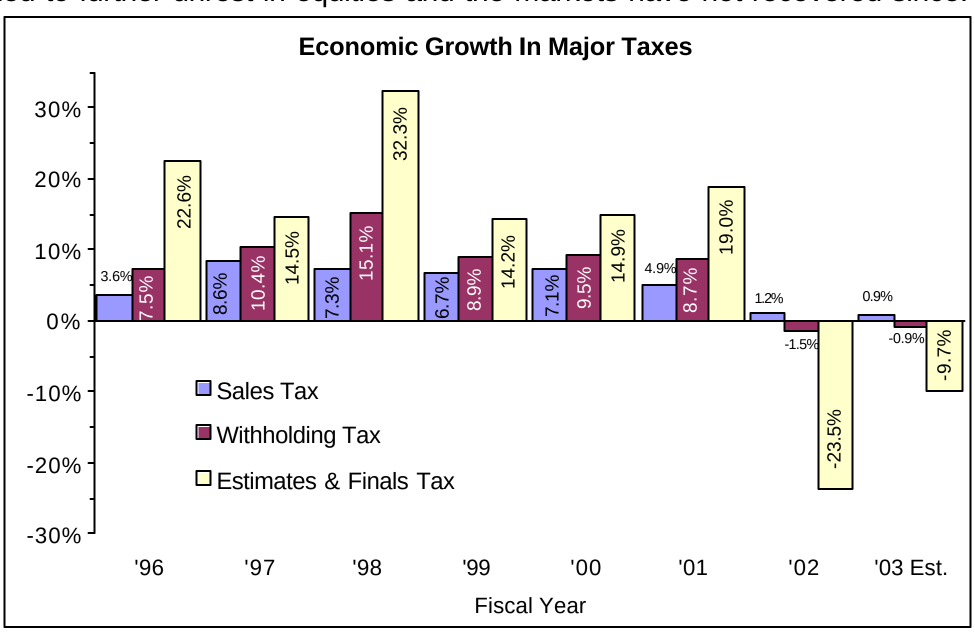
six years in a row. One has to go back to the beginning of the 1980s to witness a similar experience. Over the past six years, capital gains realizations grew by more than 500 percent

From a state budget standpoint, fiscal analysts continued to predict and budget for a downturn in the market, but the stock boom kept chugging along. As can be seen from the revenue variance chart, in the years of the greatest surpluses anywhere between a third and 70 percent of each fiscal year's surplus was tied to the stock market gains – that is even though just between 12.5 percent and 15 percent of income tax revenue comes from such income. The estimates and finals category of the state income tax, about half of which is capital gains in good stock market years, rose between 14 percent and 32 percent annually in those six years.

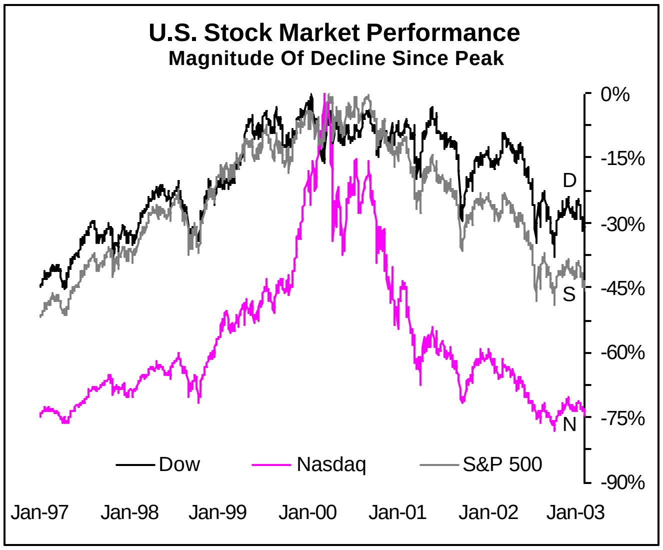


And as is the case in most wealthy states, rising stock markets tend to mean healthy increases in other tax revenues as well, especially the withholding portion of the income tax and the sales tax. Withholding tax grew between 7.5 percent and 15.1 percent annually in the boom years, with sales taxes going up 3.6 percent to 8.6 percent annually.

But then came a series of major market corrections, the first of which occurred in 2000 with another major one around the 9/11 tragedy. The irrational exuberance in IT stocks – at one time 60 infant IT companies which never had shown a profit commanded 10 percent of the entire market capitalization – and the telecom bubble sent even steady blue chips into a tail spin. The corporate fraud and abuse scandals led to further unrest in equities and the markets have not recovered since. From their recent peaks, the major stock indices are still down between 30 and 75 percent.



With the stock market collapse came a vociferous fall in state income tax revenue. Preliminary income tax data for 2001 suggests realizations of capital gains for state residents will be down at least 54 percent. We do know that our FY 2001-02 estimates and finals portion of the income tax took a nosedive of 23.5



percent, which equates to about a 50 percent decline in capital gains realizations.

Interestingly, the withholding portion of the income tax in that year dropped 1.5 percent despite actual growth in personal income. While Connecticut's income tax rate system is rather flat, it would still stand to reason that actual withholding growth should outpace personal income growth. So why was the withholding negative? It turns out – much to the surprise of even the states that had had income taxes during previous recessions – that tens of millions of capital gains had been captured in the withholding component of the income tax. In addition, the bonuses for high wealth individuals, which were tied to rising stock prices, inflated the withholding base of the state income tax. As such, when the stock markets declined and the bonuses dried up, so did much of the withholding growth Connecticut had gotten used to.

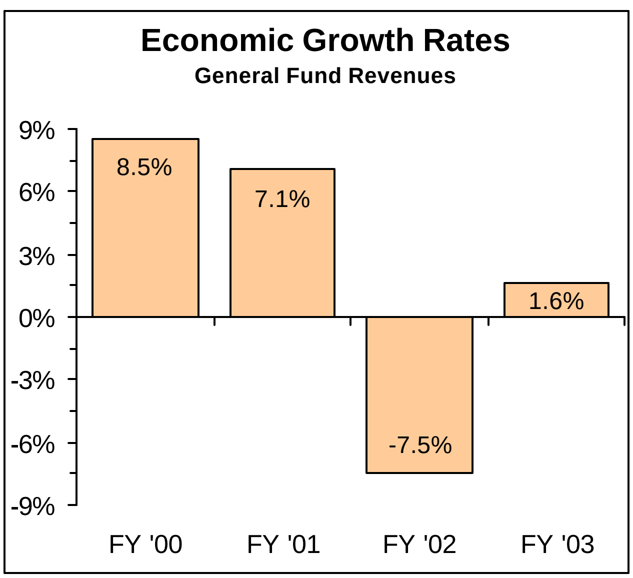
Capital Gains Realizations Reported By CT Residents Not Including Extension Filings

(In Millions)

Income Year	Capital Gains	Percent Change
2000*	$8,746	
2001*	$4,064	-54%

* Both income years reflect preliminary data per the IRS and does not include returns filed under extensions

In the current fiscal year, because of the sagging equity markets, the state is looking at a second year in a row of negative withholding performance, with estimates and finals estimated to be about 10 percent below last fiscal year. That equates to yet another drop in capital gains realizations of between 20 percent and 25 percent on an already "pitiful" FY 2001-02 base. And because of the sputtering economy, the sales tax is expected to post a gain of just 0.9 percent, after performing barely above that last fiscal year.



How bad was the stock market crash on state revenues? States collectively, and Connecticut was among them, saw real revenues drop year over year in FY 2001-02. That was the first time states collectively saw this happen since 1945. Wealthy states like Connecticut saw their revenues drop more than the national average of 6 percent. In Connecticut, so-called economic growth of general fund revenues was down 7.5 percent in FY 2001-02. That came on the heels of tremendous economic growth in prior years of 8.5 percent in FY 1999-00 and 7.1 percent in FY 2000-01. In the current fiscal year, a meager rebound from FY 2001-02 of 1.6 percent is expected.

The total revenue variance from budget in FY 2001-02 was negative $1.1 billion, with almost $600 million coming from the income tax. In the current fiscal year, the revenue variance is expected to be about $388 million negative, with a negative $421 million coming from the income tax and the gain coming from all other taxes.

Putting the deficit and state fiscal crises in context

Taken another way, the budget problems facing states are worse than were seen in 1992. In that year, 35 states had to cut a total of $4.5 billion to right their budgets. Ten years later, 37 states had to cut $12.6 billion. Like Connecticut, states used a variety of means to close their budget holes in FY 2001-02 and continue to do so into this fiscal year, including across-the-board cuts, tax increases, tapping Rainy Day Funds, lay offs, early retirements, bond postponements, one-time revenue plugs and securitizing tobacco monies. Tax and fee increases enacted just in FY 2001-02 in all states roll out to exceed $8 billion in FY 2002-03.

State Spending Cuts
A National Perspective

- 26 states enacted across-the-board cuts
- 26 states used "Rainy Day" funds
- 15 states laid off employees
- 5 states used early retirement programs
- 13 states reorganized programs
- 31 states used other methods including postponing large projects, securitizing tobacco money and freezing hiring

State Revenue Problems
A National Perspective

- Revenues fell by 6% last fiscal year
  - First absolute fall in state revenue since 1945
- Overall, personal income, corporate income and sales tax receipts were 9.7% lower than expected in FY 02
  - Sales tax collections were 3.2% lower
  - Personal income taxes were 12.8% lower
  - Corporate income taxes were 21.5% lower
- FY 03 Receipts will also be less than expected

Connecticut finds itself in slightly better shape than it was ten years ago, however. Back in FY 1990-91, the state registered an actual deficit of $965 million, or 14.5 percent of general fund expenditures. The gross deficits for this and last fiscal years combined do not exceed 10 percent. This fiscal year the state is facing a gross deficit of about 5 percent of the general fund and the Governor has a plan to mitigate the deficit entirely. Next fiscal year's current services budget gap is about $2 billion, or about 15 percent of projected current services general fund expenditures. While seemingly huge, the structural problems ten years ago were still worse.

And when compared with other states, Connecticut is not as bad as many. When taking into account deficit mitigation actions the Governor can do within his own authority, the state's deficit actually stands at about 3.9 percent, or $475 million. Neighbors such as Massachusetts (3.1 percent) and New Jersey (4.7 percent) have already substantially mitigated their deficits through major cutbacks. Massachusetts has already put off income tax reductions and actually increased its income tax. New Jersey increased its corporate tax in a variety of ways in excess of $800 million. In addition, New Jersey has closed part of last fiscal year's and this fiscal year's gaps through controversial tobacco settlement securitization, something Governor Rowland has strongly resisted as a penny-wise-and-pound-foolish decision.

State Revenue Enhancements
A National Perspective

- 23 states enacted tax and fee increases
  - Total increase will be $8.3 billion in FY 03
    - $1.4 billion in sales tax increases
    - $1.2 billion in corporate tax increases
    - $1 billion in personal income tax increases
- 19 states enacted tobacco tax increases, most by fifty cent per pack or more
  - Expected to increase revenue by $2.9 billion
- 2 states increased motor fuel taxes

FY 2003 Budget Gaps

	January Estimate (In Millions) FY '03	Percent
Alaska	747.8	30.0%
California	8,500.0	11.0%
Colorado	803.0	13.2%
Connecticut (1)	**478.0**	**3.9%**
Idaho	154.0	7.9%
Indiana	800.0	7.6%
Massachusetts*	650.0	3.1%
Nebraska	174.0	6.6%
Nevada	198.3	9.8%
New Jersey*	1,100.0	4.7%
New York	2,500.0	6.3%
Oklahoma	291.7	6.5%
Oregon	900.0	16.0%
South Carolina	348.2	6.4%
Texas	1,795.6	5.8%
Virginia	950.0	7.7%

(1) Reduced to reflect actions taken by Governor

*Number represents remainder of deficit. Portion already has been mitigated.

The other states shown on the accompanying table have deficits well in excess of Connecticut's. And in almost all cases, structural gaps that each of these states face in FY 2002-03 are far worse as well.

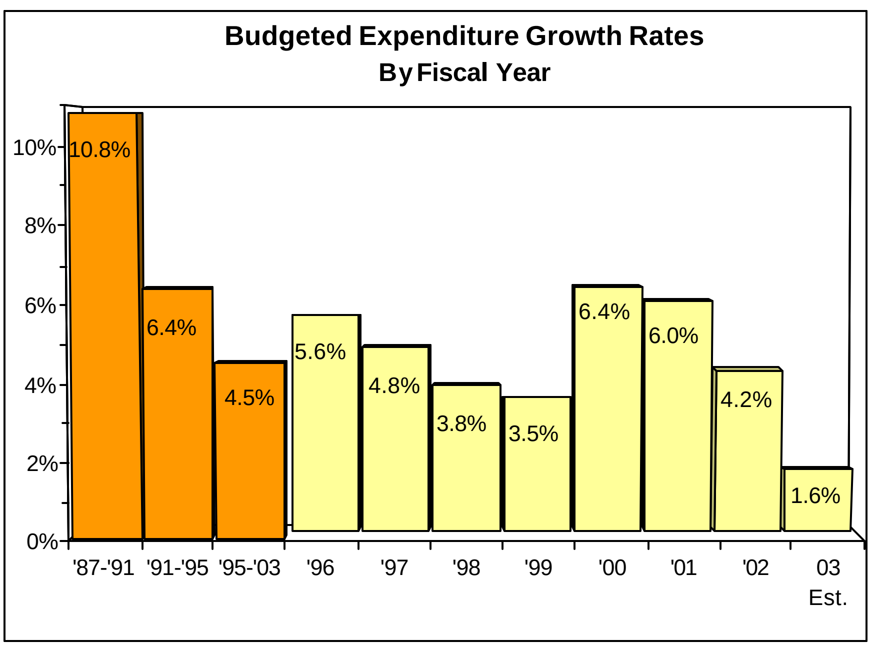
Thank goodness for the spending cap

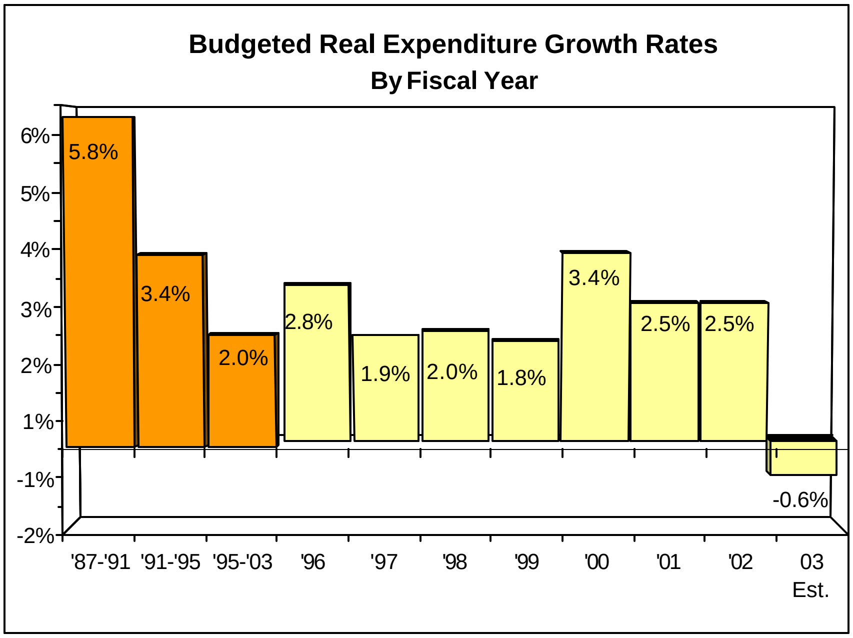
As dire as the state's finances are right now, if not for the constitutional spending cap passed back in 1991 the fiscal crisis we face would be far worse. No doubt, many will accuse the Governor of being inflexible moving forward on the spending cap, but its importance has never been more clear despite the deficits we face.

While the Governor did agree to exceed the spending cap on several occasions during the mid to late 1990s, he did so only to allow our large surpluses to be expended primarily for one-time purposes, such as debt avoidance. The hallmark of the agreements to exceed the cap was that no dollars would be added to the spending base and used to create new programs.

And the cap did what it was supposed to. As the accompanying chart shows, it held annual spending growth to between 1.6 percent and 6.4 percent over the past eight years. That was despite revenue far exceeding those growth rates for several years. This compares to the outlandish double-digit growth the state registered in the late 80s and early 90s, when the state's personal income was dropping to below 3 percent.

It is clear that the spending cap is not a perfect mechanism. After all, we have a deficit. But it did preclude even greater deficits and more substantial fiscal problems. For example, in the two fiscal years before the deficits began to occur – FY 1999-00 and FY 2000-01 – actual general fund revenue grew 16 percent over the two years. Because of the spending cap, the budget grew just over 12 percent in that time frame. That difference is several hundreds of millions of dollars in potential increased spending if the cap did not exist. Extrapolated over the eight years of the Rowland administration, it is clear that our fiscal problems would have been at least twice as bad as they were in the last fiscal year and the current fiscal year if not for the presence of the spending cap. Further, next fiscal year's daunting hole could have been $3 billion to $4 billion.





It is for these reasons that the Governor is steadfast in his objection to violating the spending cap or even changing the current statutory definitions. No good could come of it.

Both a spending and revenue problem

Much has been said of late about the revenue problem the state faces over the next two fiscal years. True, there is a huge gap between current services spending levels – the required spending if no law were changed – and anticipated revenues under current law. In fact, for FY 2003-04, the gap in the general fund is about $2 billion. In the following year, the structural problem in the general fund is over $2.5 billion.

It is clear that the revenue side of the budget is the biggest reason for the gap. At one time, income tax revenues were destined to reach the $5 billion mark. Today, we are struggling to stay above the $4 billion mark. The steep falloff in revenue due to the collapse of the stock market spawned declining revenues across the state budget and a gulf between expenses and revenues. In effect, despite a return to growth on the revenue side, the structural base has been markedly reduced.

But if the revenue side is a problem, so is the spending side. You see, even if the revenue base had stayed artificially high for the foreseeable future, we still could not afford the services our current laws call for. The attached chart shows the huge increases in various large items of the budget: state employees and retiree health care are expected to grow in excess of 20 percent next fiscal year. Medicaid, the biggest single item in the budget, is growing at a rate of almost 9 percent. Overall, current services growth in the general fund is 12.6 percent.

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	532.9	28.3	5.3%
Medicaid (Excluding DSH)	2,709.9	235.3	8.7%
Education Cost Sharing	1,516.3	74.7	4.9%
Grants to Towns (excluding ECS)	560.3	143.7	25.6%
All Other (Net)	1,311.9	162.6	12.4%
Total	12,111.9	1,520.8	12.6%

Thus, even if revenues were still growing at 7, 8, or 9 percent per year, we would still have a structural gap of hundreds of millions of dollars because spending growth would be outpacing even vigorous revenue growth. That says that spending is as much a part of the problem as revenues in the current financial situation and must be reined in.

And a spending cap problem as well

Policy-makers can argue about whether the problem is more on the revenue or spending side when discussing the gap between current services revenues and expenditures for next fiscal year. But in many ways, that debate is meaningless when you begin looking at the spending cap for the two fiscal years of the biennium. The constitutional spending cap essentially demands that spending be reduced from current services by at least $1 billion over the two fiscal years of the budget.

As was noted above, the FY 2003-04 current services gap in the general fund is about $2 billion. But the constitutional spending cap will only allow a blended capped and uncapped growth next fiscal year of just over 6 percent (about 5.3 percent for capped expenditures), against current services growth of about 12.5 percent. Current services growth across all funds outpaces allowable overall growth in expenditures by $763 million in the first year of the biennium. That necessitates cuts under current law in the current session of that much just to meet the constitutional mandate.

The Governor has always argued that sufficient room must be kept under the cap when the budget is passed to allow for customary deficiency spending. Over the past five years, deficiencies have averaged about $100 million. Thus, in the first fiscal year of the biennium, the Governor would always seek a budget that is at least $100 million under the spending cap. That means that spending from current services would need to be reduced by at least $863 million across all funds in year one.

Current Services Gaps
(In Millions)

	FY 2003-04	FY 2004-05
General Fund		
Estimated General Fund Revenue	11,625.4	12,077.0
Current Services	13,632.7	14,617.8
Revenue Gap	(2,007.3)	(2,540.8)
All Appropriated Funds		
Allowable Capped Appropriation	14,036.3	14,765.0
Current Services	14,799.5	15,819.6
Cap Gap	(763.2)	(1,054.6)

That is almost half of the entire structural shortfall. Suddenly, the Governor's proposed $1 in revenue increases for $1 in spending reductions make sense. In fact, in this current situation, the constitution dictates such a compromise. Anything substantially different, as some Democrats are pushing – greater tax hikes and minimal spending reductions – runs right smack into Article XXVIII of the Amendments of the State Constitution, which was passed 4 to 1 by the electorate in 1992.

In year two, the spending cap dictates reductions of over $1 billion across all funds from current services, over $1.1 billion if you allow sufficient room for deficiencies. This points even more to the fact that spending is as much of the problem as a lack of revenue.

Bond rating at risk

The need to provide structural balance through revenue increases and spending cuts in the biennial budget is an absolute necessity if we are to preserve the state's bond rating. A lower bond rating could mean tens of millions of dollars in increased debt costs decades into the future and it would put a further stranglehold on the amount of discretionary resources in the budget. As is, the state's debt service as a percentage of total expenditures is expected to increase dramatically because of the FY 2001-02 deficit financing notes and burgeoning school construction costs.

Thus far, the nation's bond rating agencies have stuck with Connecticut. In December, the nation's three premier bond rating agencies held Connecticut's AA bond rating because the Governor had submitted a deficit mitigation plan that closed the current fiscal year deficit and reduced the structural gap in FY 2003-04 and beyond by about one half.

But the agencies sent stern warnings. In December, Standard and Poor's stated that: "Any significant revenue deterioration not offset by expenditure adjustments or revenue enhancements could cause a change in the rating." Further, it stated: "Achieving structural budget balance in Fiscal 2004 and beyond will be necessary to maintain the current rating."

That same month, Fitch Ratings indicated that: "Adoption of balancing plans with recurring benefits is critical to the rating."

While all three agencies have listed Connecticut on their negative outlooks (which is a precursor to a possible downgrade), Moody's this month put Connecticut on its watch list for a possible downgrade, a more formal step toward a lower rating. It noted Connecticut's "lack of progress in addressing its structural budget imbalance" as one reason for placement on the watch list. It further noted that "the steps the state is taking to restore structural balance and replenish its reserves" are critical components in its evaluation for a potential downgrade.

Thus, passing the Governor's deficit mitigation for the current fiscal year and taking seriously the need to provide structural balance moving forward will be critical to keeping our state's strong credit rating and avoiding even higher debt service costs moving forward.

Reducing one-time fixes

As noted earlier, 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. In an effort to control the current year deficit and balance the books, total one-time revenues are expected to rise to about $544 million before fiscal year's end.

While this will hopefully close the entire deficit and avoid bonding for a second year in a row, the practice of using one-time revenues to the tune of 4.5 percent of the general fund is a poor fiscal practice. This budget ensures that we make the structural changes on both the expenditure and revenue side 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 dramatically over the next several years.

Indeed, the best economic data available suggests that a double-dip recession is by no means out of the question, especially if the threat of war drags on for some time. While less likely, the country, too, could enter a deflationary cycle, which could spell doom to long-term economic growth and state revenue increases. At any rate, under the best of circumstances, personal income growth is expected to be sluggish for the foreseeable future, in some part due to the stock market. While national prospects are somewhat better, Connecticut personal income growth was 6.5 percent in FY 2000-01 and is expected to only rebound to approximately 5% in both years of the biennium and fall below 5 percent in the two fiscal years beyond. While Connecticut's unemployment rate is traditionally lower than the national average, a relatively jobless recovery is expected to set in and unemployment is slated to be relatively high for the next several years. Real gross state product is not projected to exceed 3 percent before FY 2006-07.

These factors clearly show that the economic conditions of the near term will not be what they were just a few short years ago. They will be characterized by modest revenue growth at best, calling for extreme caution and sincerity in crafting the state budget.

At last, the entitlement mentality may be waning

For years now, policy-makers in Connecticut and other states have enacted unfettered state and federal entitlement programs in state law. But the recent fiscal crises throughout the states have led to a sea of change. States by the dozens have begun reining in burgeoning entitlement programs. Already, at least 40 states, including Connecticut, have implemented significant Medicaid reforms. At least 22 states have reduced Medicaid benefits. At least 25 states have restricted Medicaid eligibility.

At least 16 states have established or increased co-payments. Beginning two years ago, Connecticut began enacting all of these strategies.

Dealing With the FY 02 and FY 03 Deficits
Medicaid & Pharmacy Reductions

- Most common cost containment plan is to slow the increase in pharmacy spending
- At least 40 states have or will implement Medicaid spending controls
  - At least 29 states will implement reductions or freezes in provider payments
  - At least 22 states will adjust Medicaid benefits
  - At least 25 states will restrict Medicaid eligibility
  - At least 16 states will establish or increase co-payments

While it will be open to criticism, this budget continues that trend. It eliminates one entitlement program in the state and further restricts benefits and eligibility in two others. Given the spiraling health care inflation the nation is experiencing, state government can no longer be all things to all people. The state cannot continue providing health benefits to every needy person that are actuarially well above private sector health plans. Simply put, either the benefits must be reduced if everyone is to be served or populations must be eliminated to continue providing gold-plated benefits.

While current federal rules generally push states to eliminate coverage groups if it is to save large dollars, Governor Rowland has been working with other Governors to reform the Medicaid system to bring Medicaid benefits more in line with the private sector. While his budget does propose total elimination of certain eligible groups and benefits, he is working to rationalize the Medicaid system so that it may in the future serve needy clients with fair, equitable and cost-effective benefits.

Changes in Medicaid Benefits/Eligibility
And Prescription Drug Programs

- Medicaid benefits were reduced in 22 states in FY 02 and/or FY 03

AZ	CA	CT	DE	FL	GA	ID	IN
IA	KS	MA	MS	MO	MT	NH	NM
NC	RI	SC	TX	UT	WV		

- Medicaid eligibility was reduced or restricted in 25 states in FY 02 and/or FY 03

AK	AZ	CA	CO	CT	DE	GA	IL
IN	KS	MA	MI	MN	MS	MO	NE
NH	NJ	ND	ND	OH	PA	UT	WA
WV							

- Co-payments for health care services other than Rx were instituted or increased in 16 states in FY 02 and/or FY 03

AZ	CA	DE	IL	KY	MA	MI	MS
NH	OH	OR	RI	TX	UT	VY	WV

Where does the money go?

An equally important part of the budget discussion centers around the equity of spending cuts. For the past several months the Governor has argued that there is a real need for labor concessions. Indeed, by looking at major expenditures in the general fund for the current fiscal year, the need is even clearer.

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	2,709.9
HUSKY	22.3
SAGA/DMHAS GA/ConnPACE	233.0
Hospital DSH/Psychiatric DSH	209.2
Education Cost Sharing	1,516.3
Other Payments to Local Governments (Excludes ECS)	560.3
Inmate Medical Services	73.3
All Other Programs	1,133.1
Total Estimated General Fund Expenditures	$12,111.9

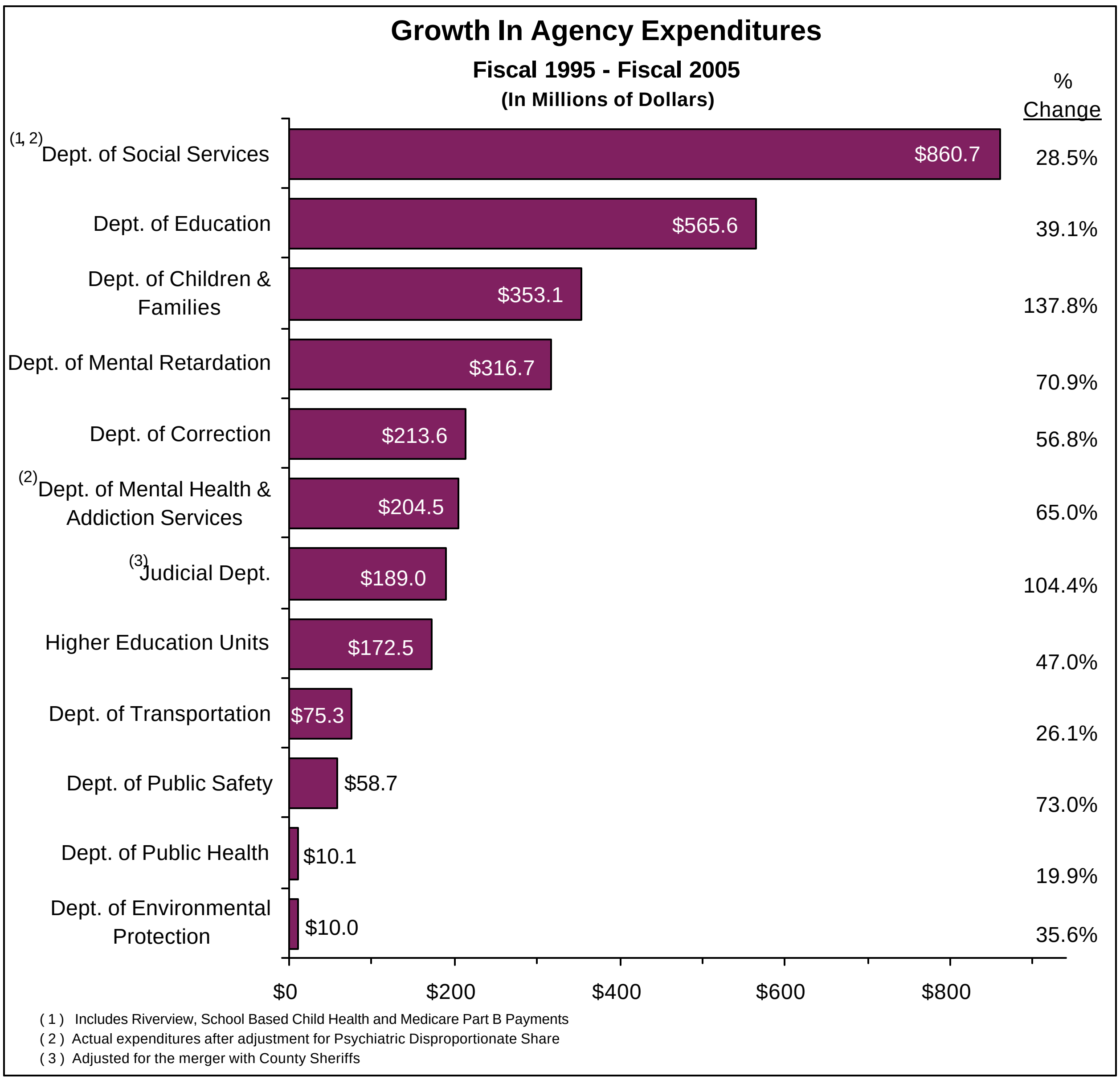
Total personnel costs and fringe benefits in the general fund amount to over $3.6 billion this fiscal year in the general fund. That is about 30 percent of general fund spending. At about $1 billion, debt service accounts for about 8 percent of this fiscal year's general fund. Private providers account for just over $1 billion as well. Various entitlements amount to over one quarter of the general fund, with local aid at about 17 percent.

In the current fiscal year, state aid reductions have occurred and aid will be severely constrained next fiscal year. As was already discussed, entitlement spending is being reined in, in part by removing certain individuals from the rolls. While debt service will increase for a variety of reasons next fiscal year, a moratorium on discretionary bonding has already occurred. Private provider rate increases have been minimal the past several years and will continue to be so in the future.

With this as the backdrop of the other major areas of spending, is there any doubt that the roughly one-third that represents labor costs in the general fund must be on the table. The equities of asking the state's labor unions for givebacks on wages and health care benefits are clear. Given the sheer magnitude of the costs in the general fund, the financial necessity is obvious as well.

A record to be proud of

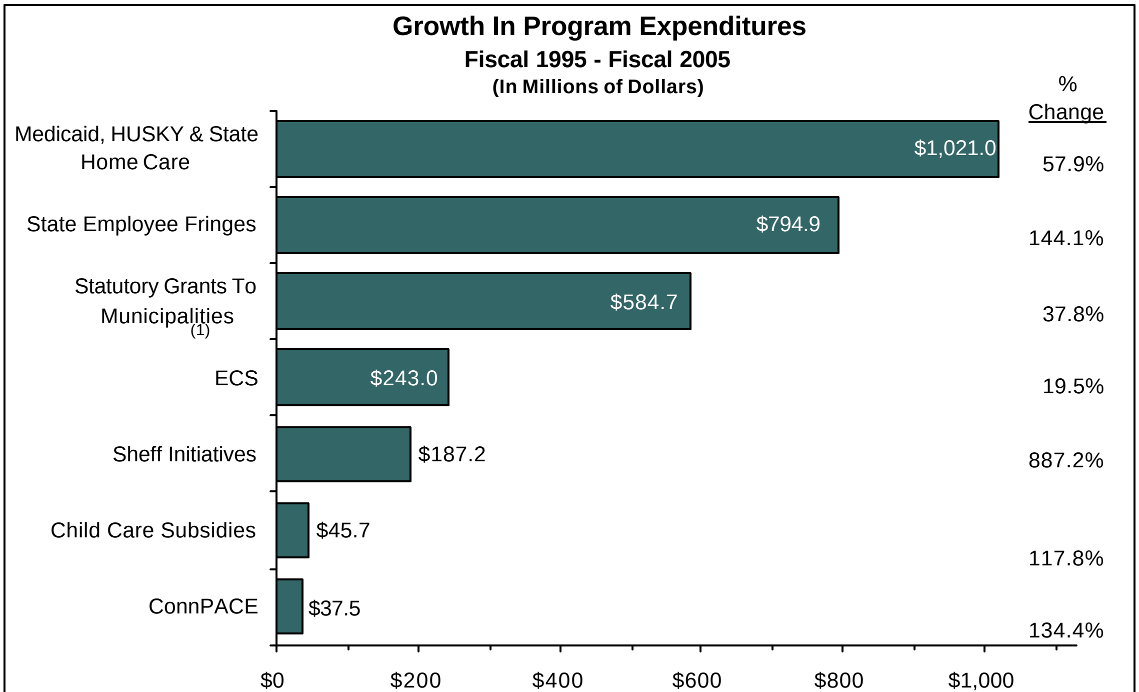
Advocates and special interests will almost assuredly claim that this budget proposal will decimate critical services. They will argue that the spending cap must be redefined to allow for even greater tax increases than are called for here. But let us put the proposed spending reductions in perspective with the major funding initiatives and program expansions over the past eight years.



First, while there are real cuts in this budget, many of the reductions in this budget amount to reductions in proposed increases. Further, on the whole, the accompanying charts show that investments throughout state government will still be significant, even with modifications in the coming biennium.

The point is that the real spending cuts or the reductions here do not significantly rollback or gut most of the important initiatives developed jointly by Governor Rowland and the legislature. We will still have one of the best social safety net infrastructures in the nation. Our educational investments remain among the top in the nation in lower and higher education areas. And many investments continue on through the biennium. The facts are:

- We will have hundreds more troopers on the streets than we had a few years ago.
- Major expansions in children's health care will continue to occur.
- A new home care entitlement was crafted and assisted living was created for lower and middle-income residents. Those rolls only get bigger.
- Innovative welfare reform programs have meant tens of thousands have entered the work force and are now self-sustaining. Those programs will continue.
- ConnPACE has been expanded and added almost 16,000 people over the last year. The rolls will continue to grow.
- Almost $200 million, not including construction, will have been put into reducing racial isolation and improving urban education.
- The child welfare system will have seen a $350 million increase in a decade.
- Higher education units will have seen their budgets grow by almost 50 percent. The significant bond commitments will continue on well into the future.
- Statutory grants to towns will still have increased by almost $600 million. Further, Governor Rowland has invested heavily in school construction grants and Clean Water projects. The generous programs in these areas have saved towns tens of millions of dollars. Few states reimburse 20 to 100 percent of local school construction projects. While most states offer market rate loans to aid towns in refurbishing sewage plants, Connecticut offers a 20 to 30 percent outright grant, with the balance loaned at just 2 percent. Hundreds of millions more in economic development grants have been invested in the state's most distressed urban communities.



(1) '95-'96 - Start date because of ECS & regular Special Education Grant mergers

It's a record to be proud of and stay mindful of as we tackle the first budget deficits since the early 1990s.

The feds are cutting taxes, the state raising them – what gives?

To augment the nation's longstanding monetary policy approach, President Bush has embarked on an aggressive fiscal policy in Washington to stimulate the economy. The hallmark of that plan has been a $1.35 trillion tax cut plan over a ten-year period. Principal among the tax cuts are major income tax reductions for all income earners and the phaseout of the federal inheritance (estate) tax. Recently, the President announced yet another fiscal stimulus plan amounting to almost $700 billion over about a decade. For the most part, the latest plan simply accelerates the original income tax reductions, but also proposes to eliminate the double-taxation of dividends.

While the state will lose over $200 million in tax revenue because of the federal changes – principally due to the loss of the federal estate tax revenue sharing – Governor Rowland remains committed to the Bush plan. Because of Connecticut's wealth, the state benefits disproportionately from fiscal stimulus on the tax side. Connecticut is just over 1 percent of the national population, but estimates by the Office of Policy and Management suggest that Connecticut will receive the benefit of between 2 and 2.5 percent of all the tax cuts at the federal level.

Indeed, despite some minor loss of revenue to the state, the Bush plan boosted 2002 calendar year disposable income for all state residents by about $600 million. In the current year, disposable income just under the plan already signed into law will be up $1.3 billion. By 2010, under the original plan Connecticut residents will see their disposable income increase by $4.6 billion annually – that is over 3 percent of current state personal income. The original plan's 10-year gain for Connecticut is between $20 billion and $33 billion. The latest plan will mean further increases in annual disposable income between now and 2010.

Estimated 10-year Gain for Connecticut's Taxpayers due to President Bush's Enacted Tax Cut (In Millions)

Income Year		Gain
2002	$	600
2003	$	1,300
2004	$	1,800
2005	$	2,700
2006	$	3,500
2007	$	3,700
2008	$	4,000
2009	$	4,300
2010	$	4,600
Total	$	26,500

So why then is the state talking about increasing taxes at this point? The fact is that the federal government can deficit spend while all states but one are constitutionally required to balance their budgets. In poor economic times, then, states do not have the advantage of practicing fiscal stimulus policies. Their goal is to ensure that state tax policies are favorable over the long haul.

Further, the state must weigh the necessity to keep its bond rating and balance the books against the negative of tax increases. It seems clear that tax increases that do not put Connecticut at a competitive disadvantage are far preferable to the budgetary and economic chaos that would be caused by long-lasting structural gaps in its state budget.

Could the state balance its budget without tax increases? Unlikely, because the political realities of a bipartisan government also dictate that a balanced mix of tax increases and spending cuts is the only way to arrive at a consensus and get the job done.

Liquidating the FY 2002-03 Deficit

As noted earlier, 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.

In December, the Governor proposed a responsible deficit mitigation plan that would have liquidated the current fiscal year's deficit and reduced next fiscal year's gap in half. Unfortunately, the Democratic majority in the legislature failed to act for a period of months and eventually passed a plan, vetoed by the Governor, that was far too heavy on tax increases and had minimal spending cuts. In addition, a number of the revenue items would have placed Connecticut in a competitive disadvantage moving forward.

Governor Rowland is proposing yet another deficit mitigation plan for the current fiscal year. It includes spending reductions that are similar to his earlier plan. As for the revenue side, the Governor is proposing to accelerate implementation of his biennial budget revenue plan. It is essential that the legislature act immediately on the Governor's deficit reduction plan if the FY 2002-03 budget is to end the year in balance. In fact, the plan actually has the budget ending in the black with a deposit of almost $29 million into the Budget Reserve Fund.

How did the deficit come about?

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.

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)

- 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, was 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 corporate profitability because of downsizing in the private sector.

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)

On the spending side, as the accompanying chart shows, the state is expecting that expenditures will exceed budgeted appropriations by about $140 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.

- 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.

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**

In addition, expenditures on a gross basis would be another $94 million over budget because of the lack of labor concessions from state employee unions. 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 $100 million in concessions for the current fiscal year. As can be seen below, 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 a proposed early retirement plan.

Governor's new deficit mitigation plan

The gross deficit for the current fiscal year stands at about $628.3 million, but there are a number of measures that the Governor has already taken and others that he can take within his own authority to reduce the deficit to about $474.8 million. These include cuts of $150.5 million:

CLOSING THE FY 2002-03 DEFICIT
(In Millions)

Estimated Deficit 2/27/03	(534.3)
With no Labor Concessions	(94.0)
Total Gross Deficit	(628.3)
November Allotment Rescissions	27.9
Revised Deficit	(600.4)
January Allotment Rescissions	39.4
Revised Deficit	(561.0)
Tax Changes Effective 4/1/03	358.2
Revised Deficit	(202.8)
Eliminate Oil Companies Transfer to STF	20.0
Revised Deficit	(182.8)
Layoff Savings	23.0
Revised Deficit	(159.8)
Lapse Balance of Section 58 Funds (FY 01 Surplus)	12.0
Revised Deficit	(147.8)
Early Retirement Plan	21.2
Revised Deficit	(126.6)
Lapse Uncommited Reserve for Salary Adjustment Dollars	29.5
Revised Deficit	(97.1)
Lapse Unsettled Contract Dollars	18.7
Revised Deficit	(78.4)
Expenditure Reductions to be Implemented prior to 4/1/03	
Reduce P.I.L.O.T. Machinery & Equipment	20.0
Reduce Town Aid Road and Transfer Dollars to General Fund	12.5
Reduce Mashantucket Pequot Payments	50.0
All Other Expenditure Changes	29.0
Revenue Loss Due to Expenditure Changes	(4.6)
Total	106.9
Revised Operating Balance	28.5
Transfer to Budget Reserve Fund	(28.5)
Revised Balance 6/30/03	0.0

- November allotment rescissions of $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.

- January allotment rescissions and agency forced lapses of $39.4 million. The forced lapses are justified for a number of reasons. The constitutional spending cap, as interpreted by the Attorney General in a standing opinion from 1993, indicates that there must be sufficient revenue available if the legislature is to make a supplemental deficiency appropriation. At the present time, there is not sufficient revenue to appropriate for the $135 million plus in deficiencies that must be funded by the end of the fiscal year.

Without such deficiency appropriations, important payments and programs that are relied on by clients would have to be shut down for lack of funding. So it's clear, especially because the deficit situation has not been resolved, that agency heads must do all they can to identify whatever resources are available in discretionary spending areas that can either be transferred within their agency to areas with deficiencies through the Finance Advisory Committee process or to other agencies with deficiencies through legislative action later this fiscal year.

- 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. Approximately $29.5 million in RSA monies have been identified that are not immediately needed. Given the state's fiscal crisis, the state will argue in the collective bargaining process and binding arbitration that no monies are available for these activities because balancing the budget had to take precedence.

- 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. The administration will argue in negotiations and binding arbitration that the monies previously set aside had to be used to avoid a deficit and no monies are available for ongoing raises for these unsettled units. Because of the lack of reasonable labor concessions, 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.

- The Governor is also proposing to lapse the remaining $12 million in FY 2000-01 surplus that has been carried forward for several years for various purposes. The accompanying chart shows impacted programs, among them the elimination of two housing reimbursement programs for municipalities, monies for the regional workforce development boards, monies for recreational fishing, biomedical research grants, arts and cultural grants, and monies for alternatives to incarceration. While these reductions are difficult to make, these programs have not yet begun and the deficit needs to be mitigated to the greatest extent possible.

- The layoff of approximately 3,000 workers during the fiscal year in various funds and programs is expected to save the general fund about $23 million in FY 2002-03.

The Governor proposes to close the remaining $474.8 million through the following legislative actions:

- Eliminate the entirety of the $20 million transfer of the petroleum gross earnings tax to the Special Transportation Fund. The STF has a current balance of about $190 million and is projected to carry healthy balances for the next several years. This will be a one-time intercept of these monies, which historically had gone into the general fund.

- Implementing a "three-chip" Early Retirement Incentive Program beginning April 1 and running through June 1, which will save $21.2 million in the current fiscal year. The program is described in greater detail later in this summary. The program is roughly consistent with the Governor's earlier proposal outlined in December, except that three free chips toward age or years of service now are being offered as opposed to December's offer of two free chips and one purchased with vacation days.

Proposed Tax Increases - 2003 Session
(In Millions)

	Effective	FY 2002-03
Increase Income Tax rates by 0.5%	1/1/03	$ 267.1
Sales Computer & Data Processing Services at 3%	4/1/03	4.9
Reduce Clothing & Footwear Sales Exemption to $50	4/1/03	8.2
Impose 10% Corporate Surcharge in IY 2003 & 2004	1/1/03	22.8
Increase Cigarette tax from $1.11 to $1.51 per pack	4/1/03	27.0
Increase Real Estate Conveyance Rates	4/1/03	10.0
All Other		1.6
		$ 341.6

- If passed immediately and put into effect by April 1, the Governor's revenue enhancement plan for the upcoming biennial budget would raise $358.2 million in the current fiscal year. The revenue enhancements are described later in this summary, but include a one-half percentage point increase in the income tax for all filers, a $100 reduction in the property tax credit for all filers, a 40-cent increase in the cigarette tax, various sales tax increases, removal of several corporate tax credits and a two-year surcharge, an increase in the cable gross receipts tax and increases in the real estate conveyance tax.

- Various spending reductions, modeled in part after the Governor's December plan, that would save a net $106.9 million (after a small loss of federal reimbursement of $4.6 million) if passed immediately. Details are shown in the accompanying chart, but the major reductions include:

    - Reduce reimbursements to towns for the machinery and equipment tax abatement (PILOT M&E) by $20 million.
    - Reducing Town Aid Road payments by $12.5 million.
    - Reducing the Mashantucket Pequot and Mohegan grant to towns by $50 million.
    - Eliminating adults on Medicaid between 100 and 150 percent of poverty effective April 1 to save $4 million.
    - Eliminating presumptive, continuous and guaranteed eligibility (all of which are optional coverage groups under federal law) in Medicaid effective April 1 to save $700,000.
    - Various reductions in pharmacy reimbursement and institution of new or increased co-pays, supply restrictions and asset restrictions in Medicaid and ConnPACE to save about $5.5 million.
    - Eliminate General Assistance effective April 1 to save $16.1 million.

These legislative actions add up to $506.3 million, allowing for a transfer of $28.5 million into the Budget Reserve Fund at the end of the fiscal year.

Impact of Governor's February 27th Deficit Mitigation Plan
On the General Fund Biennial Budget
(In Millions)

Program Savings	FY 2002-03	FY 2003-04	FY 2004-05
Eliminate cash and medical assistance under SAGA	16.1	109.4	145.9
Eliminate medical coverage for approximately 27,000 adults	4.0	54.9	65.9
Institute a $1 co-pay under Medicaid fee-for-service for certain medical services	2.8	11.1	11.7
Eliminate presumptive, continuous and guaranteed eligibility and self-declaration	0.7	7.2	12.0
Reduce prescription reimbursement from AWP-12% to AWP-13.5%	1.6	6.4	7.0
Limit ConnPACE prescriptions to a 30 day supply	1.1	4.4	4.6
Increase the co-pay for all ConnPACE enrollees from $12 to $15	0.9	3.5	3.4
Reduce pharmacy dispensing fee from $3.85 to $3.50	0.6	2.6	2.8
Institute an asset test in ConnPACE ($50,000/singles, $75,000/couples)	0.2	2.5	4.2
Limit the number of extension under TFA to two	0.1	2.4	5.7
Reduce income eligibility for Transitional Child Care to 50% state median income	0.2	1.2	1.1
Eliminate the state-funded Food Stamp program for non-citizens	0.3	1.2	0.9
Eliminate the pass through of the federal Social Security COLA under AABD	0.5	0.5	0.5
Increase funding for the DSH program (including Dempsey Hospital)		(60.0)	(60.0)
Total	29.0	147.2	205.7

Because of the prohibition under the constitution and the statutes against appropriating for deficiencies if there is insufficient revenue, Governor Rowland is proposing to cover deficiency spending through the transfer of lapses, rescissions, prior year surplus monies and recommended legislative reductions.

A balanced approach

The deficit mitigation plan outlined above offers a balanced approach to this fiscal year's deficit. All told, tax increases add up to $341.6 million, with $266.1 million coming from spending cuts embodied in layoffs, early retirements, lapsing of collective bargaining monies, and reductions in municipal aid, entitlements, and discretionary spending. Just $49.1 million comes from one-time transfers of revenue.

Thus 41 percent of the plan comes from spending reductions in one form or another, and 52 percent comes from tax increases. It's fair; it's equitable; and it balances the budget this fiscal year. The spending cuts and tax increases also roll out to significantly reduce next fiscal year's structural gap as well.

The Economic Outlook

While we don't suffer from the absolute malaise of some ten years ago, the nation and Connecticut clearly face an uncertain future. Unlike some of the recessions that were all about the fundamentals of the economy, our not-so-certain recovery hangs in the balance waiting for a clear signal from some external forces.

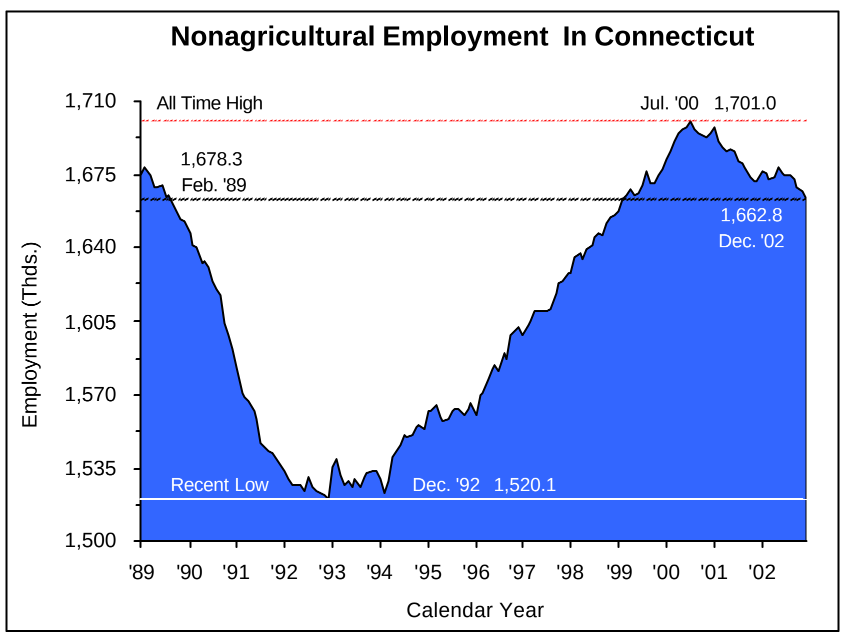
Consumer spending, which accounts for about two-thirds of gross domestic product, has been remarkably resilient. In essence, while business confidence and investment has suffered, consumers became the sole supporting pillar of the economy over the past two years. Without consumer buying power since 2000, the recession would have been far more pronounced.

Historically low interest rates – they are at 40-year lows – have meant a boom in refinancing, which in turn has made up for lost wages and work hours and bolstered purchasing. Rapid increases in home prices offset declining equity markets in the minds of some consumers. Car lease deals and zero percent financing have also helped embolden the economy.

Indeed, there has been a huge disconnect between consumer confidence measures and actual activity. People are pessimistic – consumer confidence recently hit a 1993 low – but are buying despite their skepticism about the prospects of the economy and their futures. Moderate inflation – and it is expected to continue – has helped sustain economic activity as well.

Here in Connecticut, this recession has been fundamentally different from the last one. The economy is now diversified, which has meant a more moderate impact. Job losses continue, but have been far less severe than those of the early 1990s. Despite the flogging state residents took in the stock market, Connecticut's relative wealth has meant weathering the storm as well as most other states, despite suffering from personal income growth of below one percent last fiscal year because of the continuing market erosion. Personal income growth should rebound to 2.8 percent in the current fiscal year.

Business starts, especially small entrepreneurial ones in the industries of the future, have helped sustain the state's economy. Because of low interest rates, housing starts, although they have moderated from their peak, continue to be strong. Like the national trend, new car registrations have exceeded all expectations despite the downturn.



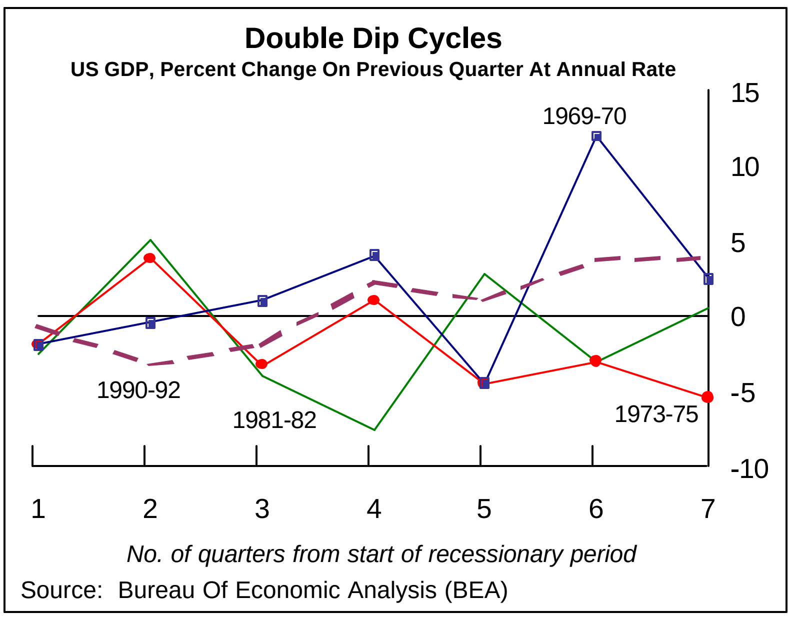
During the last recession, the state lost about 158,200 jobs in a four-year period. Connecticut reached an all-time high in terms of nonagricultural employment in July of 2000, with 1.701 million jobs in the state. 180,900 jobs had been created since the last recession. Since that peak, and through December of 2002, the state has lost about 38,200 jobs. Because of the state layoffs and continued layoffs in the private sector, the job losses will undoubtedly reach well over 40,000 and push 50,000. Still the losses are moderate compared with the last recession. Indeed, at this point, the state still has gained back more than 90 percent of the jobs it lost during the 1990s recession.

The job erosion is minimal, but at the same time Connecticut trails all New England states in terms of jobs gained back since the last recession. Connecticut sits below the 100 percent mark, while all other New England states are between 125 percent and 300 percent.

What does the future hold?

As was noted in the introduction, much of what Connecticut and the national economy were up against the past few years was spawned by events very much beyond our control. Business cycles are not dead – and part of the recession was the normal ups and downs of an economy. But so much more came into play as well. The stock market bubble burst, caused by the huge run up of information technology stocks, the telecom bust and corporate fraud and abuse. On the heels of the markets' correction came the fallout of the events of 9/11 and the nation's economy fell back into a slumber. And as noted earlier, the anticipation of war with Iraq is battering confidence.

From a national perspective, the recession and sluggish recovery now appear to be longer than the early 1990s downturn. We are in a so-called funk. Indeed, the best economic data available suggests that a double-dip recession is by no means out of the question, especially if the threat of war drags on for some time. It should be remembered that double-dip recessions are the norm, not the exception; five of the last six recessions ended up being double-dip ones, with two of them actually being triple-dippers.



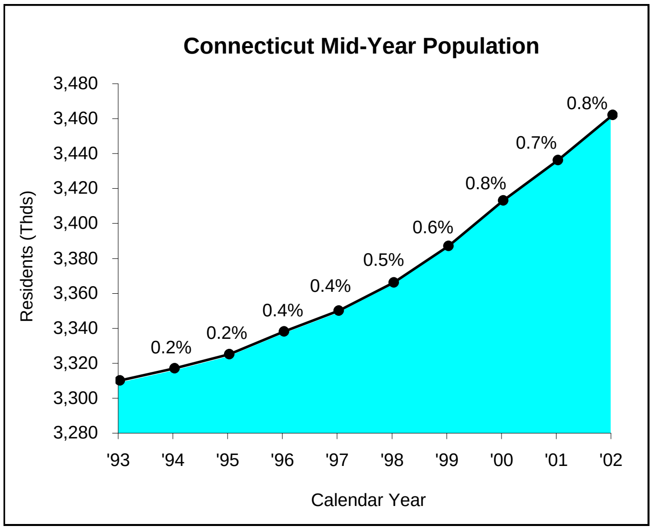
Quarterly gross domestic product growth has seen ebbs and flows, with some quarters showing healthy growth and others coming precariously close to falling into recession. The fourth quarter of 2002 ended up at just 0.7 percent growth. At various points, consensus forecasts suggested that that quarter's growth would be as much as 2.9 percent. It was most recently revised down to 1.6 percent. The consensus forecast for the first quarter of 2003 is 2.7 percent, which some economists suggest is entirely too rosy. The fits and starts may be a sign that the economy is ready to move forward, but they could also signal the fundamental uneasiness over the external forces at work.

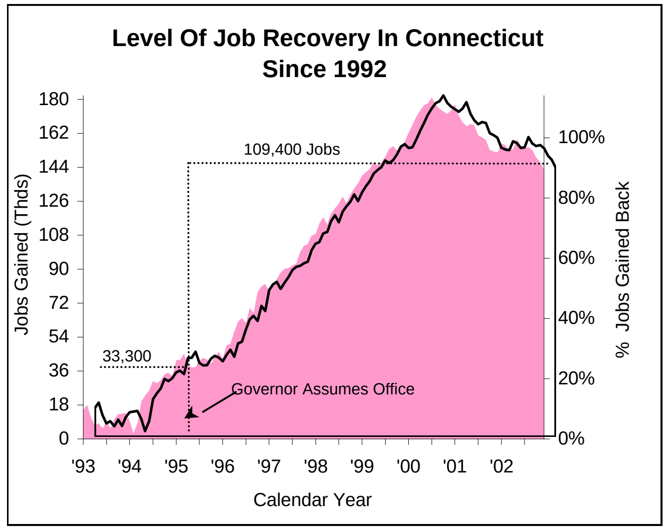
And while even less likely, the country, too, could enter a deflationary cycle, which could spell doom to long-term economic growth and state revenue increases. Falling prices already are evident in certain measures and sectors of the national economy. A deflationary cycle as in Japan and what could emerge in Germany would complicate the nation's recovery.

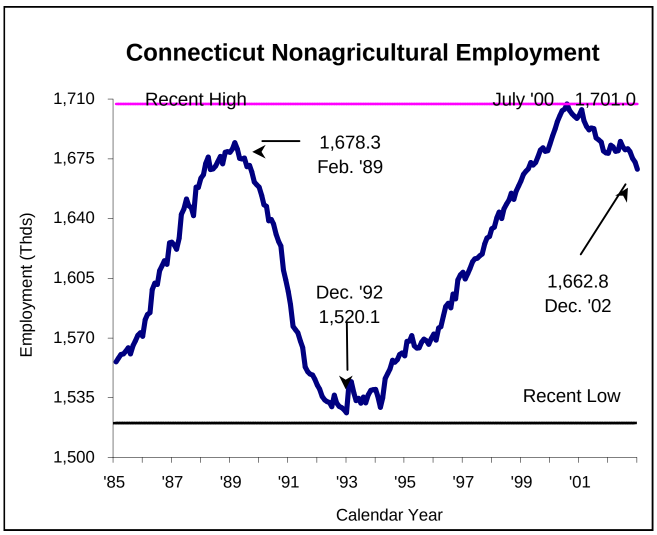
Few economists are predicting a double dip or deflation. The best that can be predicted right now is that any recovery over the next several years would appear to be moderate and prolonged. That is so for many reasons.

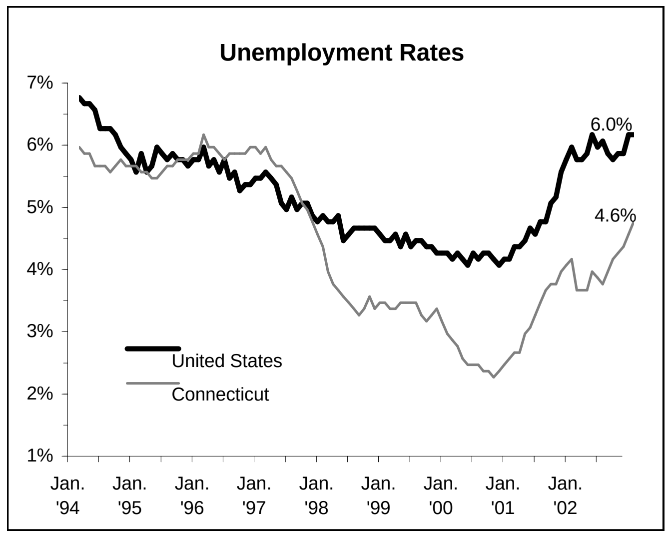
Consumer debt is close to all-time highs and it is unlikely that the consumer can sustain the economy as he did over the past several years, especially as savings rates appear to be increasing for fear of another downturn. And, after all, how many homes can you refinance and how many cars can you really buy?

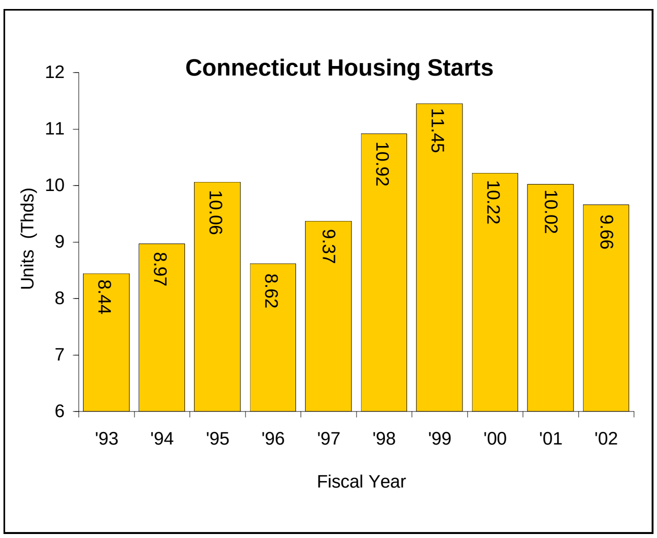
Connecticut at a Glance

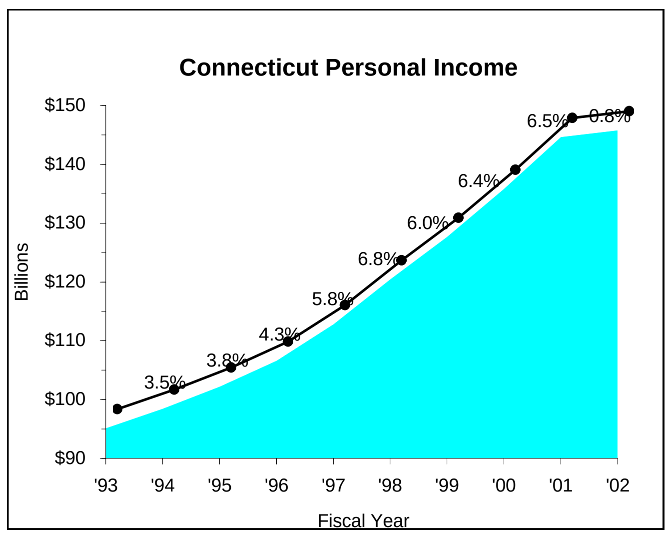




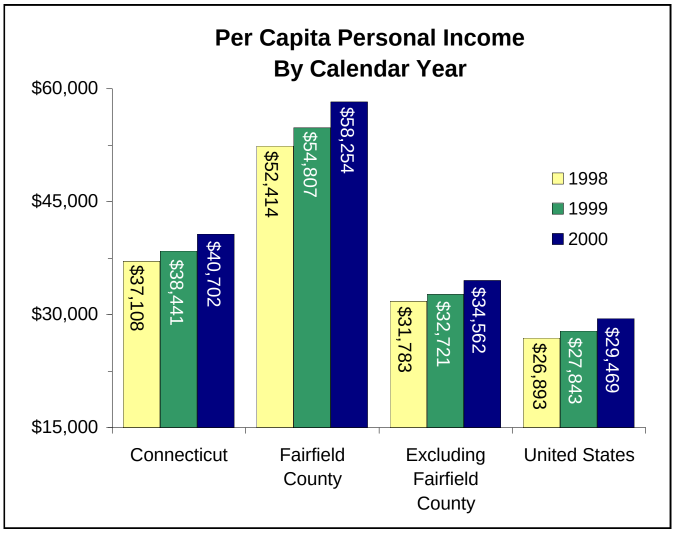








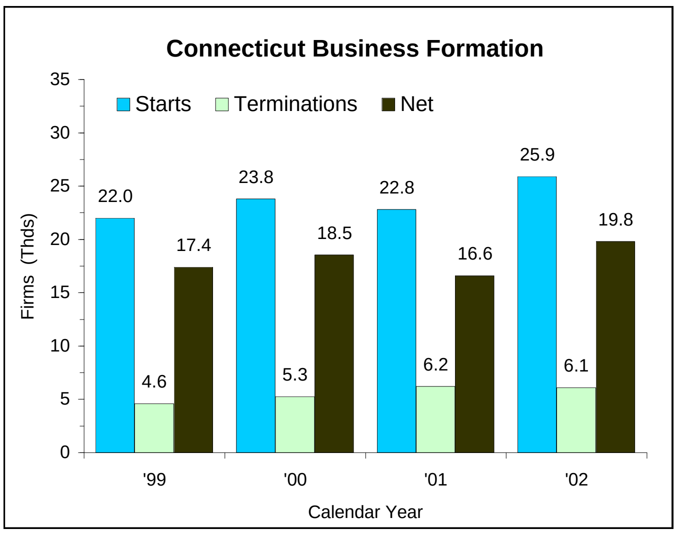
Connecticut at a Glance

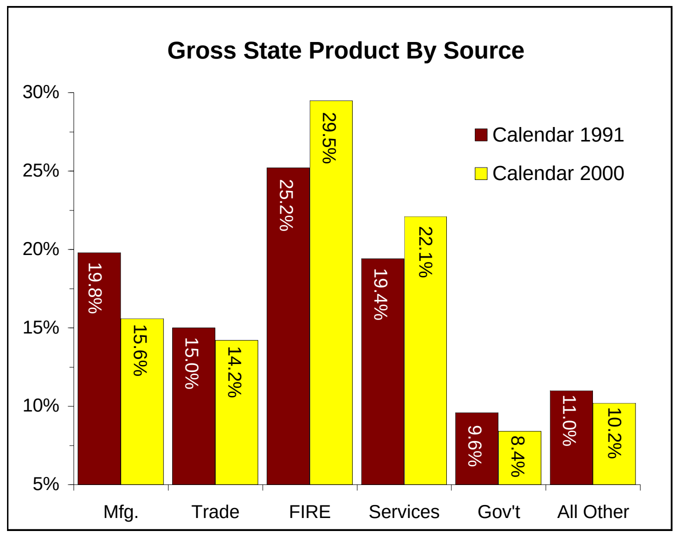


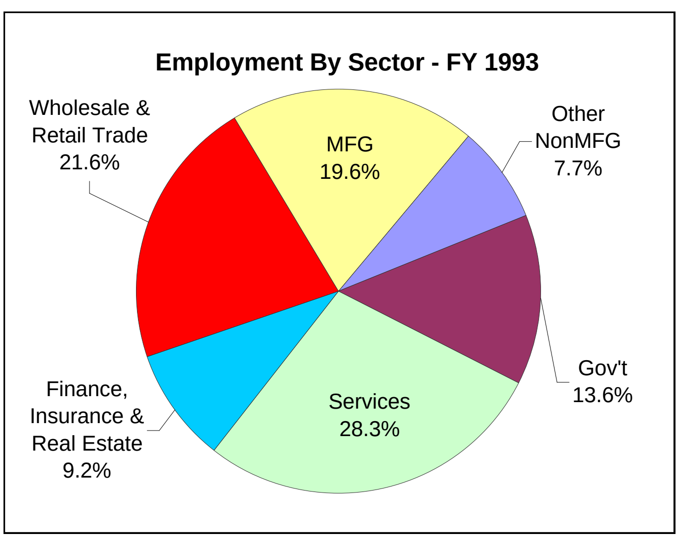
Per Capita Personal Income Fiscal 2002 Rankings

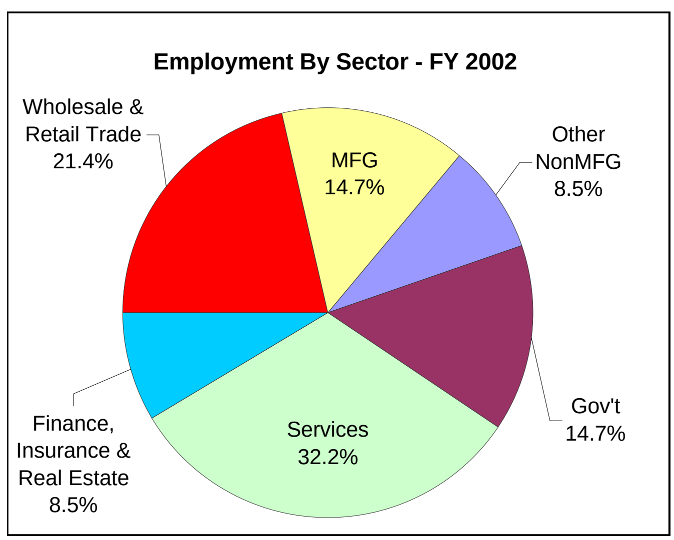
Rank	State	Per Capita Income	Rank	State	Per Capita Income
1.	**Connecticut**	**$42,143**	46.	Utah	$24,010
2.	Massachusetts	$38,653	47.	New Mexico	$23,439
3.	New Jersey	$38,650	48.	West Virginia	$23,313
4.	New York	$35,618	49.	Arkansas	$23,190
5.	Maryland	$35,295	50.	Mississippi	$22,071

U.S. Average = $30,451 - making CT 1.38 times the U.S. Average.

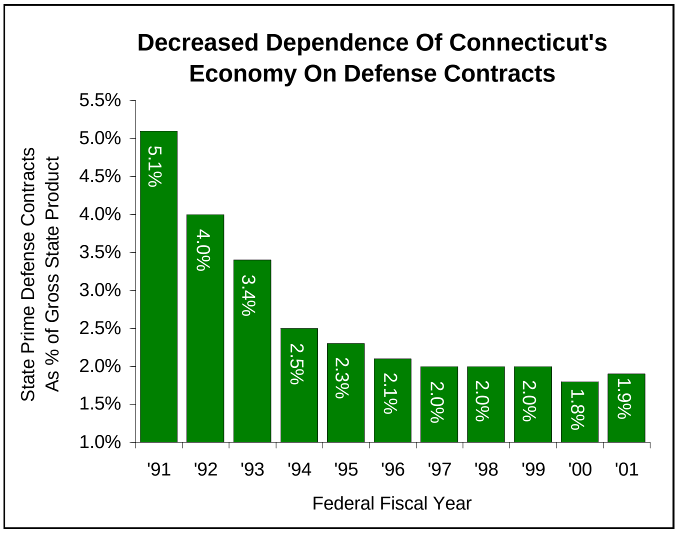








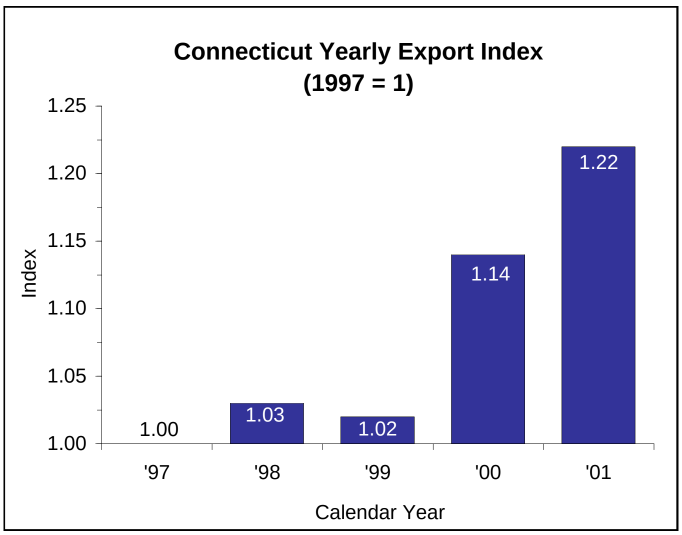
Connecticut at a Glance

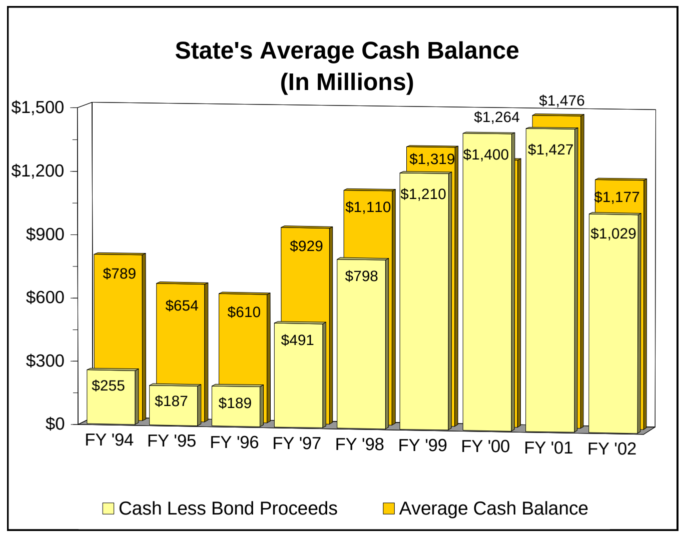


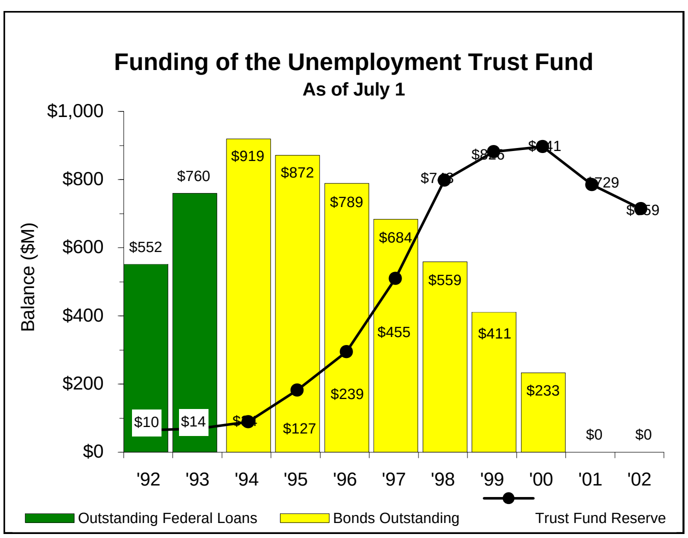
Major Corporate Headquarters In Connecticut
National Rankings By Revenues

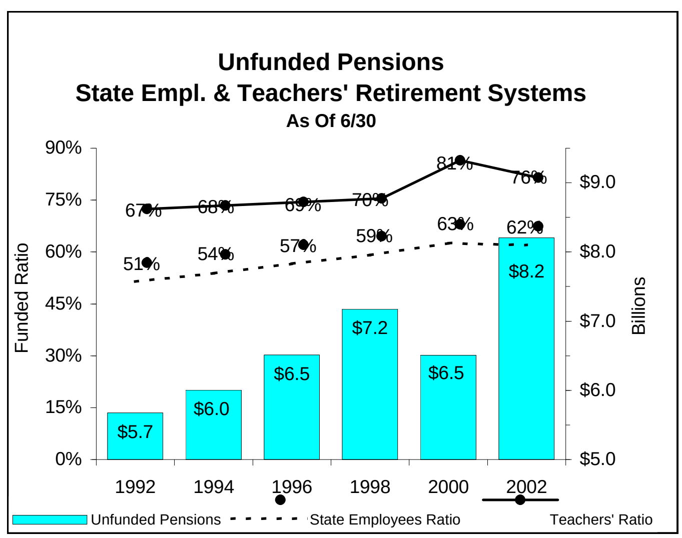
	Company	Rank		Company	Rank
1.	General Electric	6	8.	Praxair	336
2.	United Technologies	59	9.	Pitney Bowes	352
3.	International Paper	66	10.	Oxford Health	372
4.	Aetna	74	11.	Meadwestvaco	411
5.	Xerox	120	12.	Ames Dept. Stores	445
6.	Hartford Financial	134	13.	Emcor Group	459
7.	Northeast Utilities	273			

Source: FORTUNE Magazine, "500 Ranked Within States" (4/15/02) Calendar 2001









Not so fast, you say. Indeed, while monetary policy would appear to be less and less likely to effectively sustain the economy, the President's $1.35 trillion tax break plan should continue to add disposable income to the state and nation. Any acceleration of those benefits passed due to his second almost $700 million proposal will be icing on the cake. In Connecticut, we are talking about billions added to the economy each and every year.

Still, even with the fiscal stimulus, consumer moderation will probably be the order of the day for the next several years. Further, a budding federal deficit due to war costs and the tax stimulus could lead to higher interest rates over time. In addition, the collective state budget deficits and concomitant tax increases could play a role in offsetting some of the federal stimulus.

The supply management index looks to be stabilizing above the expansion mark of 50 – a sign that business confidence appears to be rising and that purchasing and business activity should return. Businesses have shed jobs and profitability has returned as well. But business equipment and software investment, which had been a driver for the economy in the 1990s, declined in both 2001 and 2002 and capital spending still remains low. It is hoped that business investment accelerates as time progresses. U.S. leading economic indicators appear on the rise.

But it appears that productivity gains, not vigorous job growth, will predominantly drive the economy and business expansion. Job creation should start picking up in the second half of 2003 nationally if war anxiety is left behind. But more than ever, it appears we are looking at a relatively jobless recovery in the nation and especially in Connecticut. Consequently, in our state, job losses are expected to push a total of 48,000 through the middle of 2003 and unemployment rates are expected to remain fairly constant on average for the next several fiscal years, dropping to below 4 percent only by FY 2006-07. Indeed, seasonally adjusted average weekly unemployment claims appear headed for a third substantial peak in Connecticut. The unemployment rate is expected to peak at 4.7 percent by the last quarter of FY 2002-03.

For all of FY 2002-03, job losses are expected to amount to 13,400, with slight recovery of 7,100 jobs coming in FY 2003-04. Job gains should amount to almost 30,000 in FY 2004-05. As is usually the case, the state's unemployment rate is slated to remain well below the national average.

It is expected that there will be ongoing weakness in the state's manufacturing sector, while jobs are added in high skill, high-income fields such as biotechnology, information technology and health services along with lower paying jobs in retail trade.

Utility and energy prices are rising profoundly, in part due to a general strike in Venezuela and the Iraq situation. Add that to the threat of war and equity unease, and business confidence could be choked off.

One bright spot may be the prospects for increased exports. Exports took a drubbing the past few years as most of the world's economies slumped into low growth or recession. With growth appearing on the horizon in most developed countries, exports should recover. And the rapid depreciation of the dollar, especially against the euro, has the hidden benefit of making our exports that much more competitive. This bodes well for Connecticut, which has been heavily reliant on exports for gross state product in recent years.

Under the best of circumstances, personal income growth is expected to be sluggish for the foreseeable future, in some part due to the stock market. While national prospects are somewhat better, Connecticut personal income growth was 6.5 percent in FY 2000-01 and is expected to only rebound to approximately 5% in both years of the biennium and fall below 5 percent in the two fiscal years beyond. National personal income growth will outpace the state's on average about 1 percentage point annually in the near term.

As is the case with personal income growth, the state's real gross state product (GSP) gain is expected to lag the nation's real gross domestic product (GDP) gains in the near term. Connecticut's real GSP is not projected to exceed 3 percent before FY 2006-07. Real GDP is expected to grow 3.9 percent in FY 2003-04, 4.2 percent in FY 2004-05 and then taper off thereafter.

In large measure our lagging job growth, personal income growth, and GSP growth are a function of the major displacement caused by the equity market adjustments.

It should be noted that the state tends to lead the nation going into recession and lags behind the subsequent recovery by almost two quarters. This appears to be the case even today despite the Connecticut economy's convergence with national trends. Nonagricultural employment in Connecticut started to decline nearly three quarters before the start of the national recession in March 2001. Thus, it is still a safe bet that any solid recovery will be evident at the national level before it is so here.

A slew of uncertainties

There are a slew of uncertainties out there that will determine whether the economy moves forward with a modest recovery or dips back into recession. In the end, however, all of them tend to rest on two factors:

- The equity markets – Will the markets end their daily up and down swings and begin to proceed on a consistent course upward? Despite heavy corrections the past few years, price to earnings and other ratios tend to show that the market is still relatively overvalued when compared with historic trends. Are we in an era of higher valuation or will further corrections occur? That question may dictate the course of business and consumer confidence and investment.
- The threat of war – A fallback into recession will not be decided so much by the price of war. The federal budget and economy could withstand a price tag of up to $200 billion, as some recent projections suggest an Iraqi engagement might cost. It is the waiting game that is causing the most angst among businesses and consumers alike. Will the war be short and can we get back on with our lives? Or will the war be drawn out and drain our vibrancy? If the war some ten years ago is any measure, it is the former; but the anticipation factor threatens to destroy the nascent recovery.

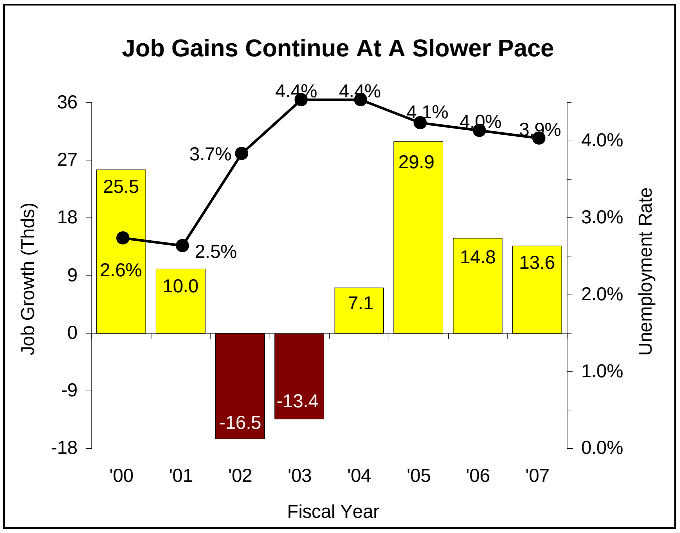
What Does the Future Hold?

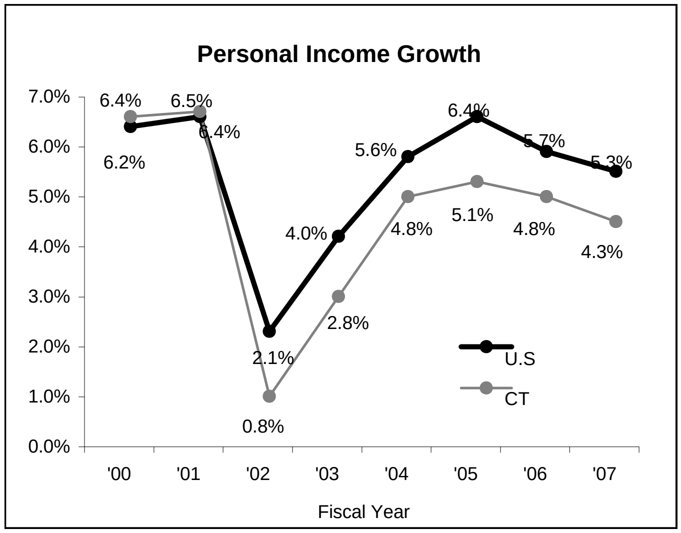
Connecticut Economic Indicators

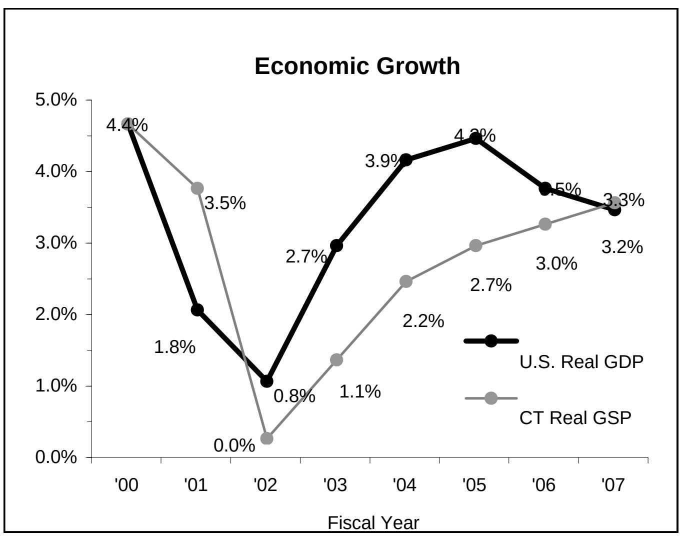
	FY '02	FY'03	FY '04	FY '05	FY '06	FY '07
Personal Income	0.8%	2.8%	4.8%	5.1%	4.8%	4.3%
Employment	-1.0%	-0.8%	0.4%	1.8%	0.9%	0.8%
Unemployment	3.7%	4.4%	4.4%	4.1%	4.0%	3.9%

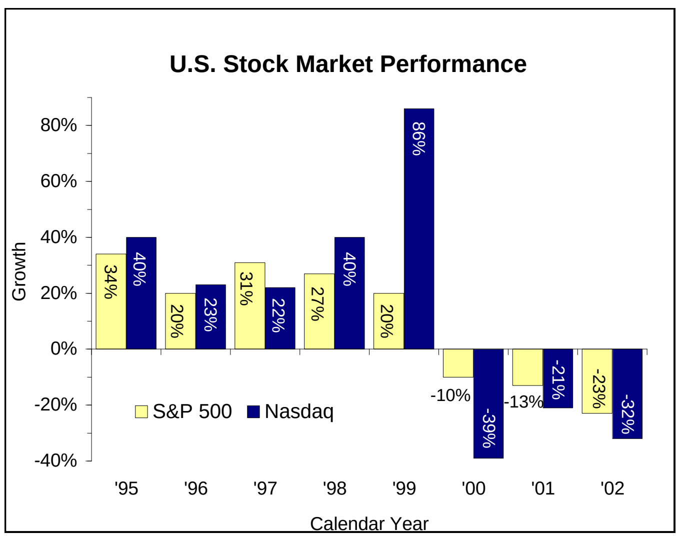
U.S. Economic Indicators

	FY '02	FY'03	FY '04	FY '05	FY '06	FY '07
G.D.P.	2.6%	4.3%	6.3%	6.7%	5.6%	5.1%
Real G.D.P.	0.8%	2.7%	3.9%	4.2%	3.5%	3.2%
Personal Income	2.1%	4.0%	5.6%	6.4%	5.7%	5.3%
CPI	1.8%	2.1%	2.4%	2.5%	2.2%	2.1%

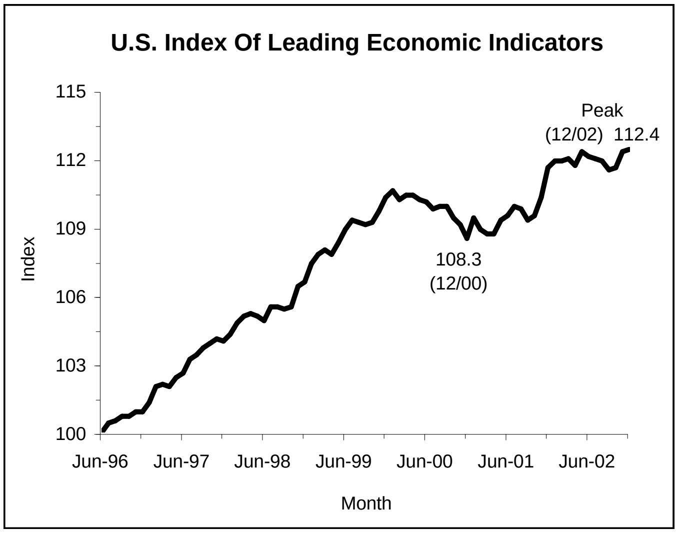


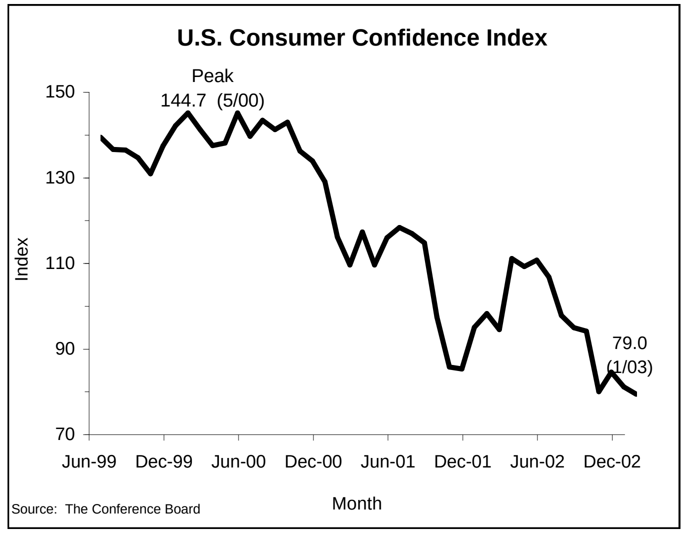


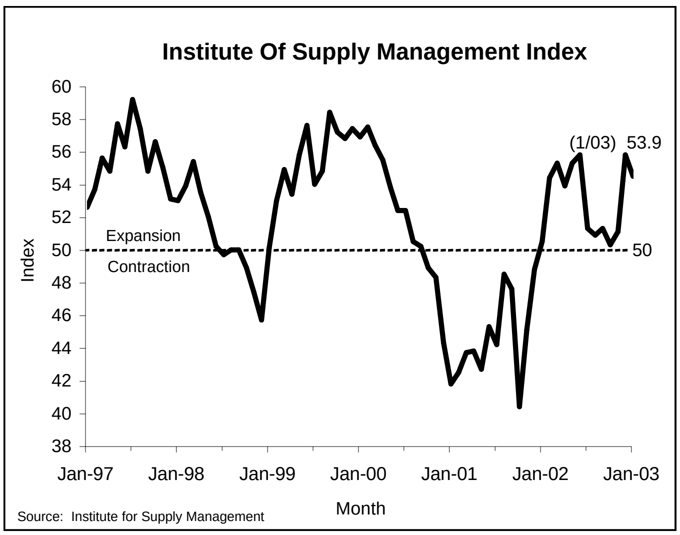


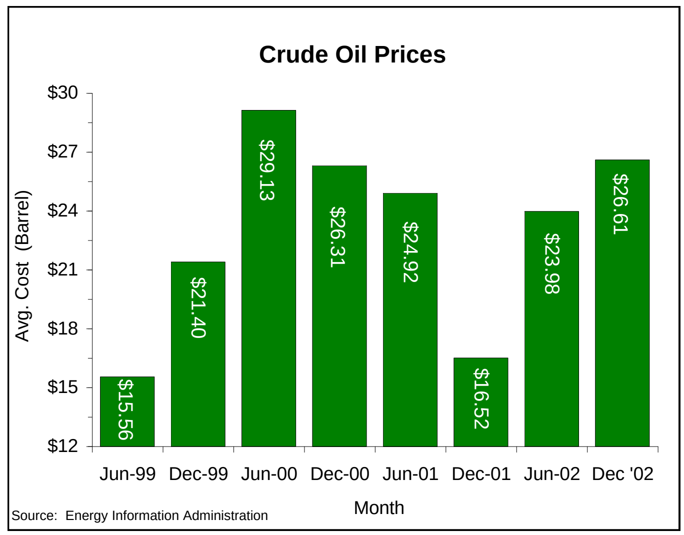


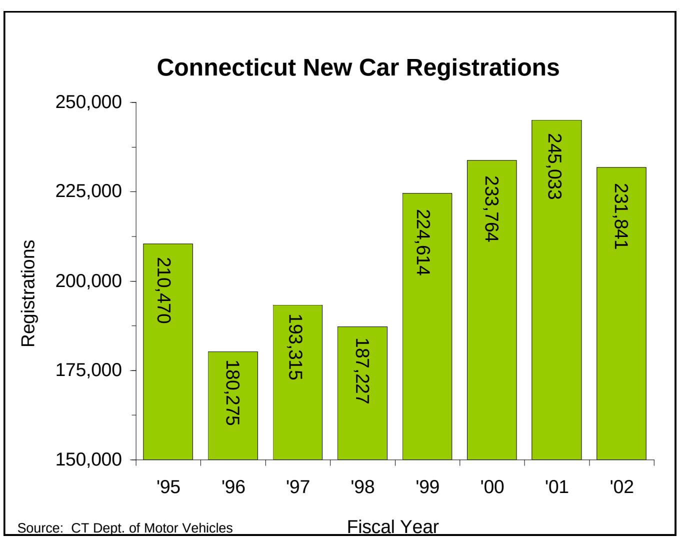
What Does the Future Hold?

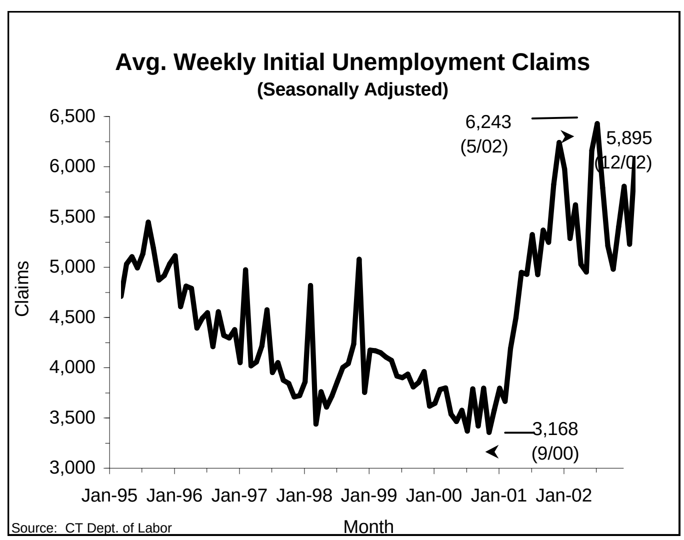












The FY 2003-05 Biennial Budget

As outlined earlier, in addition to the $628 million projected deficit in the current fiscal year, the structural gap faced in the general fund for FY 2003-04 is just over $2 billion and the one faced in the second year of the biennium is over $2.5 billion.

Further, current services calculations against allowable spending growth under the constitutional cap necessitates reductions in spending across all funds of about $800 million in the first year of the biennium and over $1 billion in FY 2004-05.

Given the magnitude of the gap and the constraints presented by the spending cap, Governor Rowland is proposing hundreds 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 adding in deficiency spending, the loss of a portion of the $94 million labor lapse, all gubernatorial reductions, and proposed reductions in this document, estimated expenditures for all appropriated funds for the current fiscal year are $13.165 billion -- a reduction of $53 million. The final FY 2002-03 all funds expected growth rate from FY 2001-02 actual expenditures is projected to be 1.6 percent. In real terms, the growth is minus 0.6 percent.

General fund appropriations for FY 2002-03 passed by the legislature last session were $12.092 billion. After adding in deficiency spending, the loss of a portion of the $94 million labor lapse, all gubernatorial reductions, and proposed reductions in this document, estimated general fund expenditures for the current fiscal year are $12.112 billion – an increase of $20 million. This minimal increase is despite a labor lapse loss of $50 million and about $140 million in additional requirements expected this fiscal year. The final FY 2002-03 general fund growth rate from FY 2001-02 actual expenditures is projected to be 1.7 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.

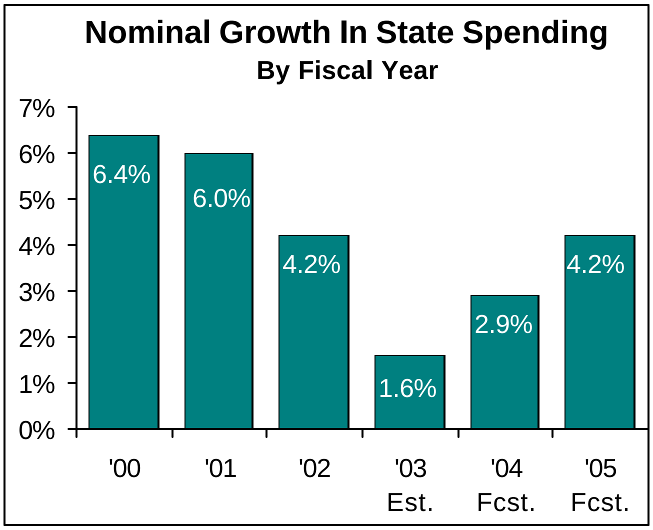
Appropriated Funds Of The State
(In Millions)

	Estimated FY 03	Recommended FY 04	Recommended FY 05
General Fund	$12,111.9	$12,476.5	$13,026.4
Special Transportation Fund	888.9	898.8	921.9
Mashantucket Pequot & Mohegan Fund	77.5	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	$13,164.5	$13,542.7	$14,116.4

The FY 2003-04 all funds proposal represents an increase of $378.2 million from estimated expenditures this fiscal year, or just 2.9 percent. In real terms, the growth is just 0.4 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.

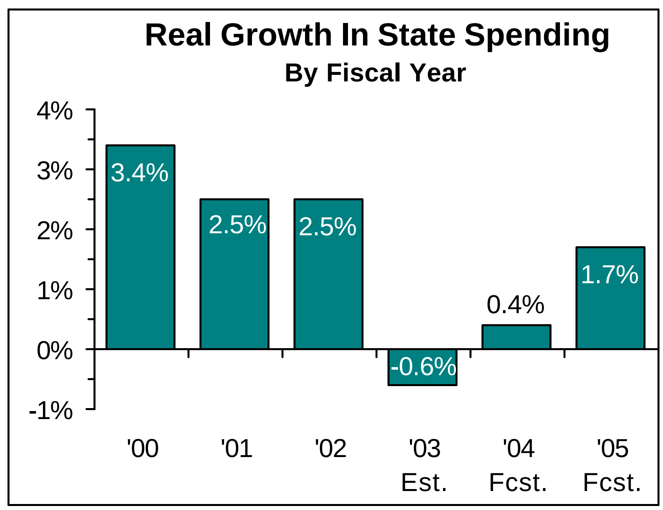
The FY 2003-04 general fund proposal represents an increase of $364.6 million from estimated expenditures this fiscal year, or just 3 percent. The FY 2004-05 general fund proposal represents an increase of $549.9 million over the recommended level for FY 2003-04, or a percentage increase of 4.4 percent.



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 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.

State Deficiencies

FY	Amount
2003 *	$135.2M
2002	$93.0M
2001	$139.8M
2000	$68.2M
1999	$27.7M
5 Yr. Avg.	$92.8M

* Estimate

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 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 2.9 percent all funds growth rate for FY 2003-04 puts the proposed budget at $301.7 million below the spending cap. In FY

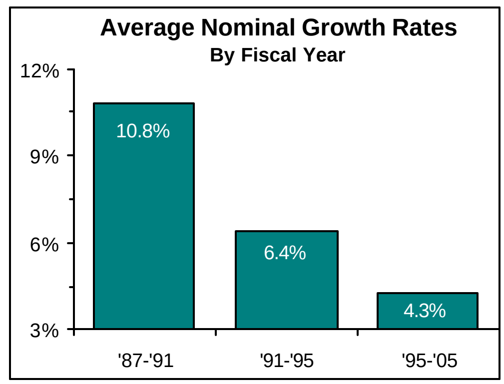
2004-05, the proposal is $65.6 million below the cap, which might have to be modified in the adjustment year to push the amount closer to $100 million below.

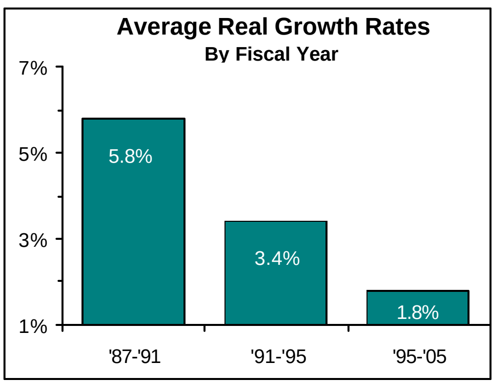
Biennial Budget Spending Plan (In Millions)

	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	13,844.4	14,182.0
Recommended Appropriations	13,542.7	14,116.4
Amount Over/(Under) Cap	(301.7)	(65.6)

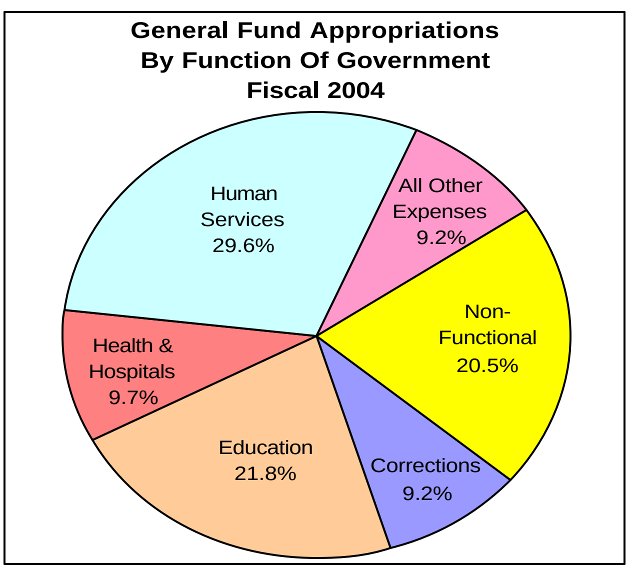
The frugality of this fiscal year's and next fiscal year's budget are important components of the Governor's plan. Over these two years, state expenditures will increase just 4.5 percent. This continues an exemplary record of cost-containment under the Rowland administration. The total average annual 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.

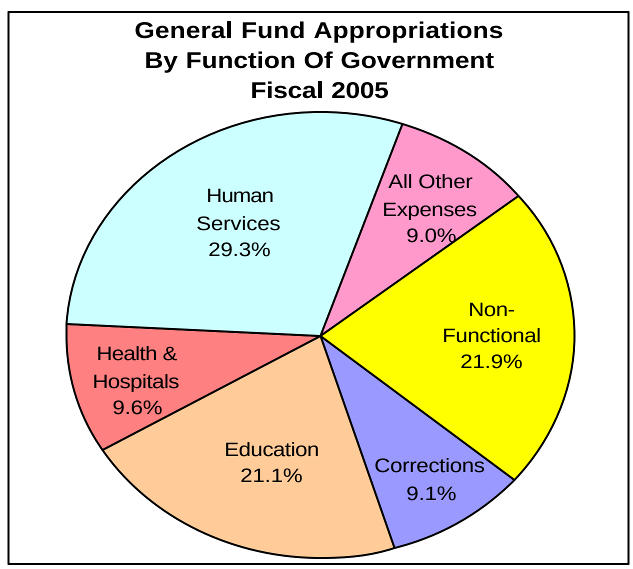
Inflation adjusted average annual spending growth under Governor Rowland is just 1.8 percent for the ten budgets, compared with 3.4 percent under Governor Weicker and 5.8 percent from FY 1987-91.





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.





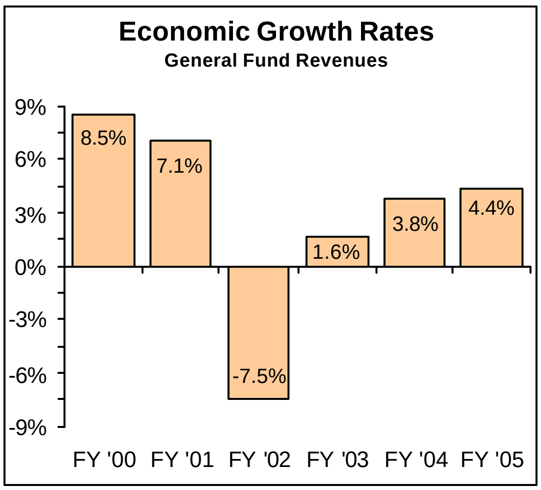
Revenue forecasts

The revenue side of the budget is based on prudent and realistic assumptions. As was outlined in the economic outlook section of this document, 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, but it should be remembered that they are based on extremely sluggish growth rates – or contraction – 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.

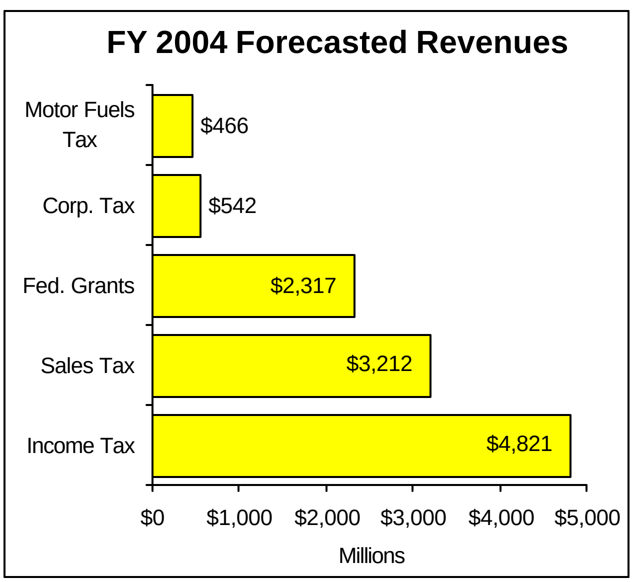
And because of the uncertainty surrounding the equities markets, the revenue assumptions assume only a modest rebound in capital gains realizations for state residents.

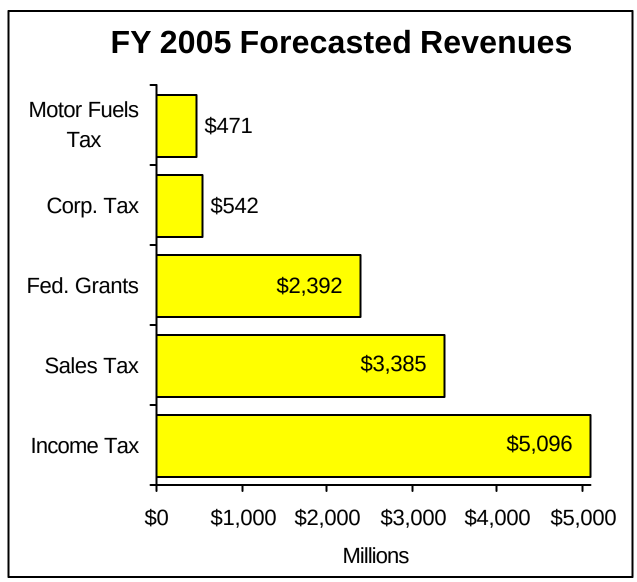
As can be seen from the accompanying charts, economic growth for revenues in the general fund was down 7.5 percent in FY 2001-02. In the current fiscal year, before any tax changes, the economic growth is expected to be a meager 1.6 percent. (Actual revenue growth was higher in FY 2001-02 and the current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



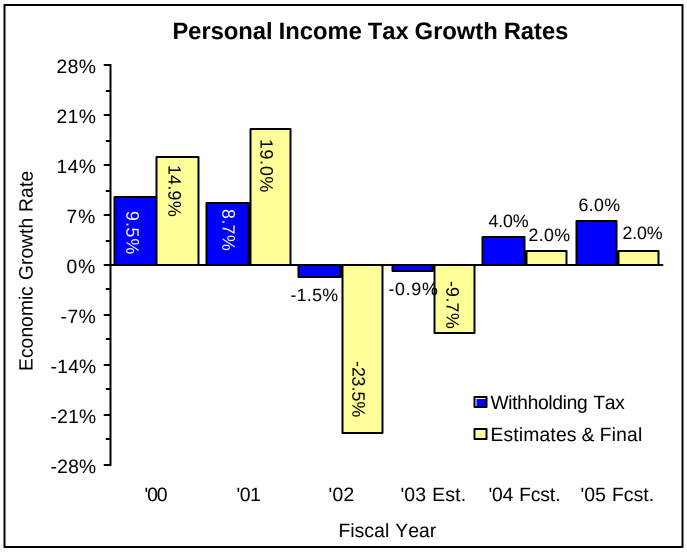
Moving into the biennium, growth is expected to rebound to 3.8 percent in FY 2003-04 and 4.4 percent in FY 2004-05. But those rates, under the current tax structure, are not enough to pay for the huge double-digit inflation the budget is experiencing. Thus, tax increases have become a necessity.

Tax increases will be discussed in greater detail shortly. But in summary, with tax enhancements proposed by the Governor, the state's largest revenue generator – the income tax – is expected to bring in over $4.8 billion next fiscal year, almost $600 million of which comes from tax increases in this area. In FY 2004-05, the tax is forecast to bring in just under $5.1 billion. Both of these numbers are before refunds.



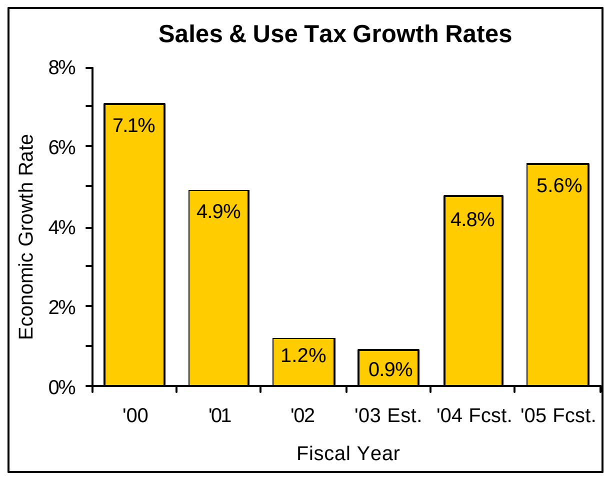


On the withholding side of the income tax, the budget assumes a modest 4 percent economic growth rate for FY 2003-04, up from a negative 0.9 percent this fiscal year. Personal income growth for the coming fiscal year is projected to be 4.8 percent, but the budget assumes a growth below that because year-end 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 modest recovery somewhat.



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 over $3.2 billion in year one and almost $3.4 billion in year two. Within these estimates are tax increases that amount to over $50 million annually.



Because businesses have downsized personnel and have returned to profit-making mode, the corporate tax has rebounded in the current first 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. Almost $550 million in each fiscal year of the biennium, before refunds, is expected to be collected. These numbers include a two-year corporate surcharge of 10 percent 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 proposed here.

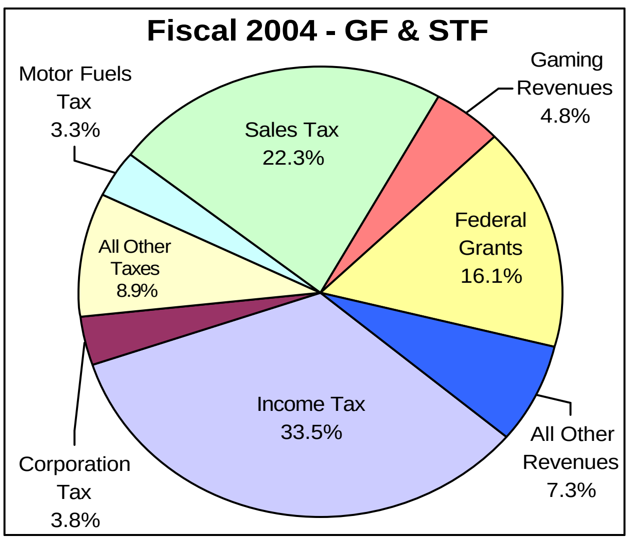
The master tobacco settlement payments are expected to bring in about $112 million in each year of the biennium.

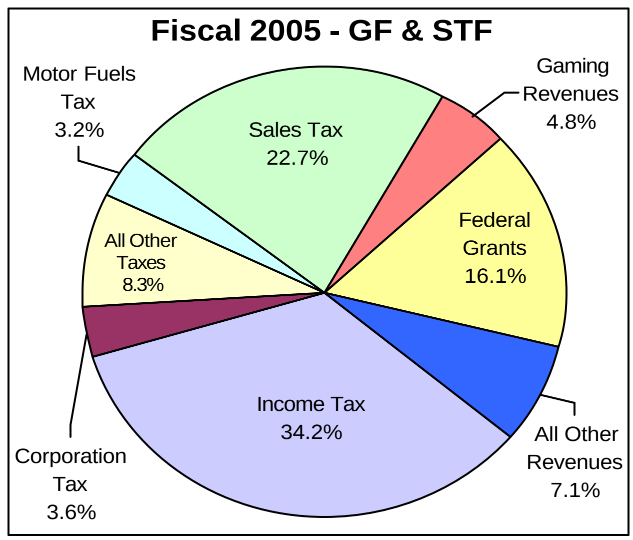
Motor fuels are assumed to grow in each year of the biennium by about 1 percent and should raise $466 million and $471 million, respectively.

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. As outlined earlier, 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.

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 initiatives outlined in the chart are covered in greater detail later in this document.)

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				
Income Tax Changes	576.3		604.7	
Revised Balance		(274.8)		(344.6)
Eliminate the Sales Tax on Hospital Services	(115.7)		(116.4)	
Revised Balance		(390.5)		(461.0)
All Other Sales Tax Changes	57.2		71.0	
Revised Balance		(333.3)		(390.0)
Eliminate certain Corporation Tax Credits	5.0		5.0	
Revised Balance		(328.3)		(385.0)
Impose 10% surcharge on Corps in 03 & 04	35.1		12.3	
Revised Balance		(293.2)		(372.7)
Increase Cigarette Tax to $1.51/pack	77.9		76.0	
Revised Balance		(215.3)		(296.7)
Increase Cable TV Tax to 6%	6.7		7.1	
Revised Balance		(208.6)		(289.6)
Increase Real Estate Conveyance Tax	50.0		50.0	
Revised Balance		(158.6)		(239.6)
Transfers from Other Sources	213.4		274.1	
Revised Balance		54.8		34.5
All Other Net Revenue Changes	(54.3)		(34.2)	
Revised Balance		0.5		0.3

- To repeat, there was a $2.007 billion current services gap in the general fund for FY 2003-04 and one of $2.541 in FY 2004-05. Current services spending across all appropriated funds was $763 over the spending cap in year one and $1.055 billion 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.

- The major tax increases include an across-the-board increase in all income tax rates for all filers of one half of one percent, which raises about $500 million in each fiscal year; a reduction of $100 in the property tax credit, which raises about $70 million in each year; a 10 percent corporate surcharge for income years 2003 and 2004; a reduction in the per-item clothing and footwear exemption back to the $50 level; and, an increase in the business sales and computer data processing services sales tax to 3 percent (from 1 percent).

- Among 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

As noted earlier, 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 $485 million. And in an effort to control the current year deficit, total one-time revenues are expected to rise to about $534 million with the Governor's deficit mitigation plan.

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 almost 5 percent of the general fund is a poor fiscal practice. Indeed, the bond rating agencies have all pointed out that the state's future rating rests on whether structural changes are made to close the gap.

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 dramatically over the next several years to close the structural hole.

As outlined in the accompanying chart, one-time revenues drop from 4.5 percent of the general fund revenue stream to just 1.6 percent in the first fiscal year of the biennium and to 1.3 percent in the second. They are just $194.1 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 $171.3 million on a base of $13.026 billion.

One Time Revenues Included In The Budget

	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	30.0		
- 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 Enacted	$485.0		
Proposed:			
- 10% surcharge on corporation tax	$ 22.8	$ 35.1	$ 12.3
- Require quarterly estimated pymts from Cable TV companies	16.6	-	-
- Reduce oil companies transfer to Transportation Fund	20.0	-	-
- Transfer various amounts to resources of General Fund			
- 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 Proposed	$ 59.4	$194.1	$171.3
Grand Total	**$544.4**	**$194.1**	**$171.3**
Percentage of Total General Fund Revenue	**4.5%**	**1.6%**	**1.3%**

Tax Changes and Revenue Enhancements

The tax increases included in this budget 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 do fundamental damage to the economy and do not 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 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.

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

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.

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.

Increasing income tax rates

The major revenue increase that Governor Rowland is proposing is an across-the-board increase in income tax rates for all filers of one-half of one percentage point.

Under the current income tax law, in 2002 the first $12,500 for singles and $24,000 for joint filers is exempt from taxation. Then, the first $10,000 in taxable income for singles and first $20,000 for joint filers is taxed at 3 percent. (Because the exemption is phased out for higher income earners, many income taxpayers end up paying the 3 percent rate on the first $10,000 or $20,000 in income.) All income beyond that is taxed at a flat rate of 4.5 percent.

Effective with income year 2003, the Governor's plan would increase the 3 percent rate to 3.5 percent and the 4.5 percent rate to 5 percent. In this budget plan, Governor Rowland is not proposing to have an additional rate for incomes of $1 million and up.

The 0.5 percent across-the-board rate increase raises $267.1 million in FY 2002-03, $496.3 million in FY 2003-04, and $516.1 million in FY 2004-05. This change alone represents about 58 percent of all the revenue enhancements.

It is important that the legislature act immediately on this proposal so as to ensure that the current fiscal year deficit is closed. It is anticipated that new tax tables could be in force by April 1. Those tables would increase withholding so as to collect a full six months worth of increases in the three remaining months of the fiscal year. In effect, taxpayers would be asked to double up in April, May and June to make up for January, February and March. 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.

Personal Income Tax Rates

	Taxable Income		Current	Proposed
Filing Status	From	To	Rate	Rate
Single	$ -	$ 10,000	3.0%	3.5%
Head of Household	$ -	$ 16,000	3.0%	3.5%
Joint	$ -	$ 20,000	3.0%	3.5%
	Taxable Income		Current	Proposed
Filing Status	From	To	Rate	Rate
Single	$ 10,000	& Above	4.5%	5.0%
Head of Household	$ 16,000	& Above	4.5%	5.0%
Joint	$ 20,000	& Above	4.5%	5.0%

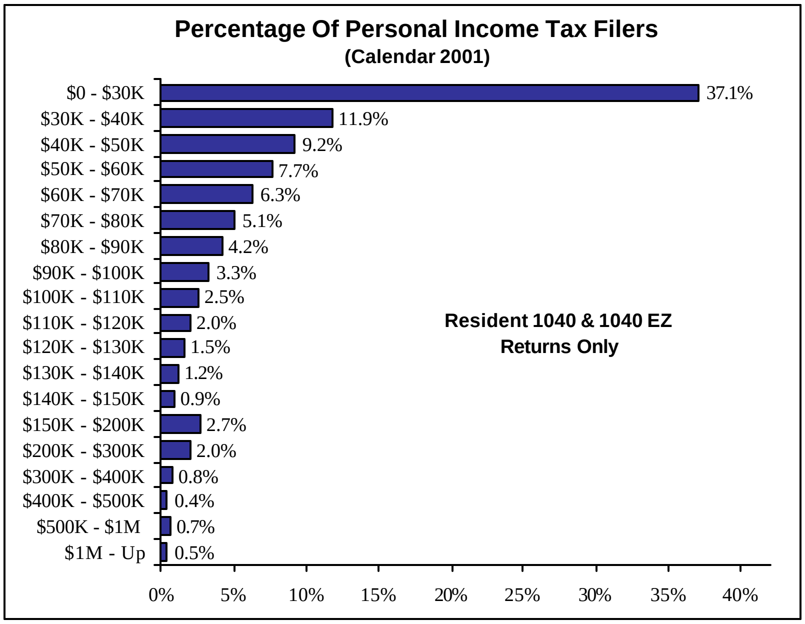
A family earning $50,000 would pay about $2.50 more per week on withholding beginning in July. That amount would be about $5 per week from April through June.

In addition, part of the Governor's proposal also requires estimated tax filers to pay in the first two quarterly payments 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 the income tax increases here will be partially offset by lower federal income taxes in the Bush 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.

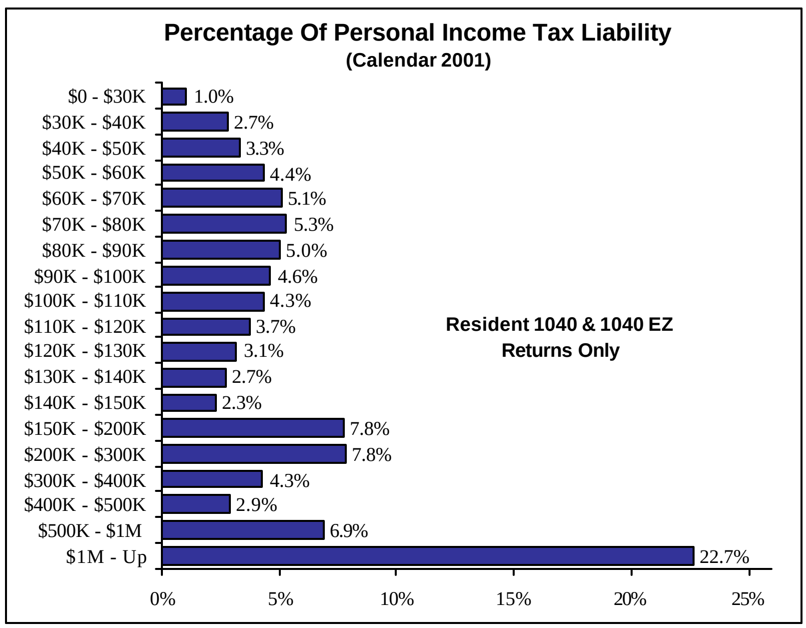
Why no millionaires tax?

Why is the Governor no longer supporting a millionaires tax? Quite simply, the Governor only proposed the tax hike (increasing the millionaire rate from 4.5 percent to 5.5 percent) as a way to reach out to majority Democrats in the legislature to get a responsible deficit reduction plan passed. None was. Governor Rowland said right along that his support was based more on the political landscape than economics, and the political olive branch clearly did not work. Instead of accepting the proposal by the Governor that they demanded and agreeing to balanced spending cuts, all that the Democratic majority did was attempt to push the margins – on both the actual rate (some wanted a 6 percent millionaire's rate) and how far down the income chain the rate increases went (the recently vetoed Democratic deficit plan had those earning $500,000 or more paying 5.75 percent, with those earning $200,000 paying 5.5 percent).



Indeed, increasing rates on millionaires makes 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 Hartford. 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 higher marginal rates are for high wealth individuals, and the closer they come to neighboring states, the more likely that a high-wealth individual will decide to leave the state. He is not making his decision on the marginal increase in the tax, but on the whole tax he pays as compared to 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 engaging in class-warfare politics that 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 that same 20 percent.

Increasing the rate just on millionaires increases the imbalance and inequities. Something can be said for everyone sharing in the pain of the deficit. 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-wealthy 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.

Because the olive branch approach did not work with the millionaires tax hike; and, because the Governor always felt the proposal could backfire economically, he no longer supports such a proposal.

Reducing the property tax credit on all filers

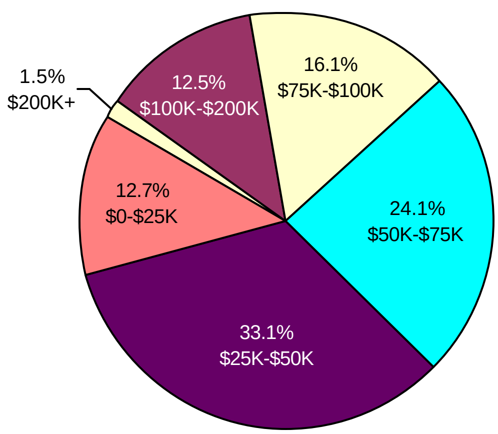
In an effort to fully close next fiscal year's budget gap, Governor Rowland is reluctantly proposing to reduce the current $500 property tax credit to no more than $400 and remove the minimum $100 credit for higher income filers.

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

Distribution Of Property Tax Credits Claimed
By Connecticut AGI - 2001 Tax Year



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

Filing Status	Adjusted Gross Income 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, 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.

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

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 exemptions. The exemption 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.

The latest change proposed will save the state $7 million in the second year of the biennium.

Total income tax increases

The total income tax increases or repeal of past reductions amount to $267.1 million in FY 2002-03, $576.3 million in FY 2003-04 and $604.7 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 on all taxable income – 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 earning less than $100,000 pay no more than $600 more than they did before – or about $12 per week, some of which could be offset by lower federal income taxes because of itemization. Contrast that with the filer earning $500,000, who will pay $2,600 more, and the filer earning $1 million, who will pay $5,100 more.

One last statistic: the rate increase on the income tax is the single biggest tax increase this fiscal year. About two-thirds of the tax hike in that area alone will be borne by those earning more than $100,000.

Lowering the sales tax exemption on clothing and footwear

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. Because of the current fiscal crisis and because the higher threshold has been in for such a short time, Governor Rowland is proposing to return to the $50 threshold per item effective April 1.

The change would mean increased revenue to the general fund of $8.2 million in the current fiscal year, $33.6 million in FY 2003-04 and $35.3 million in FY 2004-05.

Changes in the Clothing Exemption

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

Sales tax free week elimination

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 only 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.

Governor Rowland's Income Tax Proposal

Sample Income Tax Payments By Selected Income Levels

February 2003

Single Filer

CT Adjusted Gross Income	1995 Income Year Tax Due	2002 Income Year Tax Due	Proposed 2003 Tax Due	Proposed Change Relative To 2002	Proposed Change Relative To 1995
$ 10,000	$ -	$ -	$ -	$ -	$ -
$ 20,000	$ 234	$ -	$ -	$ -	$ (234)
$ 30,000	$ 972	$ 276	$ 478	$ 201	$ (495)
$ 40,000	$ 1,620	$ 985	$ 1,265	$ 280	$ (355)
$ 50,000	$ 2,115	$ 1,390	$ 1,715	$ 325	$ (400)
$ 60,000	$ 2,700	$ 2,090	$ 2,490	$ 400	$ (210)
$ 70,000	$ 3,150	$ 2,580	$ 3,030	$ 450	$ (120)
$ 80,000	$ 3,600	$ 3,070	$ 3,570	$ 500	$ (30)
$ 90,000	$ 4,050	$ 3,560	$ 4,110	$ 550	$ 60
$ 100,000	$ 4,500	$ 4,050	$ 4,650	$ 600	$ 150
$ 125,000	$ 5,625	$ 5,295	$ 6,020	$ 725	$ 395
$ 150,000	$ 6,750	$ 6,500	$ 7,350	$ 850	$ 600
$ 200,000	$ 9,000	$ 8,750	$ 9,850	$ 1,100	$ 850
$ 250,000	$ 11,250	$ 11,000	$12,350	$ 1,350	$ 1,100
$ 500,000	$ 22,500	$ 22,250	$24,850	$ 2,600	$ 2,350
$1,000,000	$ 45,000	$ 44,750	$49,850	$ 5,100	$ 4,850
$2,000,000	$ 90,000	$ 89,750	$99,850	$10,100	$ 9,850

Joint Filer

CT Adjusted Gross Income	1995 Income Year Tax Due	2002 Income Year Tax Due	Proposed 2003 Tax Due	Proposed Change Relative To 2002	Proposed Change Relative To 1995
$ 10,000	$ -	$ -	$ -	$ -	$ -
$ 20,000	$ -	$ -	$ -	$ -	$ -
$ 30,000	$ 68	$ -	$ -	$ -	$ (68)
$ 40,000	$ 468	$ -	$ -	$ -	$ (468)
$ 50,000	$ 1,071	$ 316	$ 535	$ 219	$ (536)
$ 60,000	$ 1,944	$ 1,174	$ 1,490	$ 316	$ (454)
$ 70,000	$ 2,754	$ 1,984	$ 2,390	$ 406	$ (364)
$ 80,000	$ 3,240	$ 2,470	$ 2,930	$ 460	$ (310)
$ 90,000	$ 3,645	$ 2,875	$ 3,380	$ 505	$ (265)
$ 100,000	$ 4,410	$ 3,616	$ 4,206	$ 590	$ (204)
$ 125,000	$ 5,625	$ 4,945	$ 5,670	$ 725	$ 45
$ 150,000	$ 6,750	$ 6,150	$ 7,000	$ 850	$ 250
$ 200,000	$ 9,000	$ 8,600	$ 9,700	$ 1,100	$ 700
$ 250,000	$ 11,250	$ 10,850	$12,200	$ 1,350	$ 950
$ 500,000	$ 22,500	$ 22,100	$24,700	$ 2,600	$ 2,200
$1,000,000	$ 45,000	$ 44,600	$49,700	$ 5,100	$ 4,700
$2,000,000	$ 90,000	$ 89,600	$99,700	$10,100	$ 9,700

Sales on business computer services

Consistent with his earlier deficit mitigation plan, the Governor is proposing that the sales tax on computer and data processing services be increased from 1 percent to 3 percent and that the phasedown be repealed. This tax is paid almost exclusively by businesses.

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.

As indicated, effective April 1, the Governor is proposing a permanent rate of 3 percent. This change, based on a base of the 1 percent rate being in effect through the biennium, would raise about $5 million in the current fiscal year, $20.5 million in FY 2003-04, and $32.4 million in FY 2004-05.

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%	3% *
7/1/03	1%	3%
7/1/04	0%	3%
7/1/05	0%	3%

*Proposed rate effective 4/1/2003

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 are 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.

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.

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

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

To help retire a portion of this fiscal year's deficit and help cover a small part of the gap in the biennium, Governor Rowland is asking corporations in the state to temporarily pay more in corporation taxes.

The proposal would place a 10 percent surcharge on income years 2003 and 2004.

Corporation Tax Surcharge Revenue
(In Millions)

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

Unlike the recent Democratic proposal, the surcharge does not go back to income year 2002 and is not at a rate of 20 percent. The surcharge is 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.

Total business impact

In crafting this budget, the Governor has been mindful that the state's business competitveness 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. Including the three changes outlined above, next fiscal year there will be another $60 plus million in costs.

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 surcharge is 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 business.

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.

More importantly, every hospital in the state and the Connecticut Hospital Association oppose reinstitution of the tax. In any reinstitution, there would be winners and losers 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. Case in point, the vetoed Democratic deficit mitigation plan would have taken $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.

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 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.

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 Governor is also proposing changing 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 Governor is proposing that the companies remit the taxes on a quarterly basis beginning with the April to June 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. This change will mean a revenue infusion of $16.6 million in the current fiscal year.

The 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.

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 Governor is proposing to raise the cigarette tax rate to $1.51, the rate that is in effect in Massachusetts and one cent more 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.

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

	FY 2002-03	**FY 2003-04**	**FY 2004-05**
Cigarette Tax	$ 18.9	$ 73.5	$ 71.7
Floor Tax	$ 6.6	$ -	$ -
Sales and Use Tax	$ 1.5	$ 4.4	$ 4.3
Total	**$ 27.0**	**$ 77.9**	**$ 76.0**

This latest proposal, to be effective April 1, will increase revenues to the general fund by $25.5 million in FY 2002-03, $73.5 million in FY 2003-04, and $71.7 million in FY 2004-05. In addition, $1.5 million in increased sales taxes will occur this fiscal year, with about $4 plus million in each of the years of the biennium.

Increases in the real estate conveyance tax

The biennial budget plan proposes that, real estate conveyance taxes be increased effective April 1. 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 1 percent as opposed to 0.5 percent. The portion of a home over $800,000 will be taxed at an incremental rate of 2 percent as opposed to 1 percent. The commercial rate will increase from 1 percent to 2 percent.

The proposal will raise $10 million in the current fiscal year and $50 million in each year of the biennium.

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%	1.0%
Over $800	1.0%	2.0%
Commercial	1.0%	2.0%

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.

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.

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 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 is 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 1.6 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 the excess 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. 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 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 this fiscal year.

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

Transfers to Resources of The General Fund
(In Millions)

From	Amount in Fiscal Year 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**

- 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 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.

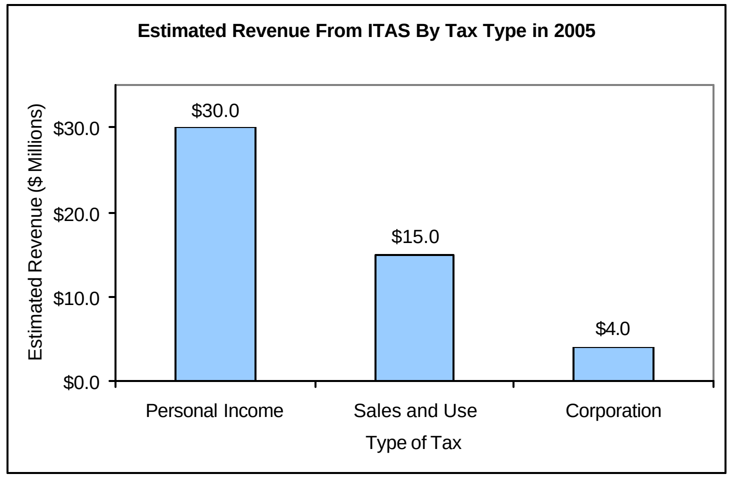
In May 2002, the Department of Information and Technology issued a contract award to Accenture, LLP for the initial phase (1A) of this project using the above 1995 authorization. This phase, slated to be completed in December 2003, focuses on the replacement of the systems that support the registration, 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, the entire 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 increasing judicial and court fees. 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 being proposed for increase 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 FY2003 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 STF 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 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, $30 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.

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

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.

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

Proposed Tax Increases - 2003 Session
(In Millions)

Tax & Description	Effective	FY 2002-03	FY 2003-04	FY 2004-05
Income Tax				
Increase rates by 0.5%	1/1/03	$ 267.1	$ 496.3	$ 516.1
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	12.0
Eliminate Increase in Singles Exemption		-	-	7.0
Sales & Use Tax				
Computer & Data Processing Services at 3%	4/1/03	4.9	20.5	32.4
Reduce Clothing & Footwear Exemption to $50	4/1/03	8.2	33.6	35.3
Rescind Sales Tax Free Week	7/1/03	-	3.1	3.3
Corporation Tax				
Impose 10% Surcharge in IY 2003 & 2004 *	1/1/03	22.8	35.1	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	-	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 tax from $1.11 to $1.51 per pack	4/1/03	25.5	73.5	71.7
Additional sales tax collections due to change	4/1/03	1.5	4.4	4.3
Real Estate Convevance				
Increase tax rates	4/1/03	10.0	50.0	50.0
Total - Ongoing Tax Increases		$ 318.8	$ 786.6	$ 842.1

* Temporary Tax Increase

The tax package outlined here looks like no other proposed by Governor Rowland. Total ongoing tax increases proposed in this budget amount to $786.6 million in FY 2003-04 and $842.1 million in FY 2004-05. But the increases were necessary to protect the health of the state budget.

When all is said and done, 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 place.

As the table on the following page shows, there are still major tax breaks that remain on the books. They ensure that Connecticut businesses can thrive and compete in the global marketplace, especially 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 that is well below other states. In and of itself, that promotes growth in jobs and residents. The tax has not become a progressive abomination that is reminiscent of the mid-1970s federal income tax structure or that of California's.

Tax Cuts Fully Implemented
(In Millions)

Tax Type	Pre-2002 Session	Existing & Proposed Increases	Net Tax Cut/ (Increase)
Income Tax	$ 711.5	$ (657.3)	$ 54.2
Sales Tax	193.3	(82.2)	111.1
Corporation Tax	496.6	(63.5)	433.1
Hospital Tax	190.4	-	190.4
Cigarette Tax	-	(195.5)	(195.5)
Inheritance Tax	158.1	-	158.1
Gasoline Tax	190.2	(25.7)	164.5
Local Business Property Taxes	66.1	(6.4)	59.7
Other Taxes	57.8	(95.7)	(37.9)
Total	$ 2,064.0	$ (1,126.3)	$ 937.7

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 and the Governor's proposals here, tax hikes in his tenure would be a total of $1.126 billion.

In the end, taxes will still be down a net $938 million.

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 3%

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

Expenditure Changes: Reining in Costs But Meeting Basic Needs

This budget reflects a deliberate and difficult re-examination of current programs and recommends policy changes essential to the future of our state. The primary focus of the budget, as the economic picture has weakened, has been to preserve to the greatest extent possible the gains made by the Governor in the last eight years.

Critics will take issue with the magnitude of the spending cuts in this proposed biennial budget. But whatever one thinks of individual reductions – everyone has their favorite program – the Governor has gone out of his way to prioritize, given the spending cap dictates, what remains in the budget.

Further, he has tried to ensure that alternatives exist to meet basic human needs if there is a major program elimination or closure.

Those same critics will doubt the sincerity of these words, but you can see proof on the revenue side – almost $800 million in permanent tax increases.

If the chief executive of this state did not care about meeting these most basic needs, further cuts could have been proposed by looking past some of the human impact.

To his credit, that is not something he has done in his two terms as Governor. In those eight years, he significantly augmented both the human services safety net in this state and lower and higher education programs.

And he is not looking past human needs now. For example, the social compact Governor Rowland made with those who struggled and succeeded in getting off welfare eight years ago is still fundamentally intact. Former clients still have access to the menu of critical services they did before.

Governor Rowland knows that governing is very much about the people and the programs on which they rely.

What are the changes from Fiscal Year 2002-03 to Fiscal Year 2003-04?

(In Millions of Dollars)

Agency Title	Fiscal Year 2002-03 Estimated	Fiscal Year 2003-04 Curr Serv Growth	Current Services	Policy Adjustments	Recommended	Change from Fiscal Year 2002-03 $	%
General Fund							
Legislative Management	50.0	7.0	57.0	0.0	57.0	7.0	14.0%
Revenue Services	62.3	5.1	67.4	-8.3	59.1	-3.2	-5.1%
St Insurance & Risk Management	10.9	2.8	13.7	0.0	13.7	2.8	25.7%
Policy & Management	125.4	41.4	166.8	-52.6	114.2	-11.2	-8.9%
Public Works	40.0	3.5	43.5	-2.0	41.5	1.5	3.8%
Attorney General	27.5	2.7	30.2	-1.6	28.6	1.1	4.0%
Div - Criminal Justice	41.2	2.0	43.2	-2.9	40.3	-0.9	-2.2%
Public Safety	138.7	12.4	151.1	-13.4	137.7	-1.0	-0.7%
Military	6.1	1.9	8.0	-1.7	6.3	0.2	3.3%
Labor	49.4	1.0	50.4	-4.3	46.1	-3.3	-6.7%
Environmental Protection	40.1	2.6	42.7	-5.5	37.2	-2.9	-7.2%
Art, Culture and Tourism	0.7	0.4	1.1	17.0	18.1	17.4	
Econ & Comm Developmt	18.5	6.8	25.3	-4.9	20.4	1.9	10.3%
Public Health	70.4	11.1	81.5	-21.8	59.7	-10.7	-15.2%
Mental Retardation	726.5	42.9	769.4	-24.3	745.1	18.6	2.6%
Mental Hlth & Addict Serv	429.3	45.7	475.0	-46.4	428.6	-0.7	-0.2%
Medicaid	2,709.9	235.3	2,945.2	-171.4	2,773.8	63.9	2.4%
Social Services - Other	1,031.8	68.7	1,100.5	-108.3	992.2	-39.6	-3.8%
Ed Equalization Grants	1,516.3	74.7	1,591.0	-103.0	1,488.0	-28.3	-1.9%
Education - Other	474.3	80.0	554.3	-51.1	503.2	28.9	6.1%
State Library	13.3	2.8	16.1	-6.0	10.1	-3.2	-24.1%
Teachers' Retirement Board	194.0	92.1	286.1	-85.6	200.5	6.5	3.4%
Higher Education	43.9	13.8	57.7	-9.3	48.4	4.5	10.3%
University of Connecticut	193.1	11.1	204.2	-6.5	197.7	4.6	2.4%
UConn Health Center	74.0	2.7	76.7	-1.6	75.1	1.1	1.5%
Community-Tech Colleges	124.9	6.9	131.8	-10.9	120.9	-4.0	-3.2%
CT State University	138.5	7.4	145.9	-9.3	136.6	-1.9	-1.4%
Correction	537.6	55.0	592.6	-15.8	576.8	39.2	7.3%
Children & Families	568.2	59.3	627.5	-34.3	593.2	25.0	4.4%
Judicial Department	348.8	44.0	392.8	-35.3	357.5	8.7	2.5%
Public Defender	33.9	3.4	37.3	-3.6	33.7	-0.2	-0.6%
Debt Service	999.1	203.4	1,202.5	0.0	1,202.5	203.4	20.4%
Reserve-Salary Adjustment	0.0	4.6	4.6	1.0	5.6	5.6	
St Employee Fringe Benefits	1,044.9	199.5	1,244.4	-30.8	1,213.6	168.7	16.1%
Early Retirement Incentive Program	-21.2	21.2	0.0	-153.3	-153.3	-132.1	
Statewide GAAP Implementation	0.0	50.4	50.4	-50.4	0.0	0.0	
All Other - Net	249.6	95.2	344.8	-98.0	246.8	-2.8	-1.1%
Total General Fund-Net	12,111.9	1,520.8	13,632.7	-1,156.2	12,476.5	364.6	3.0%
Special Transportation Fd							
Motor Vehicles	53.3	5.8	59.1	-8.3	50.8	-2.5	-4.7%
Transportation	348.6	22.8	371.4	-17.3	354.1	5.5	1.6%
Debt Service	409.7	16.2	425.9	0.0	425.9	16.2	4.0%
St Employee Fringe Benefits	76.2	10.1	86.3	-3.9	82.4	6.2	8.1%
All Other - Net	1.1	-4.4	-3.3	-11.1	-14.4	-15.5	
Total Transportation Fd-Net	888.9	50.5	939.4	-40.6	898.8	9.9	1.1%
Other Appropriated Fds-Net	163.7	63.7	227.4	-60.0	167.4	3.7	2.3%
Total Appropriated Fds-Net	13,164.5	1,635.0	14,799.5	-1,256.8	13,542.7	378.2	2.9%

What are the changes from Fiscal Year 2003-04 to Fiscal Year 2004-05?

(In Millions of Dollars)

Agency Title	Fiscal Year 2003-04 Recommended	Fiscal Year 2004-05 Current Services Growth	2003-04 Rec Plus Curr Serv Growth	Policy Adjustments	Recommended	Change from Fiscal Year 2003-04 $	%
General Fund							
Legislative Management	57.0	2.6	59.6	0.0	59.6	2.6	4.6%
Revenue Services	59.1	3.4	62.5	-2.9	59.6	0.5	0.8%
St Insurance & Risk Management	13.7	2.6	16.3	0.0	16.3	2.6	19.0%
Policy & Management	114.3	3.9	118.2	-6.5	111.7	-2.6	-2.3%
Veterans' Affairs	29.1	1.2	30.3	-0.4	29.9	0.8	2.7%
Administrative Services	27.0	1.3	28.3	-0.7	27.6	0.6	2.2%
Public Works	41.5	1.1	42.6	-1.2	41.4	-0.1	-0.2%
Attorney General	28.6	1.3	29.9	-0.2	29.7	1.1	3.8%
Div - Criminal Justice	40.3	2.0	42.3	-1.1	41.2	0.9	2.2%
Public Safety	137.7	6.2	143.9	-4.8	139.1	1.4	1.0%
Environmental Protection	37.2	1.6	38.8	-0.7	38.1	0.9	2.4%
Econ & Comm Developmt	20.4	2.1	22.5	0.9	23.4	3.0	14.7%
Public Health	59.7	2.9	62.6	-1.8	60.8	1.1	1.8%
Mental Retardation	745.1	29.0	774.1	-10.8	763.3	18.2	2.4%
Mental Hlth & Addict Serv	428.6	31.0	459.6	-18.2	441.4	12.8	3.0%
Medicaid	2,773.8	223.8	2,997.6	-266.7	2,730.9	-42.9	-1.5%
Social Services - Other	992.2	29.2	1,021.4	143.5	1,164.9	172.7	17.4%
Ed Equalization Grants	1,488.0	67.0	1,555.0	-67.0	1,488.0	0.0	0.0%
Education - Other	503.2	38.8	542.0	-18.3	523.7	20.5	4.1%
Teachers' Retirement Board	200.5	12.2	212.7	-10.7	202.0	1.5	0.7%
Higher Education	48.4	1.2	49.6	-3.7	45.9	-2.5	-5.2%
University of Connecticut	197.7	10.7	208.4	-6.3	202.1	4.4	2.2%
UConn Health Center	75.1	3.6	78.7	-2.1	76.6	1.5	2.0%
Community-Tech Colleges	120.9	6.3	127.2	-4.4	122.8	1.9	1.6%
CT State University	136.6	7.0	143.6	-7.4	136.2	-0.4	-0.3%
Correction	576.8	34.2	611.0	-21.1	589.9	13.1	2.3%
Children & Families	593.2	31.6	624.8	-15.4	609.4	16.2	2.7%
Judicial Department	357.5	22.7	380.2	-10.0	370.2	12.7	3.6%
Public Defender	33.7	1.8	35.5	-1.2	34.3	0.6	1.8%
Debt Service	1,202.5	158.8	1,361.3	0.0	1,361.3	158.8	13.2%
St Employee Fringe Benefits	1,213.6	146.2	1,359.8	-11.3	1,348.5	134.9	11.1%
Early Retirement Incentive Program	-153.3	0.0	-153.3	12.9	-140.4	12.9	-8.4%
Statewide GAAP Implementation	0.0	53.3	53.3	-53.3	0.0	0.0	
All Other - Net	276.8	44.6	321.4	-44.4	277.0	0.2	0.1%
Total General Fund-Net	12,476.5	985.2	13,461.7	-435.3	13,026.4	549.9	4.4%
Special Transportation Fd							
Motor Vehicles	50.8	2.5	53.3	-1.7	51.6	0.8	1.6%
Transportation	354.1	17.3	371.4	-7.6	363.8	9.7	2.7%
Debt Service	425.9	3.2	429.1	0.0	429.1	3.2	0.8%
St Employee Fringe Benefits	82.4	8.9	91.3	-0.6	90.7	8.3	10.1%
All Other - Net	-14.4	0.2	-14.2	0.9	-13.3	1.1	7.6%
Total Transportation Fd-Net	898.8	32.1	930.9	-9.0	921.9	23.1	2.6%
Other Appropriated Fds-Net	167.4	2.7	170.1	-2.0	168.1	0.7	0.4%
Total Appropriated Fds-Net	13,542.7	1,020.0	14,562.7	-446.3	14,116.4	573.7	4.2%

Education: Developing the Next Generation

"All who have meditated on the art of governing mankind have been convinced that the fate of empires depends on the education of youth."

– Aristotle

In his eight years in office, Governor Rowland has governed the State of Connecticut knowing that the state's future success is dependent on a thriving education system. To accomplish this, Governor Rowland has dedicated significant operating and capital funding to create a premier education system for the state's students.

While the Governor is no less resolute in his support of education in this budget, the state's financial position does not allow for many increases in education programs. With the state facing significant budget difficulties, Governor Rowland is strategically focusing additional funding to programs that reduce racial isolation and improve urban education.

Additionally, he is recommending a series of major cost-savings initiatives that will streamline and improve the delivery of education services. As his first restructuring initiative, Governor Rowland's budget includes the creation of an agency that will unite the governance of the Connecticut State University, the Regional Community-Technical Colleges and the Department of Higher Education that will be administered by a newly created Board of Regents for Higher Education.

As well, the Governor proposes to transfer functions from the Board of Education and Services for the Blind (BESB) and the Commission on the Deaf and Hearing Impaired (CDHI) to the Department of Social Services (DSS) and the state Department of Education (SDE). The aim is to improve services to the state's citizens who have visual and hearing impairments.

Reducing racial isolation and improving urban education

Robert Kennedy once noted that: "Ultimately, America's answer to the intolerant man is diversity." Since Governor Rowland took office in 1995, the state has aggressively addressed the issue of diversity in the state's schools.

In 1995, about 1,500 students were involved in magnet school and OPEN Choice programs. By the end of 2005, about 20,000 students will be involved in these programs. Governor Rowland's budget and legislative proposals address the issues of "Sheff v. O'Neill" and other struggling urban schools with additional funding and a unique program based on a recent United States Supreme Court ruling.

In the Connecticut Supreme Court's ruling on the "Sheff V. O'Neill" case in 1996, Judge Ellen Peters wrote for the majority that the "children of Hartford have waited long enough" for solutions to improve their education by reducing their extreme racial isolation.

Even though the state's financial resources are extremely scarce, Governor Rowland's budget still reflects his abiding commitment to diversity, with significant increases in programs that will create educational opportunities for the children in Hartford, so their wait for excellent education will be over. Indeed, in the budget just before Governor Rowland was elected, just $21.1 million was spent on initiatives to reduce racial isolation and improve urban education. In FY 2004-05, because of the Governor's leadership, that will reach $208.3 million – a ten-fold increase

In Governor Rowland's proposed budget, funding for magnet schools is increased by $14.5 million in FY 2003-04 and an additional $13.8 million in FY 2004-05. Over the two years of the biennium, the amount spent on magnets will increase from about $45 million in the current fiscal year to $73 million in FY 2004-05.

Magnet schools provide a wonderful educational opportunity for students from urban and academically underachieving districts to learn with students from suburban, more economically advantaged communities. The number of magnet schools is expected to increase from 31 in the current fiscal year to 41 in the first year of the biennium and to 48 in the second. The number of magnet school students will increase from about 11,000 today to almost 18,000 in FY 2004-05.

The magnet school program is a major piece of the proposed stipulated agreement with the "Sheff v. O'Neill" plaintiffs. Since the Supreme Court ruling in 1996, the plaintiffs have twice taken the state back to court. In the most recent action during the Spring of 2002, the plaintiffs and the State decided to attempt to find a mutually agreed upon solution, from which the stipulated agreement was developed.

According to the four-year agreement, two new magnet schools will open each year in Hartford. These new magnet schools, along with other new magnet schools planned during the biennium, give students, especially those from lower income groups, premier educational opportunities. Governor Rowland is confident that magnet school students will have a more positive educational outcome, which could lead to greater higher education participation, higher earnings and a positive contribution to the state's economy.

ESTIMATED COST OF SHEFF STIPULATED AGREEMENT

PROGRAM	**2003-04**	**2004-05**	**2005-06**	**2006-07**
Magnet Schools*	$ 3,180,000	$ 6,360,000	$ 9,540,000	$ 12,720,000
Open Choice	$ 1,070,000	$ 2,140,000	$ 3,230,000	$ 4,360,000
Interdistrict	$ 250,000	$ 500,000	$ 750,000	$ 1,000,000
Expert Witness	$ 6,000	$ 6,000	$ 6,000	$ 12,000
Total	**$ 4,506,000**	**$ 9,006,000**	**$ 13,526,000**	**$ 18,092,000**

*The recommended budget for FY 04 & FY 05 is lower than the figures shown. DOE had already requested some additional funding for Hartford magnet schools, only the net additional funding needed was added in the budget. The figures above are from the Stipulated Agreement.

In addition to the magnet school increases, the "Sheff" agreement calls for 200 more seats each year for the OPEN Choice program in Hartford. The state's increased investment is $1.1 million in FY 2003-04 and $1.6 million in FY 2004-05. OPEN Choice transfers (primarily) urban students from their academically struggling schools to (generally) higher achieving suburban schools. Long-term studies of other voluntary school transfer programs (like Project Concern) demonstrated that program participants had positive social and economic outcomes.

In total, resources for OPEN Choice will increase statewide by just $300,000 because of declining demand in other regions. In FY 2004-05, the increase will be about $1.6 million. Current enrollment is about 1,600 statewide. That will increase to 2,000 students in FY 2004-05.

Funding for charter schools will be roughly flat at about $16 million next fiscal year, with expenditures increasing to $16.8 million in the second year of the biennium. By FY 2004-05, 2,400 students will be attending charter schools, an increase of about 150 students from the current levels.

The Interdistrict cooperation grant will increase by $600,000 in FY 2003-04 and by another $600,000, to $14.2 million, in FY 2004-05. The program currently serves as many as 60,000 students, from preschool to 12th grade, seeking diverse educational experiences.

Funding for priority schools, early childhood education and early reading success is being budgeted in the biennium about $2 million more than this fiscal year's estimated expenditures, which included an extraordinary rescission of about $4 million.

School choice

Governor Rowland is also proposing legislation that would allow parents whose children attend "failing" schools to take their Education Cost Sharing (ECS) funding, up to a maximum of $3,000, to attend a school of their choice.

The program would be limited initially to the cities with "failing" schools as of June 30, 2002 – Hartford, Bridgeport, New Haven, New London, Windham, and Waterbury. This proposal would build upon the original "Demonstration Scholarship Program" currently in Connecticut statute. Changes have been made in the program to make it consistent with the recent Supreme Court decision on school vouchers.

On June 27, 2002, the Supreme Court ruled in favor of Ohio's Pilot Project Scholarship Program (in Cleveland) that provides educational choices to families, including tuition for private schools and tutorial
aid. In the program, parents receive the tuition aid and they choose the schools. Almost 100 percent of the students attend religious schools. The majority of students are from low-income families.

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	$80.1	$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**	**$89.3**	**$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**	**$174.5**	**$191.3**	**$208.3**

Governor Rowland's proposal builds upon the Cleveland model, with important linkages to H.R. 1, The No Child Left Behind Act of 2001, passed at the federal level. No Child Left Behind promises American parents many academic opportunities when their children attend failing schools. This act requires school districts to prepare annual "report cards" for each school. For schools with "failing" grades, improvement is expected annually, with adequate progress toward state defined academic goals. If a school fails to improve for two consecutive years, the district will be required to offer parents an option to transfer their children to a different public, magnet or charter school.

This proposal builds upon the promises in H.R. 1 and expands them to include a private school option. Like Cleveland, Connecticut has a large network of private schools, the majority of which are parochial schools. Approximately 77,000 students attend private school, the majority of whom are in parochial schools. This proposal would give Connecticut parents in the state's largest cities an option to send their children a private school of their choice. School choice would no longer be limited to children of well-to-do parents; the children of parents of limited economic means would have access to private school educations.

This proposal, which would expand the federal program to include a private school option, is in response to concerns that too many children are still being left behind despite major investments in public education. Many parents are frustrated with their failing schools and districts and want more choices and innovative ideas. Simply putting more money into these programs would not satisfy these parents and would probably not mean significant improvements to aid their children. As important, these educational choices could be right in their own neighborhood and would not necessitate children traveling great distances for a quality and diverse educational setting.

Like the federal Pell grants, this program would level the playing field for poor families seeking the best opportunities for their children. Giving them the financial ability to make a choice will also empower them.

For those wishing to experiment with a private alternative, up to $3,000 of a city's ECS contribution would be directed toward a student's scholarship. Local school districts could augment those scholarships by using the balance of their ECS funding or other local funds.

Regional vo-tech schools

Because of the fiscal exigencies of the state, the proposed biennial budget freezes enrollment in the vocational-technical schools at this year's levels. Enrollment could increase in the second year of the biennium, depending on funding availability. Schools were notified of this decision a number of months ago.

Currently, 11,377 secondary students attend 17 schools statewide and the Bristol Technical Center, which serves high school juniors. The current fiscal situation will result in the closing of the Bristol Technical Center at the close of the 2002-03 school year. However, this closure will not displace any students since the program is only one-year and the current class will be allowed to complete their course of study.

Education cost-sharing

The Education Cost Sharing Grant (ECS) is the state's primary vehicle for distributing aid to Connecticut public school districts on an equalized basis. It is designed to equalize towns' ability to finance education by distributing state funds based on factors of local fiscal capacity and the needs of the student population. The grant is projected to increase by $142 million by the second year of the biennium.

There are three drivers of this significant increase. First, is enrollment growth in the student population. Second, FY 2002-03 was to be the last year of a four year phase-out of the ECS grant cap of 6 percent, which limited the growth for any one community regardless of changes in enrollment growth, mastery test scores, or wealth. Third, is the switch in census data being used to calculate the formula in FY 2004-05. Through FY 2003-04, the formula uses the 1989 census data in its calculation, beginning in FY 2004-05 the formula uses the more recent 2000 census data in its calculation.

This data shows that while per capita and median household income measures in all communities grew, wealthier communities' income continued to significantly outpace income growth in poorer communities, translating into significant grant growth for poorer communities.

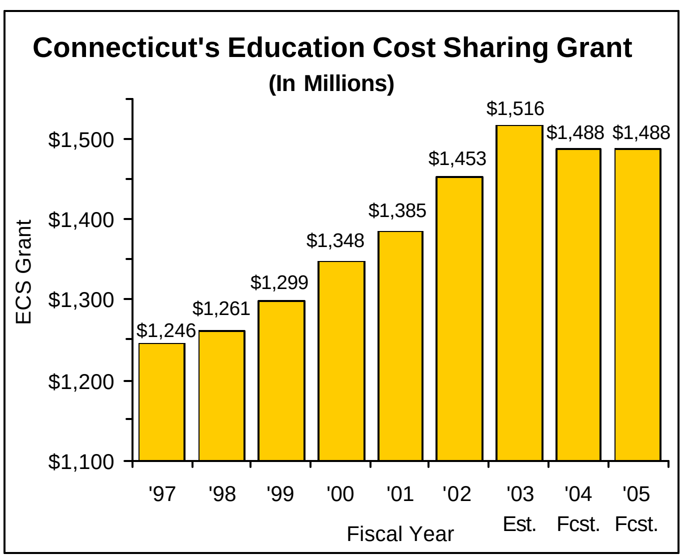
Because of the substantial spending cap and revenue problems the state is facing, the proposed biennial budget proposes to cut educational cost-sharing monies about 2 percent from this fiscal year's level and flat-fund at that amount throughout the biennium.

In an effort to restrain the growth of this grant, while still ensuring an equalized distribution of aid, the Governor's budget recommends the following:

EDUCATION COST SHARING GRANT

Current Services	FY 04	FY 05
Target Aid:		
Base Formula Aid +	$ 1,528.0	$ 1,596
Supplemental Formula Aid +	5.7	5.7
Regional Bonus	2.4	2.4
Adjusted by:		
Stoploss	49.3	48.2
Add:		
Density Supplement	5.6	5.7
Current Services	**$ 1,591**	**$ 1,658**
Reductions for FY 04 and FY 05:		
a. Keep Growth Cap with Current $50 Million Supplement	(51.4)	(77.0)
b. Eliminate Density Supplement	(5.6)	(5.7)
c. Reduce Each Town's Grant by 3%	(46.0)	(47.0)
d. Hold Appropriation Flat at FY 04 Level		(40.3)
Governor's Recommended Appropriation	**$ 1,488.0**	**$ 1,488.0**

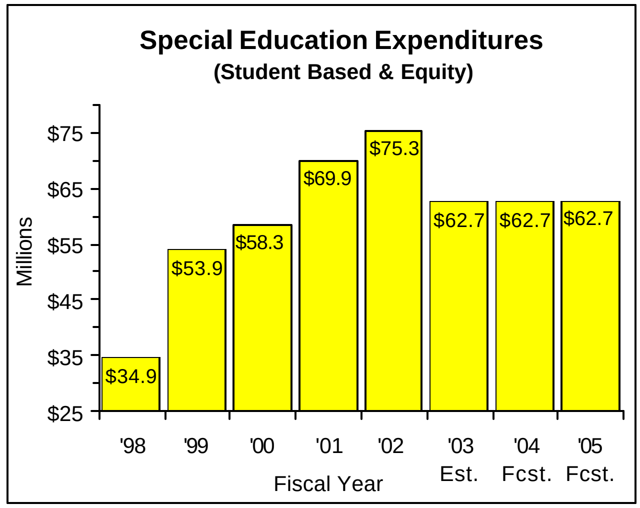
- Keeping the grant cap in place, while continuing the existing $50 million subsidy for capped towns;
- Eliminating the Density Supplement, which is awarded after the determination of the base ECS entitlement;
- An across the board 3 percent reduction in every communities' grant in each year of the biennium.
- The Governor's legislation proposes that the ECS grant be calculated for the biennium, rather than for just one year, so as to eliminate the major increase in the second year of the biennium. Consequently, the appropriation level for FY 2004-05 will be the same as the FY 2003-04 level.



These measures will save $170 million over the biennium. In FY 2003-04, current services would have been $1.591 billion, or about $103 million more than is proposed, and $1.658 billion in FY 2004-05, or $170 million more than is proposed.

This fiscal year's level is $1.516 billion. The ECS amounts in each year of the biennium would be $1.488 billion. Even though this is a $27 million reduction, ECS funding compared with just a few short years ago is up dramatically. In FY 2000-01, ECS stood at $1.385 billion, about $100 million less than the proposed amounts for the biennium. In FY 1996-97, the ECS grant was just $1.246 billion, about $250 million less than the proposed level.

Special education changes



Under current law the reimbursement level to towns for the Excess Cost – Student Based (Special Education) grant would increase from eligible costs over 5 times the average per pupil cost to eligible costs over 4.5 times the average per pupil cost. This change, in combination with the rapidly escalating costs of this grant, would increase state funding needs by $37.3 million over the biennium.

In light of current financial restrictions, the Governor's proposed budget would maintain the 5 times funding level and cap this grant at the FY 2003 level in each year of the biennium.

Holding other grants to level funding

In recognition of the current fiscal situation, the Governor recommends flat funding in the biennium for the following grants: Transportation of School Children; Adult Education; Health and Welfare Services; and Non-public School Transportation. In addition, the Priority School District and Early Reading Success grants will remain at the FY04 funding level for FY05.

RESC subsidies

The Governor's recommended budget reduces funding for both the Regional Education Service Centers (RESCs) operating subsidy grant and the RESC lease grant. However, even with the current fiscal crisis, the Governor ensured that a portion of the subsidy remained in place in recognition that the RESCs are important partners with the State in programs that reduce racial isolation and improve urban education. Such programs include the operation of regional magnet schools, management of OPEN Choice programs and efforts to recruit and retain minority teachers.

Current fiscal year estimated funding for the RESC subsidy is about $2.6 million. The grant will be funded at $1.6 million in each year of the biennium. Current year estimated funding for the RESC lease account is $1.1 million. The grant will be funded at about $800,000 in each year of the biennium.

American School for the Deaf

The American School for the Deaf has long been the State's partner in serving children who are deaf or hearing impaired. In addition, it serves a number of students with complex emotional conditions. The state's commitment to the school is unwavering as evidenced by the ongoing $20 million capital funding commitment and continuing operating subsidy.

The current fiscal situation prevents the Governor from recommending funding of the significant increases requested by ASD, however, a small increase has been provided in each year of the biennium to help offset a portion of their expected operating cost increases. Current fiscal year funding is expected to be $7.3 million. That will increase to $7.55 million in year one of the biennium and to $7.6 million in year two.

Digital library developments

Founded in 2000 as one of the initiatives of Lieutenant Governor M. Jodi Rell, iCONN is a library of the future. The digital library offers universal access to a number of licensed information databases to every Connecticut resident in possession of a local library card.

The general public has access to the resources that were previously available only through the better-funded schools and libraries in Connecticut, such as thousands of popular and scholarly articles, from 1980 to the present, including Spanish-language articles, newspapers, business information on over 300,000 companies, health and wellness information, full-text of The Hartford Courant issues back to 1992, The New York Times and biography, science and history databases. There also are dictionaries and encyclopedias, subject guides to Internet resources and a statewide catalog of library holdings.

With a $2 million investment by the state, towns and cities save over $20 million. This is the amount it would cost if every library, school and college in Connecticut had purchased the iCONN databases individually. In addition, iCONN makes it possible for many schools and small libraries to make the databases available to their patrons from home even though they lack the technology and expertise to do so on their own.

The Business and Company Resource Center, a part of iCONN, provides Connecticut businesses with the information resources they need to succeed. Full-text access to the *New York Times*, *Hartford Courant*, *London Times*, *Christian Science Monitor* and the *Los Angeles Times* helps businesses keep informed of business news across the world.

The Governor's budget proposes to fund the Digital Library at a level necessary to run most of the databases offered to the general public. Since colleges also offer academic databases individually, the budget proposes to eliminate duplicate services.

Educational technology

The Connecticut Education Network will receive $5.0 million in FY 2003-04 and $5.0 million in FY 2004-05 in bonding authorizations to continue development. Recent highlights of the project include the deployment of the network linking 1,100 K-12 schools, the state's 350 libraries, and over 100 college and university campuses. There are now 56 sites using the Connecticut Education Network including Hartford Public Schools.

Due to the fiscal crisis, funding for the Commission on Educational Technology has not been included in the Governor's proposed budget.

Distance learning

Since FY 2000-01, the Connecticut Distance Learning Consortium has spent special additional appropriations for the training of teachers and professors in the development and use of new on-line programs. This development funding was approximately $4 million in FY 2000-01 and FY 2001-02 and has been a tremendous catalyst for the growth of distance learning.

During 2001-02, Connecticut saw continued significant growth in the development of on-line courses and programs as well as in enrollments in on-line courses, including a 78 percent increase in courses and a 35 percent increase in degree programs over 2000-01. This program has been well-funded and has a good base upon which to operate.

The Governor's budget continues to support the courses that have been developed thus far, but does not have the resources right now to continue such special additional support of new training and course development activities.

School construction

Governor Rowland's commitment to ensuring every child learns in a safe and state-of-the-art environment continues in this budget. As outlined in the capital budget section, towns will receive significant new dollars during the biennium for refurbishment, expansion and construction of schools. Given the continuing demand and costs associated with the program, the Governor is proposing a few modifications to the school construction program that will save the state significant dollars down the road. These are spelled out in the capital budget section.

Restructuring higher education

"*Unprecedented challenges to higher education are emerging from enormous demographic, technological, economic, and political changes occurring here and in the world…these transformations create tensions and raise questions about whether the way our enterprise is organized …is the 'right' way…"* – Oregon State University, Review of Alternative State-Level Higher Education Governance Structures

Connecticut, like Oregon, is facing record college enrollments at the same time as the state is dealing with enormous financial difficulties. Increased enrollments would normally drive up costs, and requested state contributions, for faculty, academic support and other student related costs.

In Connecticut's current fiscal environment, however, state funding is not a ready source of additional revenue for the state's public colleges and universities. Instead of drastically reducing funding for academic programs in the state's public colleges and universities, Governor Rowland has instead focused on streamlining and restructuring the administrative apparatus of higher education, thereby freeing up scarce financial resources with which to fund academic needs driven by enrollment increases.

Since the 1992 higher education "flexibility" legislation, the governance of higher education has been divided between the constituent units of higher education and the Board of Governors (BOG) of Higher Education and their staff office, the Department of Higher Education (DHE). As with half of states in the country, DHE, as guided by the BOG, has been a coordinating authority for higher education. To a large extent, DHE has become more of a policy guidance agency with very limited influence over the constituent units.

The constituent units, the University of Connecticut (and Health Center), the Community-Technical Colleges (CTCs), Connecticut State University (CSU), and the Board for Academic Awards-Charter Oak State College (COSC), each have their own Boards of Trustees. With the "flexibility" legislation, the Boards of Trustees and the units that they oversee have been largely financially autonomous.

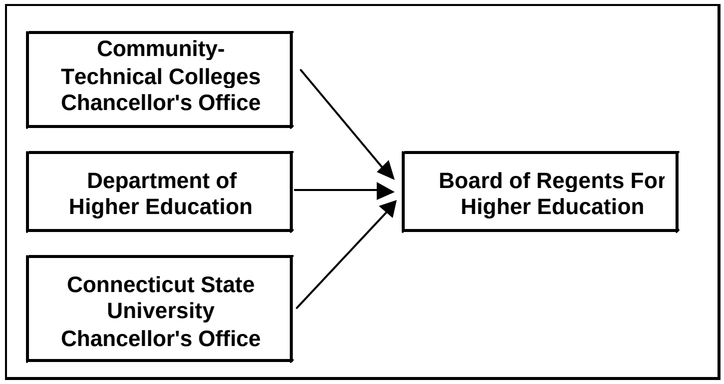
With Governor Rowland's leadership and the stewardship of its Board of Trustees, the University of Connecticut has physically transformed its campus and dramatically improved its academic programs, making it one of the best public doctoral higher education institutions in the Northeast.

While the University of Connecticut has flourished in recent years, the lack of an authoritative voice in higher education has resulted in some troubling trends for the Community-Technical Colleges and the Connecticut State University. According to a recent DHE report, these include:

- Six-year graduation rates (a common indicator) decreased from 1997 to 2000 with CSU consistently behind peer institutions in graduating students. In 2000, less than 40 percent of the CSU students graduated in six years.
- When students do graduate, not enough of them enter fields "with degrees in scientific and technical fields important to the viability of five of Connecticut's industry 'clusters'". The state's colleges and universities did not produce enough degrees in computer science, nursing and the biological/physical sciences to meet the demand of the state's economy.
- Tuition and fees, which are set by the Boards of Trustees for each of their respective institutions, have made CSU one of the most expensive public school options in the country.
- Positions at both the CTCs and CSU increased by more than 34 percent in the 1989-2002 time frame. Non-faculty growth was high for CSU.
- Faculty salaries are high, even among peers.

While the Boards of Trustees for the Community-Technical Colleges and Connecticut State University have presided over some of the physical expansion of their campuses as well as the beginning of the enrollment increases, it appears that some of the hallmark performance measures such as graduation rates, types of degrees granted, and costs, could be improved. It is doubtful, however, that with growing enrollments, and the "unprecedented challenges" they present, financially and programmatically, that Connecticut can continue to afford two sets of Chancellor's Offices and a Department of Higher Education.

It is time to restructure the governance of higher education in the state. Governor Rowland's budget recommends the creation of a new governing entity: The Board of Regents for Higher Education. This Board will combine the policy-making and financial aid administration of the Department of Higher Education, and the Chancellor's offices of the Connecticut State University and the Community-Technical Colleges.



Essentially, this new entity will be a consolidated governing board with the following strengths: comprehensive authority, balancing of the needs of the CTC and CSU systems, and ensuring the overall accountability for the CTC and CSU's success and providing a seamless system that will connect the state's two and four year systems and the workforce needs of the state's economy.

The merger outlined above would save about $2.75 million in the first year of the biennium through elimination of duplication and efficiencies. In year two, it would save about $5.8 million.

Merger of Chancellor's Offices
Into Board of Regents

Financial Summary (Current Costs)	**FY 2004 ***	**FY 2005**
Department of Higher Ed.	$ 40,120,653	$ 40,159,331
CTC Chancellor's Office	$ 6,206,421	$ 6,516,742
CSU Chancellor's Office	$ 4,811,306	$ 5,051,871
TOTAL	$ 51,138,380	$ 51,727,944
SAVINGS	$ (2,754,432)	$ (5,784,306)

* Half year savings in 2004 because of contractual requirements

Reallocation to Board of Regents
For Higher Education

Recomm Appropriation	**$ 48,383,948**	**$ 45,943,638**

Higher education block grants

When he took office, Governor Rowland realized that higher education was a key component in growing the economy of the State of Connecticut. Employers want to do business in states that stress excellence in higher education. To increase the quality of education in the state, Governor Rowland supported significant increases in the higher education block grants.

The following shows increases in the state commitments to the higher education block grants from FY 1994-95 to the current fiscal year:

- The University of Connecticut from $135 million to $182 million, a 35% increase.
- Connecticut State University System from $98 million to $131 million, a 34% increase.
- Community-Technical System from $82 million to $122 million, a 49% increase.

These figures do not capture the totality of the state's investment. They do not include generous fringe benefit appropriations in the general fund set aside for the higher ed units – health care, pension contributions, other fringe benefits and allocations from the reserve for salary adjustment account for unanticipated costs. In essence, for every dollar appropriated for the higher ed units in their block grant, the general fund is also giving them over 30 cents to cover the fringe benefits attributable to the individuals they pay from the general fund block grant appropriation.

Further, the numbers above do not include annual contributions of almost $14 million in previous tuition freeze monies to keep tuition at an affordable level.

Investment in renewing the higher ed infrastructure at all four public campuses has been unprecedented under Governor Rowland. Hundreds of millions are being spent on the capital programs of the state's public colleges and universities.

The chart on the next page shows the plethora of state support sources the higher ed units have to further their mission of excellence.

In the current fiscal year, the administration stayed true to its word that it would not rescind any monies midyear after the units took a 5 percent reduction when the budget passed to help ease the financial situation.

For the coming biennium, the administration is trying to be as generous as possible within the constraints of the fiscal situation. In general, the Governor's budget proposal:

- Fully funds the state's portion of all new facility costs at each unit. New facilities include:
    - At UCONN – Pharmacy/Biology Building, Tech Quad 1&2, Agriculture Bio Technology Building, and the Waterbury Downtown facility.
    - At the CTCs – Norwalk – Center for Information Technology, Northwestern – Arts Building, Learning Resource Center, Manchester – Arts and Science Technology Center, Capitol – Downtown Campus; and the Naugatuck Valley Campus.
    - CSU - CCSU -- Kaiser Hall, ECSU -- New Police Station, 333 Prospect St. and Eastern Hall, and WCSU – Holy Trinity Church, Carey Building, O'Neill Center and Science Building.

Because of the need for labor concessions to help balance the budget, the units generally will receive 50 percent of the gross increase in the current service level for annualization and new wage increases, less the amount estimated for unsettled collective bargaining contracts. Unsettled contract monies are being removed from all agencies and eliminated because of fiscal exigencies. It is expected that the units can cover the one-half reduction in each year by arriving at independent wage deals with the unions they negotiate with or by carrying out the layoff notices they announced in conjunction with the administration in December.

The reduction for UConn, excluding the sweep of unsettled contracts, is about $4.9 million in FY 2003-04 and $10.1 million in FY 2004-05. For CSU, it is $3.3 million in year one and $6.5 million in year two. For the CTCs, it is $2.7 million in FY 2003-04 and $5.7 million in FY 2004-05.

Each unit's block grant is listed on the accompanying chart. It should be noted that CSU's block grant would be approximately $5 million more in each fiscal year if not for the merger outlined above. The CTCs would be over $6 million higher in each fiscal year.

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.

Because of the merger, block grants remain basically flat, across all units in FY 2003-04 and increase by $7 million in FY 2004-05.

STATE SUPPORT FOR HIGHER EDUCATION

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
	(In Millions)										
UCONN											
General Fund Expenditure	$135	$139	$148	$168	$166	$185	$179	$191	$193	$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**	**$358**	**$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	$125	$121	$123
Est. Fringes	$ 29	$ 26	$ 28	$ 31	$ 33	$ 42	$ 40	$ 46	$44	$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**	**$195**	**$297**	**$236**
Connecticut State University											
General Fund Expenditure	$ 98	$101	$110	$114	$120	$135	$131	$139	$139	$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**	**$250**	**$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.

Eliminating NEBHE funding

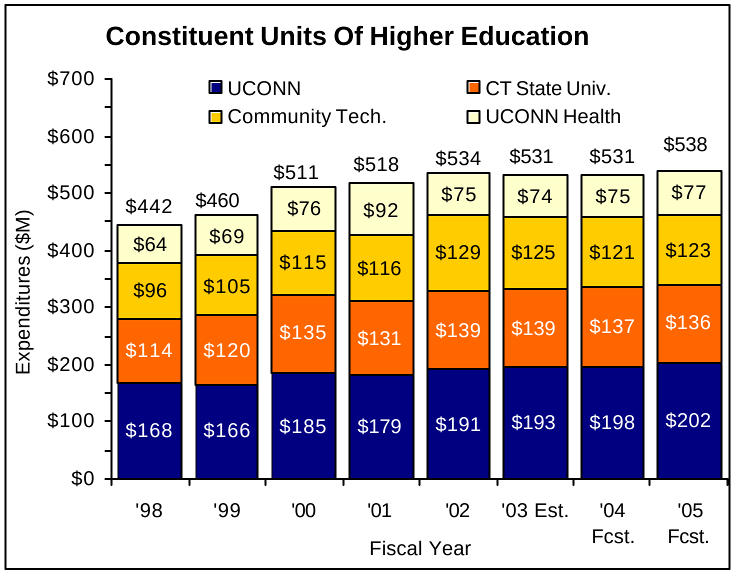
The state has not yet paid any dues to the New England Board of Higher Education for the current fiscal year because the Governor has proposed eliminating the surplus allocation which funded the partial NEBHE dues as well as the fact that NEBHE continues to demand membership fees well in excess of anything that was agreed to. The Governor believes we have inadequate resources to fund the membership over the next two fiscal years.

In lieu of our membership in NEBHE, the Governor would entreat the other New England states to join him in a compact to provide similar benefits that the state gets with the NEBHE sponsored “Apple” program. This program allows students within New England to matriculate at an out-of-state public institution (at reduced out-of-state rates) if their own state does not offer the program.

Matching grants

Because of the fiscal exigencies and bond moratorium, Governor Rowland has not yet authorized the bond allocation for the current fiscal year higher education endowment fund-raising match. Given the financial constraints, it is doubtful those monies will be allocated anytime soon. More to the point, Governor Rowland believes it is a poor practice to continually bond such costs. Therefore, he is recommending that the match for each of the years of the biennium be deferred into the future.

Thus far, approximately $40 million has been granted to UCONN, Charter Oak State College, the Community Colleges and Connecticut State University System since 1997.



Tuition aid

In addition to significant block grant and bond investments in higher education, the state has also increased its commitments to financial aid to ensure access and affordability for state students. From FY 1994-1995 to estimated spending this fiscal year, the state's three major programs for college students have increased dramatically:

- Connecticut Aid for Public College Students (CAPCS) has increased from $5.6 million to $17.5 million, an increase of over 200 percent.
- Capitol Scholarship Program (CSP) (not strictly limited to public college or in-state students) has increased from $2.2 million to $4.9 million, a 123 percent increase.
- Connecticut Independent College Student Grant (CICSG) has increased from $12.1 million to $15.9 million, an increase of 31 percent.

CONNECTICUT INDEPENDENT COLLEGE STUDENT GRANT (CICSG)

	Available Funding	Est. # Recipients	Avg. Award	Change In # Recipients
SFY '03	$15,888,864	4,022	$3,950	
SFY '04	$12,067,492	4,022	$3,000	0
SFY '05	$12,067,492	4,022	$3,000	0

CONNECTICUT AID FOR PUBLIC COLLEGE STUDENTS (CAPCS)

	Available Funding	Est. # Recipients	Avg. Award	Change In # Recipients
SFY '03	$17,539,728	11,158	$1,572	
SFY '04	$17,539,728	11,158	$1,572	0
SFY '05	$17,539,728	11,158	$1,572	0

This is profound growth over that period of time. Because of the exigencies, increases are not practical. To continue to ensure adequate funding across-the-board, Governor Rowland is proposing the following changes and funding in these grant areas:

- For CSP, funding of $5.1 million in each fiscal year of the biennium, an increase of about $200,000. About 3,500 students will be served each year.
- For CAPCS, level funding against this fiscal year's estimated spending after rescissions. About the same number of students, 11,160, should be able to be aided under this plan. Funding per student should remain the same at about $1,572.
- Governor Rowland would restructure the CICSG grant and reduce funding to about $12.1 million in each fiscal year, from about $15.9 million this fiscal year. The funding level is basically what it was in FY 1994-95. In the current fiscal year, about 4,020 students received an average grant of $3,950 under the CICSG program. During the biennium, it is proposed

that the amount per grant be reduced to $3,000, allowing the same number of students to receive the grant, even with the reduced funding available.

21st Century UCONN continues

Governor Rowland's UCONN 2000 promised about $1 billion to rebuild, renew, and enhance the UCONN Storrs campus and the regional campuses. UCONN 2000, which began in FY 1995-96 and runs through FY 2004-05, has transformed the campus and has made the University of Connecticut one of the best public research institutions in the nation.

Governor Rowland's UConn Capital Investment Plan (In Millions)

Fiscal Year	UConn 2000	UConn 21st	UConn GO	Totals
96	$112.5		$18.0	$ 130.5
97	112.0		9.4	121.4
98	93.1		0.0	93.1
99	64.3		0.0	64.3
00	130.0		2.0	132.0
01	100.0		20.0	120.0
02	100.0		0.0	100.0
03	100.0		0.0	100.0
04	100.0		1.0	101.0
05	50.0	$ 50.0	6.0	106.0
06		79.0	0.0	79.0
07		89.0	0.0	89.0
08		120.0	0.0	120.0
09		155.0	0.0	155.0
10		160.5	0.0	160.5
11		161.5	0.0	161.5
12		138.1	0.0	138.1
13		129.5	0.0	129.5
14		126.5	0.0	126.5
15		90.9	0.0	90.9
Grand Total	**$962.0**	**$1,300.0**	**$56.4**	**$2,318.4**

The job, however, was not done. Last session, the Governor proposed the 21st Century UCONN Program, which commits the state to funding an additional $1.3 billion 11-year program which goes through FY 2014-15. These capital improvements will occur at the Storrs, regional and health center campuses. Despite the fiscal crisis, Governor Rowland is proposing no changes to the new program or to his commitments to the other higher ed units. It is his belief that these investments must move forward and that the debt issued here will reap huge rewards down the road. Instead, Governor Rowland is limiting other types of bonding to preserve higher ed investments.

This physical transformation has allowed UCONN to attract a greater number of academically gifted students. In the years to come, it is hoped that these students will be the leaders of the state's economy.

With this additional capital funding, UCONN will have an elegant and modern set of campuses that will continue to attract the state's best and brightest students. Keeping these students in Connecticut for their post-high school education years is a key to retaining them in the state after graduation.

The $300 million investment in the University of Connecticut Health Center that is in the 21st Century UCONN plan is critically important because, except for a $40 million research wing backed by Governor Rowland, few capital investments have been made in the now decades-old health campus. Without the similar refurbishment as at Storrs, UCHC will be unable to emerge as a truly premier research center.

All told, over the 20-year period, a total of more than $2.3 billion will have been invested in the UCONN system.

Renewed commitments to CSU and CTCs

Governor Rowland continues his commitment to the other higher ed units as well and slightly augments their capital funding. His commitment to the state university system (CSU) has increased by about $176 million,

Governor Rowland's Latest CTC and CSU Capital Investment Plan (In Millions)

Fiscal Year	Authorizations* CTC	Authorizations* CSU
96	$18.2	$47.4
97	14.8	56.1
98	19.5	34.1
99	69.7	30.5
00	77.2	80.6
01	74.9	88.4
02	69.1	88.6
03	25.7	64.6
Total	$369.0	$490.3
	Recommended	Recommended
04-Est	$133.8	$119.9
05-Est	70.4	80.3
06-Est	67.0	76.0
07-Est	67.7	76.1
Total	$338.9	$352.3
Grand Total	**$707.9**	**$842.6**

***Does not reflect subsequent legislative cancellations**

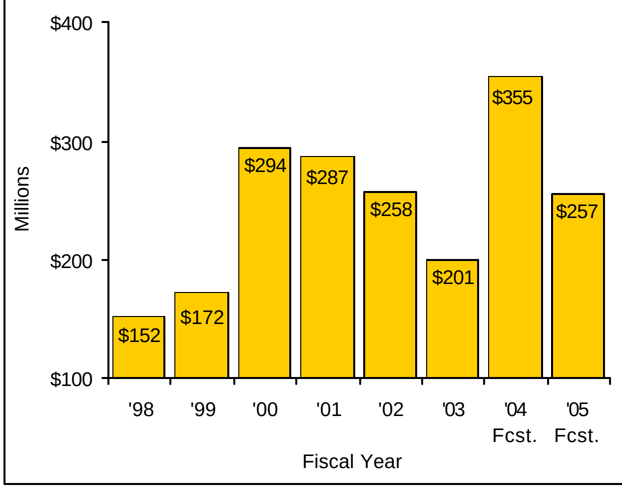
and to the community colleges (CTCs) about $30 million.

Total capital funding now available to CSU since the Governor came to office and through FY 2006-07 is $843 million; for the CTCs it is $708 million.

Total capital commitments for higher education

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. Total capital dollar commitments for higher education signed into law under his tenure will be over $3.8 billion.

Higher Education Authorizations



Higher education authorizations will total $355 million in the first year of the biennium and $257 million in the second year.

Higher Education Allocations
(In Millions)

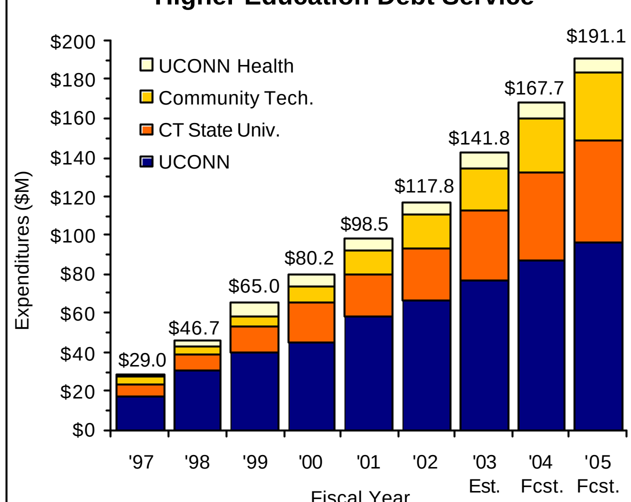
Calendar Year	UConn 2000	UConn G.O.	UCHC	CSU	CTC	School Const.	Total
90	$	$ 24.6	$ 32.9	$ 34.9	$ 22.1	$ 96.1	$ 210.6
91		33.7	5.3	25.2	2.1	80.1	146.4
92		27.1	8.5	31.8	7.4	169.7	244.5
93		56.9	6.4	34.3	9.4	139.8	246.8
94		54.7	14.4	33.9	28.0	164.0	295.0
95	112.5	32.9	4.4	17.3	10.0	131.3	308.4
96	112.0	11.9	0.0	45.1	9.5	89.4	267.9
97	93.1	25.1	41.8	17.3	6.4	160.1	343.8
98	64.3	5.8	8.0	79.5	41.0	230.8	429.4
99	130.0	2.0	0.2	45.1	16.0	343.3	536.6
00	100.0	20.0	3.1	102.6	94.7	196.8	517.2
01	100.0	0.0	10.8	99.9	59.7	348.0	618.4
02	100.0	0.0	5.6	75.4	17.1	476.0	674.1
03-Est	100.0	1.0	0.0	80.0	80.0	450.0	711.0
04-Est	100.0	6.0	0.0	80.0	80.0	600.0	866.0
05-Est	100.0	0.0	0.0	80.0	80.0	623.0	883.0

Higher ed allocations have also been at record levels under Governor Rowland as each of the constituent units aggressively renovates campuses or is relocating them.

This commitment has translated into a high level of debt service paid by the State Treasurer on behalf of the higher ed units. Annual debt service on higher education capital projects is estimated to be $141.8 million. That will rise to $167.7 million in FY 2003-04 and $191.1 million in FY 2004-05.

Almost 14 percent of general fund debt service in the biennium will be for higher ed projects. The numbers will only continue to rise as more refurbishment of campuses is done. Thus, when considering support for public higher education in the state, it is important to include not only general fund block grant appropriations and fringe benefits payments on behalf of the units, but also the annual amount of debt service in the general fund.

Higher Education Debt Service



Total education commitments

In FY 2003-04, $843 million in total higher and lower education bond authorizations are recommended. That number increases to $890.7 million in FY 2004-05.

Governor Rowland's Education Commitments

		FY-04		FY-05
Department of Education				
School Construction	$	488.0	$	623.0
ASD		1.0		5.0
CT Education Network		5.0		5.0
Wiring		(5.0)		0.0
Sub-Total	**$**	**489.0**	**$**	**633.0**
Connecticut State University	$	119.9	$	80.3
Community Technical Colleges		133.8		70.4
University of Connecticut-21St		100.0		100.0
University of Connecticut-GO		1.0		6.0
UCHC		(2.0)		*
Library-Arts		1.0		1.0
Sub-Total	**$**	**353.7**	**$**	**257.7**
Grand Total	**$**	**842.7**	**$**	**890.7**

* UCHC included under UCONN 21st Century financing plan

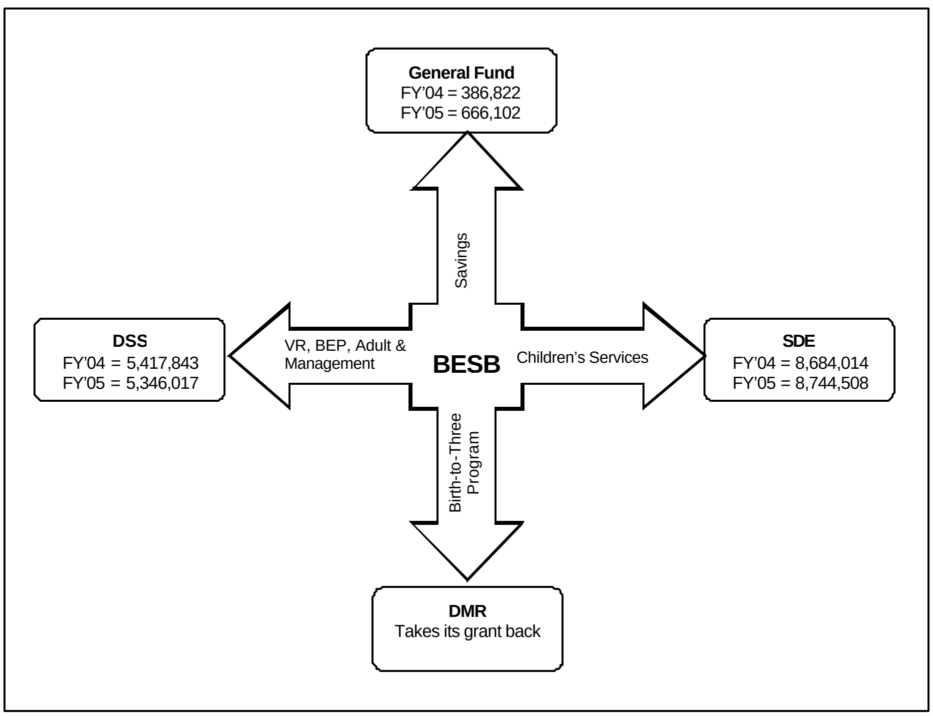
Restructuring BESB and CDHI

In Governor Rowland's budget, citizens with visual or auditory impairments will encounter improved rehabilitation competencies with the absorption of most of the functions of the Board of Education and Services for the Blind (BESB) and the Commission on the Deaf and Hearing Impaired (CDHI) into the Department of Social Services (DSS). Additional services will be transferred to the state Department of Education (SDE).

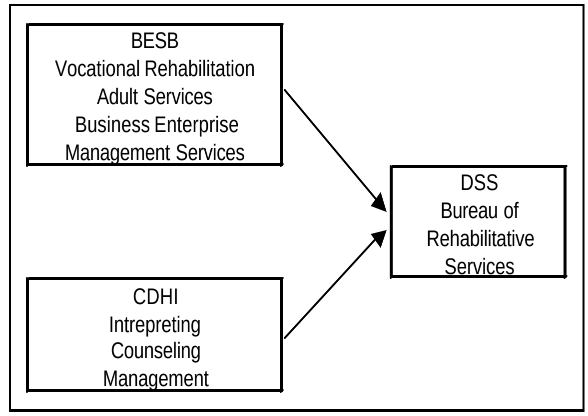
This budget recommendation is consistent with findings by the Legislative Program Review and Investigations Committee's (LPRIC) reports on BESB. During reviews of two of BESB's major programs, the education of children and business enterprises (vending/cafeteria operations), LPRIC judged the management of BESB programs so negatively that it recommended that the agency should be moved to DSS. Governor Rowland's budget addresses these difficulties with his recommendation to move most of BESB's operations into DSS.

The DSS' Bureau of Rehabilitation Services (BRS) is a federally approved entity that provides a myriad of services to the state's citizens who have physical impairments. By combining both BESB and CDHI into BRS, persons with physical impairments will be served by a single entity, rather than multiple agencies.

The education of blind children program will be transferred to the State Department of Education (SDE). A recent LPRIC study of this program found significant inequities in the distribution of funding and programming for children who are blind. Therefore, the budget recommendation is the beginning of a process to evaluate and then improve the education of children who are blind. SDE's well-informed special education experts will lead the state's efforts to provide a first class education for children who are blind.



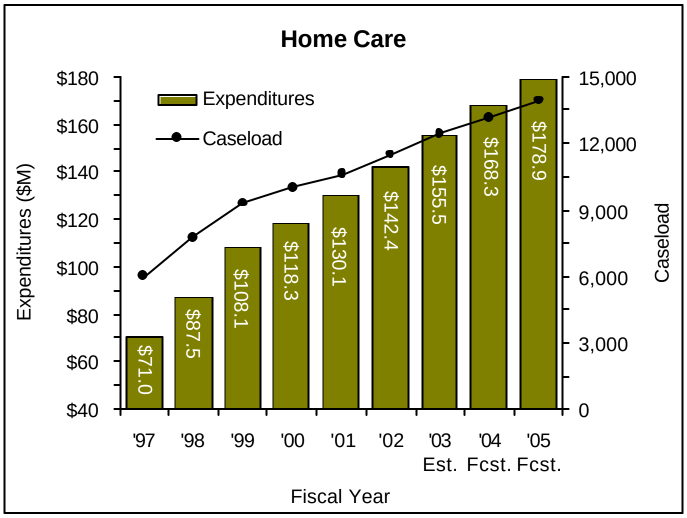
The interpreting, counseling, and management units of the Commission on the Deaf and Hearing Impaired will be transferred to the DSS. With the consolidation of BESB into DSS, it makes sense to move CDHI over as well. In DSS, former BESB and CDHI staff will continue the important advocacy work that they had done, but they will be freed from the strain of financially managing programs.



Maintaining a Commitment to the Development of Nursing Home Alternatives

In the midst of our current budget crisis, there are certain areas where Connecticut must continue to show the leadership and foresight to invest and plan for our future. One of those areas that Governor Rowland has continually supported has been the development and expansion of home and community-based services to help give our elderly and disabled residents options to stay in the community and avoid entering an expensive nursing home.

For the past eight years, Governor Rowland has championed the enhancement of long-term care alternatives in the community. In partnership with the General Assembly, the Governor has implemented numerous initiatives to expand the community options available to our elderly residents and citizens with disabilities. The Governor's biennial budget maintains his commitment to this vital issue.



The changes in the state's long-term care environment have been extraordinary. In January of 1997, Governor Rowland ended the practice of rationing home and community care by setting up a no waiting list policy on both the State-funded and federal Medicaid waiver home care programs. Due to his unprecedented commitment to home care and the additional expansions outlined below, there has been a significant increase in the number of individuals receiving home care and assisted living from both the state and Medicaid portions of the Connecticut Home Care Program (CHC) for Elders. Since the change in philosophy, home care enrollment in both portions of the program have more than doubled, increasing from 6,024 in December 1994 to 12,566 in December 2002. Expenditures for the home care programs will be $179 million by FY 2004-05.

Expanding home care eligibility

The Connecticut Home Care (CHC) program provides to those seniors 65 years and older who are at risk of nursing home institutionalization the necessary services to keep them at home and in the community. An array of services, ranging from medical to support services, is available to assist elders in the community.

Effective October 1, 2000, the Department of Social Services (DSS) began implementing the Governor's landmark proposal to include a "medically needy" component to the CHC program, allowing individuals with incomes over 300 percent of the Supplemental Security Income (SSI) level to be eligible for the program as long as they apply some of their income toward their care and their income does not exceed the cost for nursing home care. Individuals are allowed to retain income up to 200 percent of the federal poverty level (approximately $1,500 per month). All other income is applied towards their care.

Prior to October 1, 2000, an individual's income could not exceed 300 percent of the SSI threshold. If an individual was as little as one dollar over the income limit, even if they met other CHC program eligibility criteria, they were ineligible to receive CHC program services. Ironically, most of those same individuals would be allowed to apply their income to nursing home care and be covered by Medicaid. Thus, the CHC program, with its strict income guidelines, was in effect forcing individuals out of home care and into more-expensive nursing home care.

Approximately $1.7 million is included in the Governor's budget for FY 2003-04 and $1.8 million is included for FY 2004-05, to maintain this initiative of the CHC program that provides Connecticut's elders with choices as to where they receive their long-term care. And for many, it will potentially delay or eliminate the need for costly nursing home care.

The funding for this expansion is budgeted in the state-funded portion of the CHC program because the federal government has, up to now, rejected this buy-in approach for home care covered through Medicaid. Connecticut is poised to make a similar expansion for the Medicaid waiver portion of the CHC program as soon as federal approval can be secured. Governor Rowland continues to raise the inequities and shortsightedness of the federal policy.

Expanding assisted living options

One of Governor Rowland's most important long-term care initiatives, originally passed in 2000 by the General Assembly, was the expansion of assisted living services in state-funded congregate housing, federally financed HUD complexes and new subsidized assisted living facilities. In addition, in August 2002, the General Assembly, at Governor's Rowland's request, authorized the implementation of two new assisted living pilots aimed at helping individuals residing in private pay assisted living facilities.

In congregate housing

Beginning in 2001, the Department of Economic and Community Development (DECD) and DSS introduced assisted living services within state-funded congregate housing facilities. Sixteen of the 24 congregate facilities are participating in this service expansion. The Governor's budget includes $690,992 in FY 2003-04 and $725,542 in FY 2004-05 to continue implementation of this initiative. As of December 31, 2002, 136 congregate residents were actively enrolled in the assisted living program. Since the program was implemented in May 2001, a total of 232 residents have received assisted living services through the program.

DECD has also begun the process to implement the Governor's proposal to build 95 new congregate units over the next three years. These new units, which will be built in Bridgeport, Danbury and New Haven, will include the enhanced core services noted above, with the option of also including assisted living services.

In addition, $600,722 in FY 2003-04 and $617,542 in FY 2004-05 is included to continue the provision of grants to all 24 congregate facilities for a resident coordinator, prevention and wellness programs and emergency transportation needs.

In HUD complexes

Another of Governor Rowland's long-term care initiatives was to forge a partnership with the federal government by providing assisted living services within federally financed HUD complexes. Three HUD facilities are participating in the pilot. Funding of $359,014 is included for FY 2003-04 and $378,903 is included for FY 2004-05 to continue this pilot.

As of December 31, 2002, 90 residents in two HUD facilities (in New Haven and Hartford) were actively receiving services through the pilot, with the third HUD pilot (in Storrs) just beginning implementation. Since the program was implemented in May 2001, a total of 127 residents have received assisted living services through the program.

Average Monthly Costs Based on Type of Care

$5,177	Medicaid Nursing Facility Rate (without applied income)
$1,450	Assisted Living (without applied income)
$1,180	Home Care (combined Waiver and State-funded)

The congregate and HUD assisted living programs serve residents through four levels of care. Even at the lowest level of care, the program is providing preventive services to reduce the risk of a premature and unnecessary entrance to a nursing home, as well as the need for additional assisted living services. For example, assistance with the management of medications can sometimes be all a client needs in the assisted living program, but the absence of that help could lead to serious complications and possible need for a higher level of care.

Cost-savings and dignity

For those residents who need even higher levels of care, the program certainly is delaying or eliminating the need for nursing home care. Of the 359 residents who have received services under the program, a conservative estimate is that approximately half of them would have entered a nursing home in a short period of time had it not been for the program. With an average cost under the assisted living programs of approximately $900 per month for DSS clients and $500 a month for DECD clients, the state is realizing considerable savings when these costs are compared to the average monthly Medicaid nursing home cost of over $3,600. While some of these residents eventually needed to enter a nursing home due to health reasons, the assisted living program was instrumental in maintaining them in their residence for as long as possible, not only saving funds but providing these seniors with the dignity of living in their own residence.

Private pay assisted living pilots

The congregate and HUD assisted living programs noted above are important components of the Governor's strategy to help low-income elderly and individuals with disabilities remain in the community as long as possible.

However, the Governor is also committed to trying to help those individuals residing in private pay assisted living facilities who exhaust their resources and may be forced to enter a nursing home prematurely. To help these individuals and families, at the request of Governor Rowland the General Assembly in August 2002 authorized the development of two pilots to help residents in private pay assisted living facilities avoid entrance to a nursing home once they have exhausted their personal resources.

Medicaid-funded pilot

This pilot will allow up to 50 persons residing in private pay assisted living facilities to receive support from Medicaid, through the CHC Program, for their assisted living services once they have exhausted their resources. While the pilot will not pay for any room and board charges, it will help subsidize the cost for services, which oftentimes can be the reason the individual can no longer afford to live in the facility.

State-funded pilot

Similar to the Medicaid-funded pilot, the State-funded pilot will allow up to 25 individuals residing in private pay assisted living facilities to receive support for their assisted living services under the State-funded component of the CHC Program. Room and board charges will not be covered.

Both pilots began implementation in January 2003. To date, 30 individuals have applied for the pilots. Twenty-five assisted living communities have expressed a desire to participate in the pilots and are in the process of becoming authorized to provide services under the program. The Governor's budget assumes a savings of $1.0 million for FY 2004 and $2.6 million for FY 2005 for this initiative since it is assumed that in the absence of the pilots these individuals would have entered a nursing home as Medicaid clients.

In free-standing units

Over the past several years, DECD, DSS and the Connecticut Housing Finance Authority (CHFA) have been developing the Assisted Living Demonstration Project which, when fully operational, will provide over 275 subsidized assisted living units in both urban and rural settings.

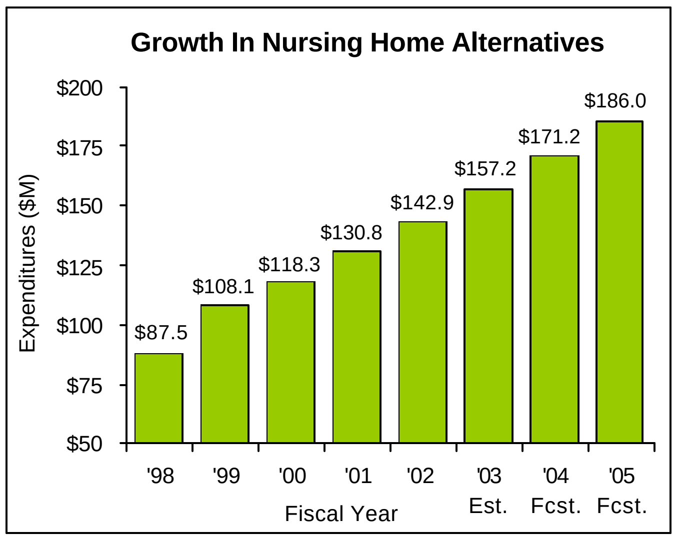
This unique project combines the development financing through CHFA, the necessary housing component through rental subsidies from DECD, and services through DSS' CHC program. Five projects have been approved in the cities of Glastonbury, Hartford, Middletown, New Britain and Seymour. Financing packages are being finalized and the first units should open sometime in 2004.

The Governor's budget includes $2,275,300 for rental subsidies and services in FY 2003-04, with a fully annualized cost of $7,234,300 included for FY 2004-05. When fully annualized, the budget will support 276 subsidized assisted living units under the program.

Rate increases for home care program

Governor Rowland recognizes that building a continuum of care and expanding home care and assisted living cannot be done without adequately funding providers. This is especially true in this tight health care environment.

The biennial budget includes a 2 percent rate increase for all community, home care and adult day care providers in Medicaid and the state-funded program. A total of $3 million in FY 2003-04 and $7.2 million in FY 2004-05 is provided in various accounts for these increases.



In addition, the Governor's budget proposes to curtail abuse in the home care system by closing down a loophole and reforming the payment system for certain psychiatric nursing visits and a small number of other types of visits. The initiative, which begins April 1, will save about $15 million when fully operational in FY 2003-04. This change not only helps balance the budget but also ensures that home care dollars are used appropriately and that more funding is available for program enrollment and expansion and to pay rate increases for all providers in the future.

All told, the Governor's budget calls for spending $186 million for alternatives to nursing homes in FY 2004-05.

Transfers of Assets

In 2001, at the request of Governor Rowland, the General Assembly included a provision in Public Act 01-2 instructing the Department of Social Services (DSS) to apply for a waiver from the federal government to tighten the penalty period provisions for transfers of assets under the Medicaid program. The waiver proposal, which DSS has submitted to the federal government, will change the start of the transfer of asset penalty period to the date of Medicaid eligibility as opposed to the current practice of when the transfer was made.
The current transfer of asset penalty period provision creates opportunities for individuals to transfer significant resources for less than fair market value and not be deemed ineligible for Medicaid for even one day. The waiver proposal, if approved by the federal government, will help Connecticut

target Medicaid services to those most in need and to those who legitimately utilized their resources to pay for their care. Approximately $5.5 million is assumed as savings in FY 2003-04 and $14.0 million in FY 2004-05 for this provision.

Important to this initiative is the presence in Connecticut of the Partnership for Long-Term Care program, the first program of its kind to link private long-term care insurance and the Medicaid program. While not appropriate or available to all, the Partnership can provide an important long-term care-planning tool that allows policyholders to privately fund for the front end of their long-term care with the ability to protect some or all of their assets if they need Medicaid after their private insurance is exhausted. While the Partnership has experienced success to date, with over 27,000 Connecticut residents having purchased policies, the closing of a major loophole regarding transfers of assets will make private options, such as the Partnership and long-term care insurance in general, more attractive and important to Connecticut residents.

Taken more generally, such Medicaid waivers are essential if the state and nation are ever going to afford to take care of elderly citizens in the future. Indeed, for each state to be successful at taking care of its citizens in old age, long-term care insurance, Medicaid loophole closure, and investments in a continuum of care must all be looked at and approached together. Residents must essentially be willing to enter into a covenant with the state. Equity and fairness must prevail.

Long-term care insurance will never become broad-based or universally accepted unless Medicaid loopholes are closed. A continuum of care will become far too expensive unless Medicaid loopholes are shut down. Long-term care insurance will never be viable unless a cost-effective system of care – a true continuum – with a full array of services is offered for residents at all income levels. Each issue feeds the other. You need each to build a successful system. With a full continuum and Medicaid loopholes shut down, the covenant concept can take hold. Over time, citizens will understand that long-term care insurance makes sense, especially if the state is there to help out after that insurance has been exhausted.

In anticipation of the approval of the waiver, the budget submits legislation making it permissive to reimburse nursing homes, within available appropriations, if they shoulder a disproportionate burden because of the denial of Medicaid coverage for the elderly. Further, laws will be strengthened so as to allow the state to aid nursing homes in obtaining reimbursement from family members who received a transfer of asset or income and bills are not being paid for a family member’s long-term care.

The biennial budget also submits three other proposals involving transfer of assets in an effort to make the eligibility system fair to all and to ensure that precious resources are being used on those who need it most. They are described below.

Modify the treatment of assets in Medicaid cases involving community spouses

Section 1924 of the Social Security Act provides that in Medicaid cases involving a community spouse and an institutionalized spouse in long-term care, a State must allow the community spouse to retain, from the couple's total income and assets, a certain amount of income and assets to avoid impoverishment.

The income of the spouse living in the community should be sufficient to meet his or her Minimum Monthly Needs Allowance (MMNA) in the community setting, which is between $1,492 and $2,232 per month, and assets should be protected up to a certain level, called the Community Spouse Protected Amount (CSPA), which is to be between $18,132 and $90,660.

This proposal seeks to mandate that income be “diverted” to the community spouse before assets -- an income first policy. The "income first" methodology would allow savings to the State because it would delay Medicaid eligibility by requiring a couple to apply more of their assets to the cost of care -- before the institutionalized spouse would qualify for Medicaid.

For example, Mr. and Mrs. Jones, an elderly couple, have a home and $200,000 in the bank. Mr. Jones receives $1,400 per month in Social Security benefits. Mrs. Jones receives $900 per month in Social Security benefits. Mr. Jones becomes ill and needs permanent care in a nursing home. Mrs. Jones applies for Medicaid for her husband. Under Spousal Impoverishment rules, Mrs. Jones would be able to keep her home and protect approximately $90,000 of the couple's assets. However, the remaining $110,000 in assets would be considered available to Mr. Jones.

Because the Medicaid asset limit is $1,600, DSS would deny his application based on excess assets. The couple could then ask for an administrative hearing, where the "income first vs. assets first" decision would be made by the hearing official. The hearing would be based on Mrs. Jones' claim that she needs the remaining $110,000 to generate income for herself.

Under the assets first methodology, Mrs. Jones would be able to keep her home and protect approximately $90,000 of the couple's assets. In addition, she would keep her $900 per month Social Security benefit. However, DSS determines that she needs $1500 per month to meet her Minimum Monthly Needs Allowance (MMNA). She is short $600 per month. The hearing official would determine the amount of assets needed to generate the required income based on the current average interest rate generated by a 12-month CD. Clearly, Mrs. Jones would need all the extra assets to generate the required income. Therefore, she would be able to keep the entire $200,000 and the hearing official would order Mr. Jones' Medicaid case granted, if he met all other eligibility requirements. In addition, if Mrs. Jones still did not have the required $1500 per month to live on, even with the extra assets, the hearing official could order part of Mr. Jones' monthly income diverted to her to make up the difference.

Under the income first methodology, Mrs. Jones would be able to keep her home and protect approximately $90,000 of the couple's assets. In addition, she would keep her $900 per month Social Security benefit. However, DSS determines that she needs $1500 per month to meet her Minimum Monthly Needs Allowance (MMNA). She is $600 per month short. The hearing official would order $600 per month from Mr. Jones' Social Security benefits diverted to Mrs. Jones to make up the difference. The Medicaid denial for Mr. Jones would still stand because the $110,000 in excess assets is still available to him.

Mr. Jones would have to use some of his assets for nursing home care before becoming eligible for Medicaid coverage.

Expand Medicaid's definition of estate under treatment of assets to include annuities

This option is intended to close an existing loophole under Connecticut's Medicaid program by including an annuity as the property of a deceased Medicaid beneficiary. Currently, when a person applies for Medicaid assistance, some portion (possibly substantial) of countable assets may have been used to purchase an annuity contract, which could be used to pay for their ongoing care. For example, the annuity may generate needed income to pay for the patient's care within the period when the patient is expected to need care prior to death. However, should the patient die sooner than expected, beneficiaries (other than CT's Medicaid program), would receive the remaining balance of the annuity.

By expanding Medicaid's definition of "estate" to include an "annuity", Connecticut's Medicaid program will be able to recover some or all of its long-term care costs from the balance of the annuity prior to other named beneficiaries receiving payments.

Allow for estate recovery under ConnPACE

Under the Medicaid program, there is a benefit recovery process in place upon the death of a nursing home recipient (or for any Medicaid client who begins to receive benefits at age 55 or older). In addition, the TFA and State Supplement programs also recover for benefits after a client's death. There is no such system under ConnPACE.

In the Governor's budget, ConnPACE policy would be revised to allow for the recovery of benefits paid out for enrollees upon their death. No savings are reflected in FY 2003-04 and only modest savings in FY 2004-05 since it is assumed that ConnPACE enrollees would first need to assign the State an interest in their estate at the time of redetermination. While the savings over the biennium are not substantial, this policy change should be implemented to be consistent with other DSS programs.

Systems Change Grants

In September 2002, the Department of Social Services (DSS) received a three-year $1.85 million grant from the U.S. Department of Health and Human Services to help Connecticut develop model communities for individuals with disabilities. The grant, called the Real Choice Grant, was awarded as part of President Bush's New Freedom Initiative and Systems Change Grant for Community Living program.

DSS has contracted with the University of Connecticut's Center for Disabilities to implement this initiative. When fully implemented the grant will assist three communities to become models for individuals with disabilities to live independently in the community with the choices and dignity they deserve.

The Real Choice Grant is the second Systems Change grant Connecticut has received. In September 2001, DSS also received a three-year $800,000 grant from the U.S. Department of Health and Human Services to help transition individuals with disabilities out of nursing homes and back to the community. Both these grants will significantly help Connecticut in its efforts to provide community options for nursing home residents and comply with the Olmstead Supreme Court decision dealing with the provision of supports in the least restrictive setting.

Despite the progress made in Connecticut, it and other states will be challenged by the Olmstead decision, which determined that states will now be required to develop community infrastructures to support transfer of individuals from nursing homes and other institutions into less-restrictive community settings and prevent institutionalization.

Developing the continuum: A timeline

The rapidity with which the state has begun revamping its long-term care system is a testament to the foresight and dedication of Governor Rowland and the hard work of numerous individuals throughout state government. The policy rationale for developing a full continuum is clear: it is cost-effective when compared with nursing home institutionalization and it ensures that our elders live in the community with dignity intact well into their senior years.

The following timeline illustrates certain milestones in the Governor's development of nursing home alternatives and when the various initiatives described above were, or will be, operational.

Governor Rowland's Continuum of Care

Jan. 1997	No Waiting List Policy Instituted for Home Care Program
Jan. 1998	Home Care Program Waiting List Eliminated
July 1998	St. Jude Congregate Assisted Living Pilot
Oct. 2000	Home Care Program Eligibility Expanded
May 2001	Assisted Living in Congregate and HUDs Initiated
Jan. 2003	Private Pay Assisted Living Pilots Implemented
Spring 2004	First of 276 Assisted Living Demonstration Units Come Online
Sept. 2004	Over 600 Individuals Covered Under Medicaid and State-Funded Assisted Living Programs

Putting Reins on the Human Services Safety Net

A plethora of national studies notes that Connecticut has one of the richest human services infrastructures in the nation. And any number of indices suggests that Connecticut is a better place for it. State residents' overall health, their insurance status, and their access to services are second to none.

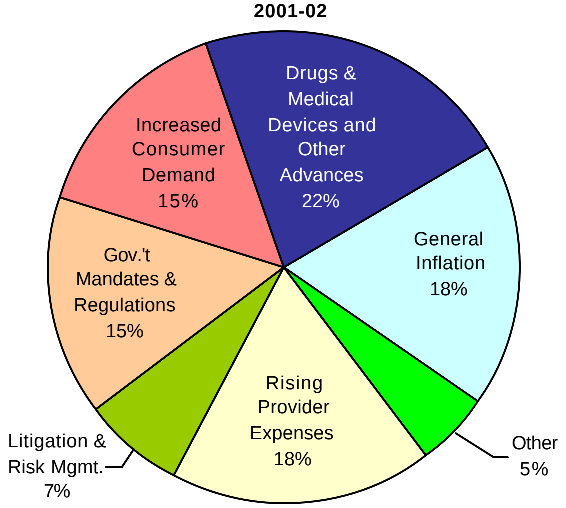
But with that rich safety net came a price – huge health-care inflation and burgeoning eligibility rolls that have bankrupted the state. As we noted earlier, even the most vigorous revenue growth could not pay for the system Connecticut has built.

Given the fiscal crisis, it is clear that we have to dismantle some of the pieces of the infrastructure and change the menu of services in other places. Without doing so, the system and the state budget that supports it will simply fall in on itself.

Critics will call some of the proposals here radical. That's probably not an understatement. But at the same time, critical services for hundreds of thousands will stay intact. And where there has been elimination of services, Governor Rowland has tried his hardest to ensure that more cost-effective alternatives exist to serve these former clients.

Health care costs skyrocketing

Factors Driving Rising Costs In Healthcare
2001-02



Source: Managed Healthcare Executive

Health care inflation in the state budget is the single source of the greatest increase in costs.

Employers saw premiums jump 12.7 percent between the spring of 2001 and spring of 2002. That was the highest one-year increase since 1990. Private-sector health costs are expected to be up 15 percent for 2003, the fourth-straight year of double-digit growth. In general, the budget is seeing between 15 percent and 20 percent inflation in health-related areas.

There is not one single driver of health care costs today. The cost increases, as noted in the accompanying chart, are evenly spread out among a number of complex and perplexing areas. Further, state government is more vulnerable than the private sector because of the richness of its state employee and retiree plan and the Medicaid benefit, as well as the profile and acuity of the clients we serve.

In the end, with limitations on the ability to cost-cut, the state must look to increasingly dramatic ways to reduce its health outlays.

Caseload as of January, 2003
(or as noted)

Managed Care	
HUSKY A - *as of January 1*	289,333
HUSKY B - *as of January 1 (bands 1 & 2 only)*	13,648
Medicaid Fee-For-Service	104,000
Nursing Homes	
Licensed Beds (all payors)	31,092
Medicaid payments	19,954
ConnPACE	50,260
SAGA	
SAGA - Medical - *as of November 30*	24,706
SAGA - Cash - *as of November 30*	4,646
TFA	24,297
Home Care	
Waiver - *as of December 1*	8,875
State Funded - *as of December 1*	3,691

Entitlement, eligibility, and benefit changes

Given the magnitude of the problems facing the state budget, Governor Rowland is recommending a series of changes to the state's entitlements. In general, these changes can be broken down into the following areas: repeal of certain entitlements; the removal of certain eligibility groups from the benefit rolls, reductions in benefit levels for remaining recipients, new or increased cost-sharing for recipients, and competitive bidding and provider reimbursement reductions.

As outlined in an earlier section, these are the strategies being utilized by 40-plus states throughout the nation. They have become an absolute necessity in these tough economic times.

Elimination of entitlement programs and removal of eligible groups

Elimination of the State Administered General Assistance Program

The Governor has made the hard choice to eliminate cash and medical assistance to clients under the State Administered General Assistance (SAGA) program. SAGA is the cash and medical assistance program for residents who are not eligible for Medicaid, Temporary Family Assistance or Aid to the Aged, Blind and Disabled program.

Unfortunately, despite scaling back the program over the years, medical costs continue to soar each year, to the point that the state can no longer afford to continue the program, which was projected to cost $134.1 million in FY 2003-04 and $145.9 million in FY 2004-05. By proposing to eliminate SAGA, Connecticut will join many other states that have been forced to close their General Assistance programs.

Changes to General Assistance Programs (In Millions)

	FY 04	FY 05
Department of Social Services		
Eliminate State Administered General Assistance (SAGA)	(105.4)	(141.9)
Transfer Behavioral Health Prescription Dollars to DMHAS	(4.0)	(4.0)
Increase Disproportionate Share Funding in the Uncompensated Care Program for Acute Care Hospitals	58.3	58.3
Increase Funding for Public Acute Care Hospital	1.7	1.7
	(49.4)	(85.9)
Department of Mental Health and Addiction Services		
Eliminate GA Behavioral Health Managed Care	(66.4)	(72.5)
Reallocate Dollars to Community Substance Abuse and Mental Health Accounts	42.5	50.0
Transfer Behavioral Health Prescription Dollars from DSS	4.0	4.0
	(19.9)	(18.5)
Total Changes	**(69.2)**	**(104.4)**

FY 04 Expenditures by Quarter

	First	Second	Third	Fourth	Total
DSS Anticipated Expenditures					
046 Public Acute Care Hospital DSH	0.4	0.4	0.4	0.4	1.7
669 State Administered General Assistance	15.3	9.5	0.0	0.0	24.7
667 DSH - Medical Emergency Assistance	14.6	14.6	14.6	14.6	58.3
	30.2	24.5	15.0	15.0	84.7
DMHAS Anticipated Expenditures					
601 / 606 Grants for Substance Abuse and Mental Health Services	10.6	10.6	10.6	10.6	42.5
023 Behavioral Health Medications	1.0	1.0	1.0	1.0	4.0
035 General Assistance Managed Care	7.5	0.0	0.0	0.0	7.5
	19.1	11.6	11.6	11.6	54.0

In recognition that this proposal will put additional strain on the state's hospitals, $58.3 million has been added to the Department of Social Service's disproportionate share account to help cover uncompensated care costs that will result at the state's private acute-care hospitals. The sum of $1.7 million has also been added to the University of Connecticut Health Center for uncompensated costs at John Dempsey Hospital. Net savings in DSS then is $49.4 million in FY 2003-04 and $85.9 million in FY 2004-05.

Since there will no longer be individuals who qualify for general assistance given the proposed elimination of the SAGA program in the Department of Social Services, the Department of Mental Health and Addiction Services will reallocate $42.5 million in funding in FY 2003-04 and $50 million in funding in FY 2004-05 from their General Assistance managed care account (which funds behavioral health services for GA eligibles) to their grants for mental health and addiction services accounts to continue to provide behavioral health services for these individuals. A total of $4 million that supported pharmaceutical costs for this population will be transferred from the Department of Social Services to the Department of Mental Health and Addiction Services (DMHAS) to continue to support pharmaceutical costs for these clients in DMHAS funded and operated programs.

The sum of $7.5 million remains in the DMHAS GA managed care account for FY 2003-04 to pay the claims lag which results from conversion from fee-for-service to a grant based system.

Net savings in DMHAS due to the elimination of SAGA and DMHAS GA is $23.4 million in the first year of the biennium and $23 million in FY 2004-05. It should be noted that, as a part of the Governor's February rescissions, a reduction of $10 million in the current fiscal year was taken in DMHAS GA, which will mean an immediate reduction in services and potentially an early closure.

Because of new federal rules, certain families that currently are on the DSS SAGA program will end up as covered groups under TFA and Medicaid.

Eliminate Medical Coverage for HUSKY Adults

Medical costs have soared over the last few years. Medicaid is expected to grow 17 percent over the biennium from $2.7 billion in the current fiscal year to $3.17 billion in FY 2004-05 if no changes are made.

The Governor's Healthcare for UninSured Kids and Youth (HUSKY) A (Medicaid) program was introduced in July of 1998. On January 1, 2001, eligibility for the program was expanded to provide coverage for adults in families with income between 100 percent and 150 percent of the federal poverty level (FPL). The entire program insured over 300,000 individuals in January 2003. This represents growth of over 79,000 uninsured adults and children, a 36 percent increase. The cost to enroll these clients has nearly doubled from $357 million in FY 1996-97 to $605 million in FY 2002-03.

In light of the revenue shortfalls, the Governor is proposing a change in the HUSKY program. If the family's income is between 100 percent and 150 percent of FPL, the adults in the household will no longer be eligible for the program. They are proposed to be terminated effective April 1 to gain partial savings this fiscal year. The children in such households will continue to be eligible for the program. In households with income less than 100 percent of the FPL both children and caretaker adults, will continue to be eligible. The eligibility change will mean the reduction of 27,000 individuals in the biennium.

The budget anticipates savings of $54.9 million in FY 2003-04 from this change and $65.9 million in FY 2004-05.

It is expected that the HUSKY A children's rolls will continue to increase steadily, by more than 27,100 in the biennium, and full funding is appropriated for projected growth.

Eliminate other optional medical coverage in Medicaid

In addition, the Governor is proposing to end three other optional eligibility coverage groups. Presumptive eligibility (PE) allows individuals who apply for Medicaid at certain sites immediate eligibility for up to 60 days before their full applications are processed and complete and eligibility is determined. Oftentimes, recipients will never complete the necessary paperwork and end up getting onto Medicaid through PE multiple times.

Guaranteed eligibility (GE) allows adults and children in the managed care system to remain on the Medicaid rolls for at least six months, regardless of changes in eligibility or income status. GE is available only once in a lifetime. Continuous eligibility (CE) allows children in Medicaid to remain in the system for one year, regardless of changes in eligibility or income status.

The Governor is proposing to end all three of these optional eligibility systems effective April 1. Best estimates suggest that about 7,000 recipients will be removed from the Medicaid rolls who are currently CE or GE eligible. The PE change will simply mean fewer individuals coming onto Medicaid, or at least coming on earlier. PE for pregnant women with income no greater than 185% of the federal poverty level will be unchanged.

Further, the Governor is also proposing an end to self declaration, sometimes used in conjunction with PE, which allows recipients flexibility in producing necessary paperwork for Medicaid eligibility if they "self declare" and attest to certain facts about their eligibility.

This budget saves, through the elimination of these optional coverage groups, $7.2 million in FY 2003-04 and $12.0 million in FY 2004-05.

Reductions in benefit levels and increased cost-shares

Restructure benefits in Medicaid

Governor Rowland proposes to redesign the HUSKY A and fee-for-service programs for individuals who receive Medicaid benefits to more closely resemble commercial insurance plan coverage and costs.

The Governor has urged the federal Department of Health and Human Services to modernize the 35-year-old Medicaid program by allowing states greater flexibility in administering the program. He and two other Governors are playing lead roles in urging the federal government to set up a system to allow states greater flexibility to reform their programs to make them more cost-effective. As part of their proposal, the Governors seek fast-track authority as well as autonomy to make those changes free of major federal government interference.

The President has responded by including in the 2003-2004 Federal Budget a proposal to give states the option to redesign their programs, granting greater flexibility in exchange for a fixed funding stream.

Governor Rowland proposes that the state use any new flexibility, or if none is passed, the regular 1115 Research and Demonstration process under the federal Medicaid law, to actuarially reduce the state's Medicaid benefit to more closely resemble the largest commercial HMO coverage. Further, to the extent allowed by federal law, the Governor would also seek premium and other cost-sharing as part of the program.

Governor Rowland's proposed restructuring, which would take effect January 1, 2004, at the earliest, would save $6.5 million in FY 2003-04 and $15 million in FY 2004-05.

Current managed care contracts will be extended at least through December 31, 2003. A 2.5 percent rate increase will be added to the program effective January 1, 2004, either based on the existing actuarial benefit levels or a reduced one if implemented in a timely fashion. Contracts could be extended further depending on when the benefit reduction takes place and the status of the KidCare behavioral health conversion described later. The January 1, 2004, rate increases are $6.4 million in FY 2003-04 and $15.4 million in FY 2004-05. HUSKY B rates would be increased on the same basis as well.

Over the past several years, the number of providers in the managed care program has decreased markedly from about a dozen to four at this point. During the current fiscal year, several of the companies indicated they did not want to stay in the program because of cost constraints.

The restructuring of the benefits, removal of adult dental services, and implementing cost-sharing should help. Further, the administration is proposing several statutory changes and administrative changes that should reduce burdens and costs on the HMOs, including mandatory generic substitution for those over 21, reforming burdensome temporary supply mandates that exceed the fee-for-service law, looking at implementing a common formulary for all plans, limitations on certain medical visits and elimination of certain ancillary services, streamlining notice of action and fair hearings, simplifying auditing and paperwork requirements, allowing electronic submission of reports and data, and requiring mandatory lock-in to a plan once chosen for various populations.

In conjunction with the rate increase, these reforms should help keep the network in place. In the event that these reforms and any negotiated rate increase are not enough, the administration is exploring other options for the provision of health services to this population, including keeping the current HMO network but moving to self-insured status or contracting with a non-managed care provider network in the state.

Restructure HUSKY B premium payments, suspend enrollment and restructure benefits

The Governor's HUSKY Program (Healthcare for UninSured Kids and Youth) officially began enrolling clients in July of 1998. The HUSKY B component, a non-Medicaid program, ensured that children in households with income between 185 percent and 300 percent of the federal poverty level (FPL) would have access to quality health care. A buy-in program was also established for households with income above 300 percent of the FPL to allow additional access to health care for children.

As of January 2003, the HUSKY B program insured over 14,000 children. The cost to enroll children with incomes at or above 185 percent of poverty is projected to be $22.3 million in FY 2002-03.

Because of the significant cost of the program, the Governor is proposing to increase premiums for participation in the HUSKY B component. If the family's income is between 185 percent and 235 percent of the FPL (income band 1), a monthly premium of $30 per child will be required, up to a family maximum of $50 per month per household. Families with income between 236 percent and 300 percent of the FPL (income band 2) will pay a monthly premium of $50 per child, up to a family maximum of $75 per month. Currently, income band 1 pays no premium share and income band 2 pays what is being proposed for band 1.

HUSKY Caseload

	HUSKY A Children	HUSKY B Children	
Jun-97	164,665	-	
Jun-98	166,858	80	
Jun-99	174,328	3,479	
Jun-00	176,558	5,586	
Jun-01	170,878	8,281	
Jun-02	191,027	12,401	
Jun-03	211,357	14,341	
Jun-04	224,063	14,341	[1]
Jun-05	238,459	14,341	[1]

[1] Suspends HUSKY B Enrollment over the Biennium.

To further control cost and mitigate the growth in enrollment, this budget also suspends enrollment in HUSKY B through the biennium. Further, similar to the proposal in Medicaid, Governor Rowland proposes to redesign the HUSKY B benefits to more closely resemble commercial insurance plan coverage and costs. Under the federal Title XXI children's health insurance legislation, states must offer benefits that are no less than the largest commercially available HMO coverage. It would be the Governor's desire to reduce benefits to approach that benefit level.

The budget assumes savings of $4.6 million in FY 2003-04 from these changes and $10.78 million in FY 2004-05.

Lastly, the reduction in the HUSKY Plus program that was taken this fiscal year will continue. The funds in FY 2003-04 will mean no new intake into the program. By FY 2004-05, the program will be incorporated into the KidCare behavioral health partnership described later in this document.

Small employer health insurance subsidy program

Governor Rowland continues to believe establishing a small employer health insurance subsidy program is a smart way to improve access to health care, offer residents wider choices, and reduce the overall cost of health care to the state.

It is known that many residents do not wish to enroll family members in state-run health insurance, whether HUSKY A Medicaid or HUSKY B. Yet these individuals either work for a business that does not offer health insurance or are unable to afford the employee premium share of an employer-sponsored plan.

Further, with some individuals being denied access to the Medicaid rolls, a small insurance subsidy program could be a cost-effective way that the state could aid those in need of health coverage.

Finally, the federal government may require the state to expand coverage in this way if it is to approve some of the cost-savings proposals outlined above.

The state would apply for one of a number of possible federal waivers to establish a capped, non-entitlement program for between 3,000 and 5,000 enrollees. Reimbursement could be as high as 65 percent.

The Department of Social Services would contract with one or more small employer purchasing pools or establish other ways of directly subsidizing health premiums. The state would provide subsidies to the employer-sponsored plan to offset employee premium shares. Safeguards would be placed in the program to ensure that employers do not reduce their existing commitments to providing health insurance to their employees. The state would also provide employee premium share subsidies to those participating in the new private provider Municipal Employees Health Insurance Program (MEHIP) option that was described earlier.

Individuals and families with income under 300 percent of the FPL would be eligible to participate in the program. Childless workers would be eligible for a subsidy toward their premium share of $60 per person per month up to the total premium share. Families would be eligible for a subsidy of $100 per person per month up to the total premium share. Individuals eligible for HUSKY A could decline coverage and participate in the new program. Any individuals enrolled in Medicaid fee-for-service, HUSKY A managed care or HUSKY Adults would not be eligible for the subsidy program.

It is anticipated that coverage would be comparable to commercially available HMO coverage in the state.

The Governor's current services adjustments for FY 2003-04 include $1.8 million to implement this plan and $3.6 million in FY 2004-05.

Medicaid Co-Pays

The Medicaid budget continues to see spiraling cost as Connecticut struggles to meet the mandates under federal law. While the vast majority of the cost incurred under the current program is the result of numerous federal requirements, federal law does allow for nominal co-pays under Medicaid. Certain assistance categories, however, are exempt; they are: children under age 21; women who are pregnant (including 60 day postpartum); persons living in nursing facilities; family planning drugs or supplies; certain nutritional supplements and individuals enrolled in MCO's.

In addition, federal rules do not allow a co-pay on emergency services, which would include hospital inpatient care and emergency room services. Under federal law, Medicaid co-pays cannot exceed 5% of the service fee.

The budget anticipates the imposition of co-payments to the extent permitted by federal law on doctor visits, outpatient services and pharmacy. The budget assumes savings of $11.1 million in FY 2003-04 and $11.7 million in FY 2004-05. Also, to the extent allowed by law, the state will seek the ability to withhold services or eliminate someone from the rolls for failure to make co-payments.

The increase in the ConnPACE co-payment for drugs is described below.

Provider rate changes and competitive bidding

Modernize the FQHC Payment System

Recognizing the dire need to modernize various medical payment systems, the Governor is proposing development of a new payment system, administered by the Department of Social Services, for Federally Qualified Health Centers (FQHCs).

In accordance with federal law, the Medicaid program must provide supplemental payments to FQHCs to assure that most of the costs related to Medicaid care are reimbursed. The current system is antiquated and results in numerous billing errors. Enhancing the payment system is expected to save $2.1 million in FY 2003-04 and $2.6 million in FY 2004-05.

DME Acquisition, Lease applied to Purchase, and Implement a Competitive Bidding Process for Laboratory, DME and Medical Surgical Supplies

The Governor's Budget proposes that the state seek the most favorable rates for Medicaid eligible clients through the competitive bidding process. Services to be competitively bid include: durable medical equipment (DME), laboratory services and medical surgical supplies. Due to the time required to implement this initiative, savings of $2.0 million are not anticipated until the second year of the biennium.

The Governor also proposes to modernize various medical payment systems, including the payment methodology under Medicaid for durable medical equipment. Restructuring of the current payment system will allow the Department of Social Services to adequately account for actual acquisition cost when customized equipment becomes necessary. Application of any rental payments for DME will also have to be applied to the subsequent purchase of any equipment. These changes in the reimbursement methodology are expected to save $2.5 million in FY 2003-04 and $3.2 million in FY 2004-05.

Bidding Nursing Home Care

The Governor is proposing that the Department of Social Services seriously look at competitively bidding the provision of long-term nursing home care in the Medicaid program. Given the bankruptcy and other financial issues of numerous nursing homes and the advent of alternatives to nursing homes, DSS is getting crippled with requests for hardship rate adjustments due to low-census and financial factors.

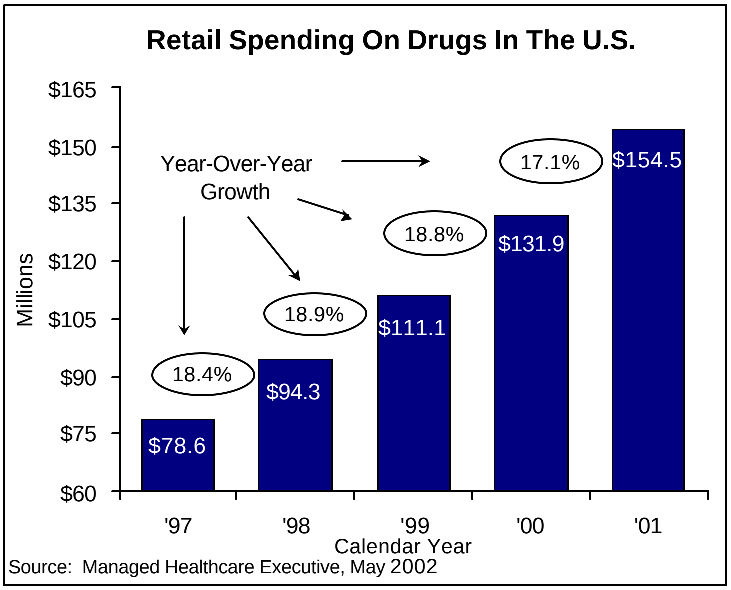
These hardship adjustments that are granted simply destabilize the entire nursing home system as poor-performing homes drain precious resources away from stable ones and reduce the amount of dollars available for ongoing rate increases.

Indeed tens of millions of dollars that otherwise could have meant higher general rate increases have gone into hardship rates over the last several years. A competitive bid would determine what nursing homes are best able to provide care cost-effectively over the long run. During any bid process, care would be taken to try to ensure that there are sufficient available beds in regions so as not to inconvenience loved ones from visiting nursing home residents.

Pharmacy Changes

The state budget continues to be plagued with spiraling costs in the area of prescription drugs. It is undeniable that pharmaceuticals play an important role in maintaining the quality of citizens' lives and reducing costs in other areas of medical care. But the fact is that drug expenditures are increasing at an alarming rate.

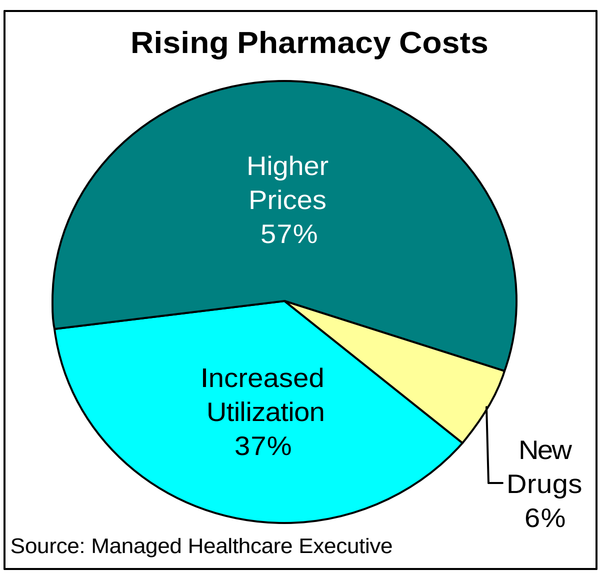
Drugs are the fastest growing segment of the health-care market, but still only account for 10 percent of total health-care spending. Drug spending at the retail level in 2001 was $155 billion, up from $79 billion in 1997. Year-over-year growth in that four-year period averaged 18.3 percent. Costs are expected to have risen at least 15.9 percent in 2002. Looking down the road, drug inflation is anticipated to moderate somewhat, dropping to below 14 percent in 2005 and 2006.

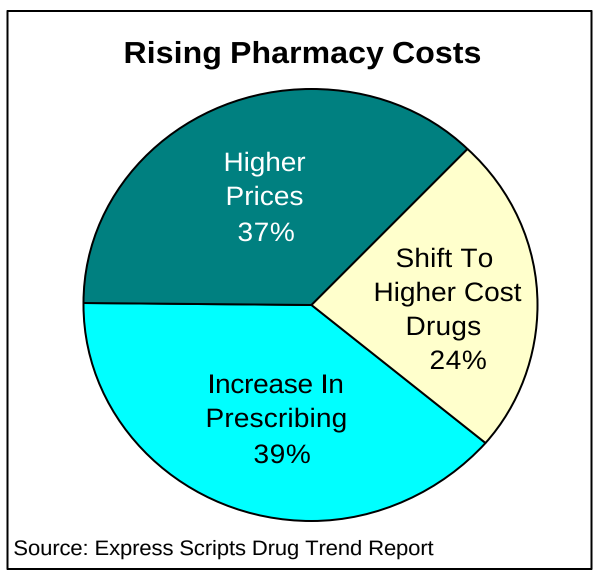


Rising drug prices are attributable to a number of different reasons – higher prices (in part inflation, but also higher introductory prices, even for drugs that are only cosmetically changed as patents run out), shifts to higher priced drugs, increased utilization, and increased prescribing.

That increased utilization and prescribing is strongly linked to the advent of direct-to-consumer advertising and requests for certain drugs by doctors. Indeed, a report from the National Institute for Health Care Management found that nearly half of the $20.8 billion increase in drug spending in 2000 was tied to increased sales of heavily advertised drugs. Interestingly, the report found that the spending increase was more a result of increased prescriptions for the 50-most advertised drugs rather than from higher prices for those drugs. Not coincidentally, those drugs are among the top ones taken by Connecticut clients.

Part of the reason drug price increases will be moderating is increased use of generics and fewer block-buster drugs in the pipeline.





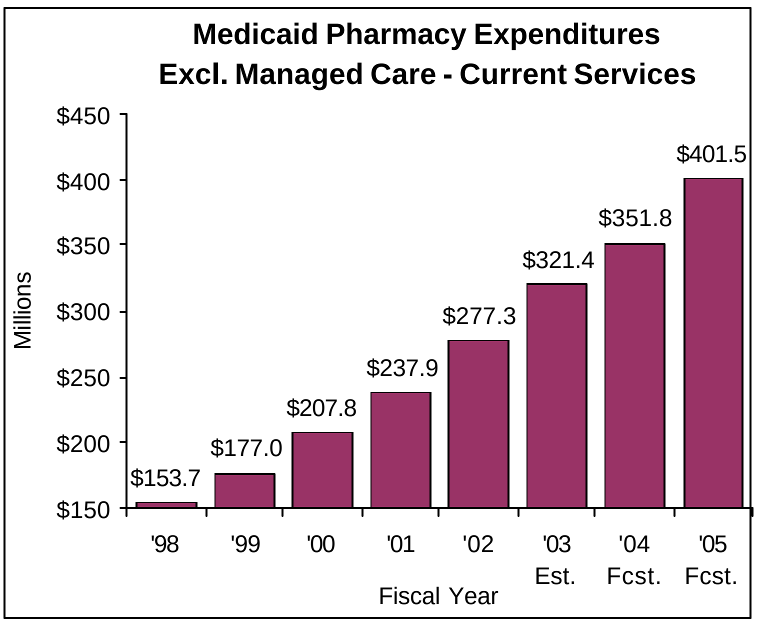
The state budget saw drug costs increase between 10 and 20 percent annually for the past several years. The difference is related to the type of benefit that is being provided and cost-saving measures implemented. For example, the state employees and retirees drug benefit is projected to increase by at least 20 percent because of the benefit levels, whereas certain savings initiatives have seen some success in mitigating increases in Medicaid and Corrections. At any rate, it's clear that drug costs throughout state government will only further crowd out other spending.

Drugs Driving Cost Increases

More than half of all spending went for drugs in 10 of 99 therapeutic categories:

- Antihypertensives
- Antidepressants
- Cholesterol Reducers
- Gastrointestinal Drugs
- Antidiabetics
- Antirheumetics
- Antiasthmatics
- Antihistamines
- Calcium Channel Blockers
- Dermatologicals

In the current fiscal year, the state will spend an estimated $609.9 million on drug coverage across all state agencies. That will increase to $726.7 million in FY 2004-05 without any new savings initiatives. Fee-for-service Medicaid pharmacy costs have increased from $109.1 million in FY 1994-95 to $401.5 million forecast in FY 2004-05 before savings proposed by the Governor.



While Connecticut receives rebates in its Medicaid, SAGA and ConnPACE programs, it has little ability to obtain deeper discounts from drug manufacturers. Several years ago, Connecticut attempted to get access to the federal supply schedule for Medicaid drugs, which would have meant substantially reduced prices, but was denied. And other potential ways to tap into lower costs by going beyond the federal system are being challenged in court.

Thus, Connecticut is between a rock and a hard place. It has little control over the vast majority of its costs because of federal rules governing cost. And yet outside forces continually drive up prices and the number and kind of prescriptions written. Further, the state's ability to continually expand drug assistance programs will be limited unless deeper discounts or cost-cutting measures can be achieved to escape what appears to be astronomical increases driven by caseload, utilization, price and benefit design.

The state has enacted some cost-cutting measures across its three public benefit programs – fee-for-service Medicaid, SAGA, and ConnPACE. The Department of Social Services will begin a generic substitution program and prior authorization program run by an experienced Administrative Service Organization (ASO) effective May 1 and has strengthened the nursing home drug return program and implemented a maximum allowable cost schedule for generics not covered by the federal pricing schedule.

Also, by allowing FQHCs to utilize the discounted federal supply schedule and with the Bush Administration's plan to expedite the movement of drugs off patent, additional savings will be achieved.

In FY 2004-05, the department will implement a voluntary mail order program.

In order to further curtail the high cost of prescription drugs, Governor Rowland is also proposing the following new changes:

- Reduce the dispensing fee for chain, independent and long term care pharmacy providers to $3.50, from the current $3.85.

- Reduce the average wholesale price (AWP) reimbursement paid to pharmacy providers to minus 13.5 percent. The current reimbursement rate is minus 12 percent. Based on historical data, pharmacies will continue to make a profit on sales to public assistance recipients. Recent reports from the Office of Inspector General for the federal Department of Health and Human Services have found that pharmacies tend to purchase their brand name drugs for 22 percent below the average wholesale price, with generics purchased at 66 percent below AWP. This is based on surveys in a number of states.

- Phase-in implementation of a preferred drug list for certain drugs. Federal law allows states to establish a preferred drug list (PDL) and negotiate higher rebates from the manufacturers. The General Assembly also approved legislation last year to implement this change.

  The vetoed Democrat budget called for immediate full-scale implementation of a PDL next fiscal year to save tens of millions of dollars. Governor Rowland is skeptical of implementing such a plan for a number of reasons. First, there was an outcry among lawmakers and advocates when the administration attempted to push forward on generic substitution resulting in substantial delays in implementing the program. PDLs go far beyond generic substitution and there is not a full awareness of PDLs by lawmakers and advocates. While generic substitution is the substitution of a cheaper exact chemical generic drug for a brand name drug, the use of a preferred drug list is general therapeutic substitution, whereby one drug in the same therapeutic class that does not have the same chemical make-up as another drug is substituted for that drug.

  Second, there clearly can be health effects of implementing PDLs because the substituted drug is not the same chemically as the prescribed one. Third, we have yet to institute generic substitution and we need time to see if that works. Fourth, there are court challenges pending on the Secretary of HHS' authority to allow states to set up PDLs and demand supplemental rebates.

  In an effort to compromise, though, the Governor is proposing a pilot initiative next fiscal year that seeks to implement a PDL on only one or two classes of drugs in FY 2003-04: The first target will be proton pump inhibitors (PPIs), such as Protonix, Prevacid, Prilosec, and Nexium. PPIs regulate the secretion of acid in the stomach. What a proton pump inhibitor will do is to inhibit the function, therefore, there is no acid secretion in the stomach.

  A few years ago, the class of drug of choice for a variety of such ailments and conditions of the stomach was the H2 Antagonist (H2s), such as Tagamat, Zantac, Axid, and Pepcid. H2s will compete with Histamines on occupying H2 receptors. If the H2 antagonist occupies H2 receptors, this will result in the inhibition of acid secretion in the stomach.

  H2s have been around for a long time and are inexpensive. Proton Pump Inhibitors are newer to the market and are extremely costly.

  The state currently spends about $35 million per year on PPIs for all three programs. The truth is cheaper H2 Antagonists work well for some conditions. When a PPI is needed, there are now generics available, which will have to be used under the state's new generic substitution program if a doctor orders a brand equivalent. But more and more doctors are ordering new and expensive PPIs that are hitting the market and are the subject of direct-to-consumer advertising. And at least one company has already minimally altered its PPI that was on the verge of losing its patent, brought the new drug to market with an exclusive patent, and is continuing to charge a huge price for a month's supply. It has quickly recaptured market share.

Some would argue that, given the price, a cheaper brand PPI should be taken because it is therapeutically equivalent if not chemically equivalent. Many will argue that this takes the decision-making away from doctor and patient, but it is also true that hospitals for years have operated with sound PDLs and saved money. Indeed, any number of hospitals have had a preferred PPI on their roster with patients never the wiser.

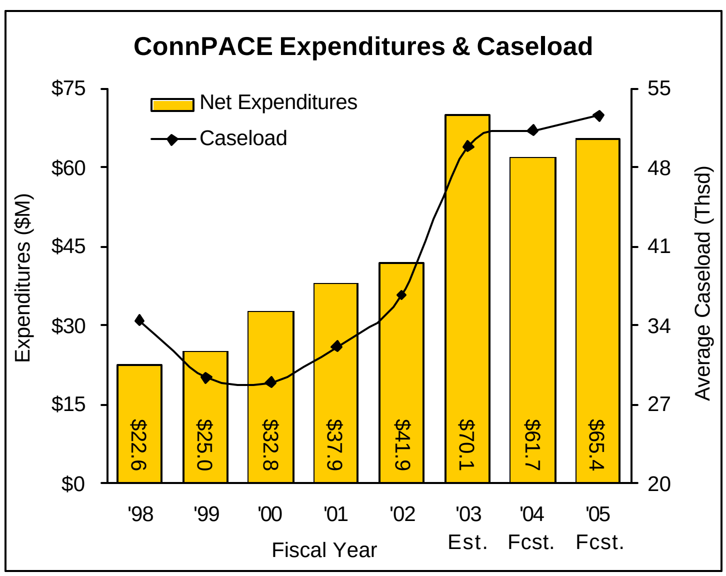
This pilot program, which would save $5 million in year one and $7.5 million in year two, would seek to find the answers and gauge people's comfort. The administration believes the go-slow approach is important.

- Maximize dosage efficiencies by promoting appropriate dosing as approved by the FDA. Several medications that are used to treat conditions such as allergies, depression, arthritis, high cholesterol and gastrointestinal disease can safely be taken once a day. As an example, if a physician were to prescribe two tablets of Zocor (an anti-cholesterol drug) at 20 mg each, it would cost the state twice the cost of prescribing (and dispensing) one 40 mg tablet. Not only are costs reduced under this proposal, but patients receive the same drug in a simpler dosage, thereby enhancing patient compliance.

Estimated Pharmacy Costs
After Implemented Savings
(In Millions)

	Actual FY 02	**Estimated FY 03**	**Recomm FY 04**	**Recomm FY 05**
Department of Social Services	$396.0	$482.5	$463.3	$515.0
Department of Mental Retardation	0.4	0.5	0.5	0.5
Department of Mental Health and Addiction Services	6.9	6.4	10.3	10.3
Department of Correction	12.9	15.4	13.4	14.7
Department of Children and Families	0.6	0.8	0.8	0.8
Workers' Comp	0.9	1.0	1.0	1.0
State Employees	91.0	91.0	108.3	125.0
Teachers' Retirement	10.7	12.0	14.3	16.0
Grand Total	**$519.4**	**$609.6**	**$611.8**	**$683.3**

- Effect cost savings under ConnPACE. In addition to the above changes, the Governor is proposing the following changes to the ConnPACE program:



  - Increase the co-pay from $12 to $15. The co-pay under ConnPACE has been fixed at $12 since FY 1993-94. Given the growth in prescription costs over the years, this is indeed a modest increase.

  - Institute an asset test with limits of $50,000 for singles and $75,000 for married couples. Assets would include: bank accounts, stocks, bonds, certificates of deposit, cash surrender value of life insurance policies and non-home property. An applicant's home would *not* be counted as an asset if it is the applicant's primary residence. Given the state's current fiscal crisis, the state's limited resources need to be targeted to those most in need.

ConnPACE Changes (In Milions)	FY 04 Savings	FY 05 Savings
Limit ConnPACE prescriptions to a 30 day supply	$ 4.4	$ 4.6
Increase co-pay for all enrollees to $15	3.5	3.4
Institute an asset test ($50,000 for singles and $75,000 for married couples)	2.5	4.2
Suspend cost of living adjustment in income eligibility determination	0.3	2.0
Allow for estate recovery of benefits under ConnPACE	0.0	0.3
Reduce reimbursement from AWP-12% to AWP-13.5%	1.2	1.3
Phase-in implementation of the Preferred Drug List	0.8	1.2
Reduce dispensing fee from $3.85 to $3.50	0.4	0.4
Maximize dosage efficiencies under ConnPACE	0.1	0.2
Total	**$ 13.2**	**$ 17.6**

- Limit the quantity dispensed to a 30-day supply. Currently, ConnPACE policy allows for the dispensing of 120 units or a 30-day supply, whichever is greater. By limiting the quantity dispensed, the unused medications which occur when clients have adverse reactions to new drug therapies will be reduced. This change is also consistent with Medicaid policy.

- Suspend the cost-of-living adjustment used in determining income eligibility. Income limits for the ConnPACE program are adjusted each January based on the cost-of-living adjustment provided by the Social Security Administration. As of January 1, 2003, a person's adjusted gross income may not exceed $20,300 if single or $27,500 if married, an increase of 1.4% over the prior year. Given the significant expansion in income eligibility this past April (a 32% increase in the income limits for single individuals and a 50% increase for married couples) as well as the possibility that income limits will increase further by almost 30% if the federal waiver is approved, the Governor's budget suspends the cost-of-living adjustment for both years of the biennium.

Estimated Pharmacy Savings (DSS) (In Millions)		
Ongoing Initiatives:	**FY 04**	**FY 05**
Maximum Allowable Cost	$9.8	$10.8
Prior Authorization / Generic Substitution	3.4	5.5
Nursing Home Drug Return	2.5	3.0
Expedite Brand to Generics (Bush Administration)	2.1	3.0
Utilize the Federal Supply Schedule for FQHC's	1.0	1.0
Voluntary Mail Order	0.0	1.3
New Initiatives:		
Reduce Average Wholesale Price by 1.5%	6.4	7.0
Phase-In Preferred Drug List	5.0	7.5
Reduce Dispensing Fee from $3.85 to $3.50	2.6	2.8
Maximize Dosage Efficiencies	0.5	1.0
Total Savings	**$33.3**	**$42.9**

Uncompensated care

Governor Rowland recognizes that, by eliminating the SAGA program, an undue hardship will be placed on all of Connecticut's acute-care hospitals that serve indigent individuals regardless of their ability to pay. As such, he has proposed a significant increase in the uncompensated care system of $60 million in each year of the biennium.

Other issues related to hospital uncompensated care reimbursement:

- Urban DSH, which goes to hospitals in the five most distressed cities, is flat-funded at $26.55 million in the biennium. The grant was increased in the current year from $15 million in FY 2001-02.
- Connecticut Children's Medical Center is flat-funded at $6.75 million in the biennium.

- A new public hospital DSH grant to John Dempsey Hospital of $1.7 million in each year of the biennium to compensate for the loss of SAGA revenue.
- In the current fiscal year, the main uncompensated care pool, in which all the acute care general hospitals share, is appropriated at $76.725 million. In the biennium, the funding is $142.025 million per year. The increase is described as follows:
  - $7 million added back for one-month lag not paid in the current fiscal year. To ensure hospital fiscal year budgets remain intact, four months of payments will be paid between July and September of each fiscal year, with eight payments paid in the remaining nine months.
  - $58.3 million to compensate hospitals for the loss of SAGA revenue. Hospitals may also share in grant monies from DMHAS.
  - There is no inpatient Medicaid rate scheduled in the biennium. The outpatient rate is described below.

- The state is working with the University of Connecticut Health Center on ways to maximize federal revenue coming to the state through enhanced Medicaid reimbursement and two potential uncompensated care programs (one is one-time and the other ongoing).

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	76.7	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	110.1	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**	**110.1**	**177.1**	**177.1**

Medical provider rates

Enhanced Medical Provider Rates – FY 04

	Rate Change	**FY 04**	**Annualized FY 05**
Hospitals – Outpatient	4.5%	$3,080,000	$3,218,600
Managed Care/HMO's [1]	2.5%	6,400,000	15,400,000
Durable Medical Equipment	5.0%	1,494,000	1,628,000
Community Care [1]	2.0%	1,100,000	2,700,000
Traumatic Brain Injury [1]	2.0%	230,000	235,000
Personal Care Attendant [1]	2.0%	155,500	158,500
Long Term Care [1]	2.0%	9,000,000	21,600,000
Home Health Agencies [1]	2.0%	1,700,000	4,100,000
Home Care - State Funded [1]	2.0%	200,000	400,000

[1] Rates Effective January 1, 2004

While rate increases are limited because of the fiscal exigencies, some increases are budgeted for in the first year of the biennium. The accompanying chart shows the increases, all of which are effective January 2004.

The two biggest increases not yet discussed are hospital outpatient rates, at a 4.5 percent increase, for services priced based on the ratio of cost to charges, and a cost of just over $3 million; and nursing homes, at no more than a 2 percent increase for $9 million in year one and $21.6 million in annualized cost in year two.

Again, no further rate increases have been scheduled in the second year at this point.

Private provider rate increases

In order to assure their continued viability, Governor Rowland has proposed that private human service providers receive a 1.5 percent increase in funding effective January 1, 2004. These agencies provide a wide range of services for the Departments of Mental Retardation, Mental Health and Addiction Services, Children and Families and Correction and the Judicial Department.

No additional rate increase is budgeted in the second year of the biennium.

Private Provider Rate Increase
1.5% Effective January 1, 2004

	Cash Required FY 04	Annualized Cost FY 05
Dept of Mental Retardation	$3,035,755	$6,071,510
Dept of Mental Health and Addiction Services	1,555,263	3,110,520
Dept of Correction (including Parole)	150,785	301,570
Dept of Children & Families	2,104,631	5,171,369
Children's Trust Fund	35,109	70,218
Judicial	429,397	858,794
Total	$7,310,940	$15,583,981
Additional FFP	1,517,878	3,035,755
Net State Cost	$5,793,062	$12,548,226

Total new dollars going to private providers would be $7.3 million in FY 2003-04 and $15.6 million in FY 2004-05. Net cost to the state after federal reimbursement is $5.8 million in year one and $12.5 million in year two.

The state is looking at a plan to augment private sector services by turning over some state functions and assets to private providers if an Early Retirement Incentive Plan (ERIP) is passed by the legislature. To the degree the state can meet its ERIP savings targets and go beyond them through more cost-effective programs in the private sector, the additional savings could be used in part to augment private provider rates as well as to aid client services, including monies to reduce the DMR waiting list.

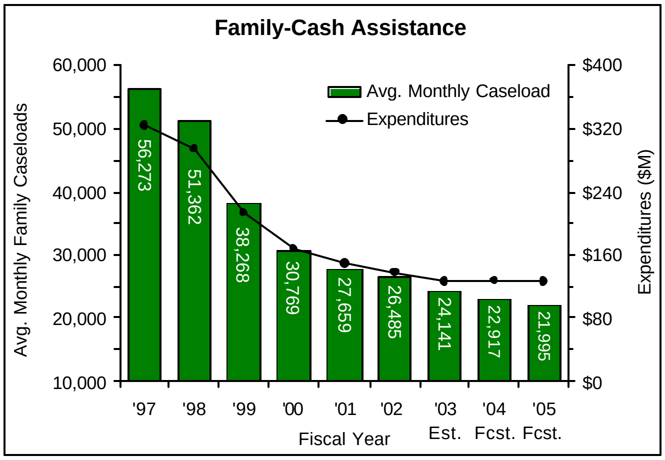
Maintaining the welfare safety net

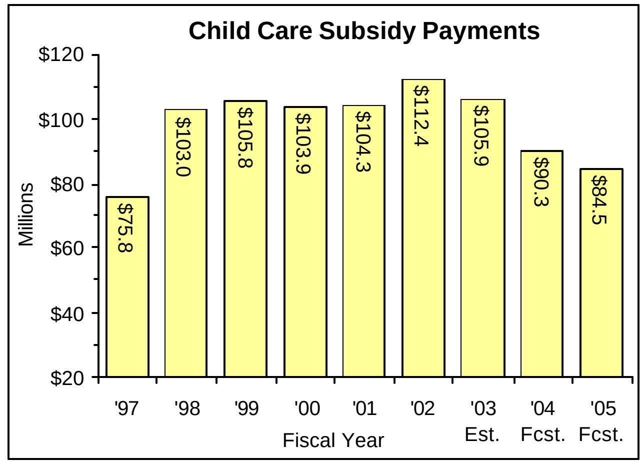
Governor Rowland's welfare reform policies continue to confirm the fact that given the proper support, families on Temporary Family Assistance (TFA) are willing to enter and remain in the workforce. That is despite the economic downturn we now face.

When taking office, the Governor rightly focused on the number of people on welfare and developed programs to assist them in getting off the welfare rolls. The linchpins of his welfare reform plan were allowing individuals to earn up to the federal poverty level during their stay on the welfare rolls without losing any of their cash assistance payments, keeping Medicaid eligibility for at least two years after leaving welfare, and accessing child care subsidies until the family reached 75 percent of statewide median income. He also created the new HUSKY B plan to help families get health insurance for their children.

The Governor is continuing to support employment by allowing TFA recipients to earn wages up to the federal poverty level while remaining on assistance. The Governor's budget also provides for the continuation of support by making health care and child care assistance available.

While the economy may be experiencing a slight downturn, the portion of the TFA caseload which is employed remains at historic levels. FY 2002-03 caseloads are anticipated to be at a monthly average of approximately 24,100, down from a monthly average of 30,800 in FY 1999-00. The rolls are expected to drop to about 22,000 for a monthly average in FY 2004-05. Expenditures will be roughly flat over the biennium.





The Governor's adjusted budget continues to make child care subsidies available to those on TFA, those transitioning off of TFA as well as those who may be at risk of having to seek assistance. Child care payments are expected to continue to go down over the biennium from over $100 million this fiscal year to about $85 million in FY 2004-05.

Because of the fiscal crisis, the Governor is proposing some modifications to the social compact he forged with welfare recipients eight years ago in the areas of welfare eligibility and child care.

Limit the number of welfare extensions

Currently, under Connecticut's state plan, TFA recipients are allowed 21-months of cash assistance with the possibility for up to three 6-month extensions with certain recipients allowed a fourth or greater extension. As of the end of November 2002, there were a total of 2,570 families on extensions. There were 1,003 on a 1st extension, 808 on a 2nd extension, 618 on a 3rd extension and 141 in a 4th or greater extension. The Governor proposes to limit the number of extensions to two from the current three.

Modify child care eligibility

Transitional Child Care benefits are available to TFA families with earnings who leave the cash assistance program due to earnings exceeding the program's income limits at the end 21-months eligibility period or at the end of a six-month extension.

Under current policy, families remain eligible for this benefit as long as their incomes do not exceed 75 percent of the State Median Income (SMI). In January 2003, there were approximately 4,100 families in this benefit group. The Governor seeks to reduce the income eligibility threshold to 50 percent of the SMI. Currently, 75 percent of the SMI for a family of three is $52,102 while 50 percent of the SMI is $34,735.

State Median Income Levels

Family Size	SMI 2002 CT	Current 75%	Proposed 50%
2	56,237	42,178	30,931
3	69,470	52,102	38,208
4	82,702	62,027	45,486
5	95,934	71,951	52,764

Savings from this initiative are $1.2 million in FY 2003-04 and $1.1 million in FY 2004-05. These savings anticipate an April 1, 2003 implementation.

Revise methodology for child support pass through to maximize revenue

The Governor proposes a mechanism whereby the Department of Social Services is more readily able to claim all available federal dollars from the federal Temporary Assistance to Needy Families (TANF) Block Grant. This proposed mechanism will have no impact on TFA clients or the amounts of TFA benefits they receive. This proposal is “neutral” in that it increases expenditures while commensurately increasing federal revenue.

Currently, the Department of Social Services reduces Temporary Family Assistance monthly cash benefits provided to families by an amount equal to what that family receives in child support from a non-custodial parent. The TFA benefit amount is reduced by the amount of child support received, thus lowering overall TFA expenditures. Lower TFA expenditures result in lower federal revenues. The Department disregards and will continue to disregard $50 of the child support received.

The Governor proposes – rather than administratively decrease the TFA benefit payment amount – to increase the payment amount to the appropriate benefit amount thereby making available additional TFA funds as revenue. TFA related expenditures will increase by $6.75 million in FY 2003-04 and $9.0 million in FY 2004-05. These additional funds will also be claimed as TANF Block Grant revenue.

Defer cost-of-living adjustments for clients on public assistance

The TFA program and the Aid to the Aged, Blind and Disabled programs provide cash assistance to families and individuals who are indigent. Effective July 1, 2003, and annually thereafter, recipients and applicants for these programs are scheduled to receive a state funded cost of living adjustment based on the percentage increase in the Consumer Price Index – Urban (CPI-U). Due to required spending constraints, the Governor proposes to eliminate the standards increases for the biennium. Savings are $3.6 million in FY 2003-04 and $7.7 million in FY 2004-05.

Eliminate AABD pass-through

The federal government, effective January 1 of each year, provides recipients of Social Security and Supplemental Security Income with a cost of living adjustment, based on the percentage increase in the CPI-U. Currently, whenever a recipient of the state funded Aid to the Aged, Blind and Disabled (AABD) program receives an increased federal benefit, that increase is considered to be applied income for the purposes of eligibility in the state AABD program. This applied income reduces state costs.

The legislature in Public Act 02-7, May 9 Special Session, allowed for recipients of Aid to the Aged, Blind and Disabled to keep one-half of the annual federal cost of living increase in Social Security and/or Supplemental Security Income, resulting in less income from the recipient being applied to the cost of care. Given the current fiscal situation of the state the Governor proposes that this pass-through not occur. The savings is roughly $500,000 annually.

Expand utilization of electronic funds transfers and direct deposit in the child support program

The Governor proposes to mandate the use of electronic funds transfers (EFT) in the child support program when sending funds, collected by the state from non-custodial parents living in Connecticut to children residing out-of-state. The Department also seeks to mandate the use of EFT when a child living in Connecticut receives child support from a parent residing in another state.

The costs currently incurred for printing and reconciling checks sent to out-of-state residents and received from out-of-state residents would be eliminated. Most states have recognized the cost savings associated with electronic banking as well as the efficiency rate and reduction in errors. Connecticut has the ability to transfer funds and DSS has developed a plan to incrementally process funds with other states electronically.

Secondly, DSS would continue to encourage all custodial parents that receive child support to accept payment through direct deposit. Current policy does not require custodial parents to receive payments through direct deposit. It is voluntary. DSS currently has about 10,000 recipients participating in direct deposit. This has been accomplished through direct marketing by providing information with checks that are mailed out.

SSBG allocation changes

The Governor is proposing the reallocation of Social Services Block Grant (SSBG) funds in order to: (1) maximize federal revenue and (2) consolidate and streamline funding sources to support Core-CT efforts.

This proposal will move several services currently funded under SSBG to state funds, where they can be claimed for federal reimbursement. In total, this option is expected to increase funds claimed under TANF by $3.5 million and to increase other revenue areas by $1.1 million. The proposed changes will also reduce the complexity of the Social Services Block Grant.

Four grants totaling $786,000 will be transferred to their corresponding General Fund accounts and ten grants totaling $1.2 million will be consolidated under a single General Fund account (the Community Services account). Despite the host of changes being proposed, there is no net reduction to program funding.

Food stamps and other assistance for legal aliens

The budget adopted by the legislature last session continued welfare and medical assistance for legal aliens not covered by federal programs. That funding runs out as of June 30, 2003. Given the fiscal climate, additional dollars are not being added to continue the provision of services.

In addition, the Governor's budget also proposes to eliminate the State Food Stamp Supplement for these individuals. This saves the state $1.2 million in the first year of the biennium and $0.9 million in the second.

Dental

Recognizing the continuing need to improve access to primary dental screening and treatment, Governor Rowland is endorsing radical changes in how dental services are provided to children on Medicaid.

First, to infuse greater resources into the children's program, and place greater emphasis on health services to this population, the Governor is proposing to eliminate adult dental services in Medicaid, an optional service under federal law. The redirecting of resources will amount to nearly $10 million.

The Governor is endorsing a concept whereby the $10 million from adult monies and the monies that are currently in managed care for children will be reallocated to a carveout dental program stressing innovation. The Governor is dubious of simply granting large increases to private dentistry as it has proven to have limited success in increasing access and primary oral health outcomes.

Dental Reallocation	
Eliminate Optional Adult Dental in Medicaid	
Fee for Service	($8,300,000)
Managed Care	(1,700,000)
Increase Dental Access for Children	$10,000,000

The state is currently in the middle of a procurement process for a dental benefits manager to coordinate all coverage. The goal is to have a hybrid system of private dentists and new innovative community-based programs that will help increase access, enhance oral health education, and increase medical outcomes. Collaboration and integration of public and private resources will be key.

For example, school-based dental clinics, tapping into the knowledge and resources at the UConn Health Center (UCHC) and utilizing community health centers and hospitals will help improve dental outcomes among children in our state, especially those in Medicaid.

Targeting asthma

About $500,000 is being carried forward into next fiscal year to ensure that the Easy Breathing Program will continue through FY 2003-04. The program, which has recently expanded to more cities, has a proven record of education and increasing awareness among families and doctors, and increasing compliance and lowering high-end health visits.

Federal maximization

The accompanying chart shows the state's recent efforts to maximize federal dollars coming to the state. Among the highlights:

- Successfully negotiated a home care settlement with the federal government and an ongoing pilot that will bring in about $46 million this fiscal year and $15 million ongoing.
- Pursuing a federal waiver for ConnPACE.
- Working with UCHC to leverage federal dollars in three different areas.

Federal Revenue Maximization Efforts
(In Millions)

MEDICAID	**FY 03**	**FY 04**	**FY 05**
- Pursue DSH for Connecticut Children's Medical Center	$ 5.1	$ 3.5	$ 3.5
- Incorporate the cost of Social Workers in DSS' standard Random Moment Sampling for Cost Allocation purposes	2.0	2.0	2.0
- Capture enhanced federal reimbursement at 90% for family planning services paid to Managed Care Organizations serving Medicaid clients	13.6	6.0	6.2
- Pursue DSH for qualifying public hospitals that serve low-income individuals beginning in SFY 03	0.9	1.1	1.1
- Pursue DSH for qualifying individuals, in a penal institution, who use the services of an acute care inpatient hospital	Full impact not yet final		
- Implement the rehabilitation initiative for Private Non-Medical Institutions (PNMI) beginning July 1, 2002	8.2	8.3	8.3
- Increase Urban DSH grant by $15 million to $30 million	5.1	5.1	5.1
- Continue negotiations with CMS on Medicare denials related to Home Health services	33.0	13.5	13.5
- Potential one-time revenue from conversion of HUSKY Tax Credit	10.9	0.0	0.0
- Ongoing revenue from conversion of HUSKY Tax Credit	11.9	13.5	15.1
- ConnPACE Medicaid waiver	Full impact not yet final		
- Implement a state-of-the-art fraud detection system at DSS ($10 million program savings annually, development costs of $23.6 million over 4 years at 82% FFP)	0.0	2.5	2.5
- Pursue Medicaid reimbursement on education costs at UCONN Health Center/John Dempsey Hospital	Full impact not yet final		
TOTAL MEDICAID	**$ 90.7**	**$55.5**	**$ 57.3**
TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)			
- DCF Investigations	12.6	12.8	12.8
- DSS Violence Reduction	0.5	0.5	0.5
- DSS Rental Assistance	3.6	3.5	3.5
- DOC Education and Training	4.0	4.0	4.0
- DOC Addiction Services for Non-Custodial Parents	6.0	6.0	6.0
TOTAL TANF	**$ 26.7**	**$26.8**	**$ 26.8**
GRAND TOTAL	**$117.4**	**$82.3**	**$ 84.1**

Office closures

Because of the lack of labor concessions from state employee unions, several DSS office closures occurred because of layoffs. Those are discussed later in this document.

Initiatives in the Department of Mental Retardation

Under the Governor's proposal, the Department of Mental Retardation's budget would increase by $36 million over the biennium. Below are a number of significant changes to the department's budget.

Optional Services

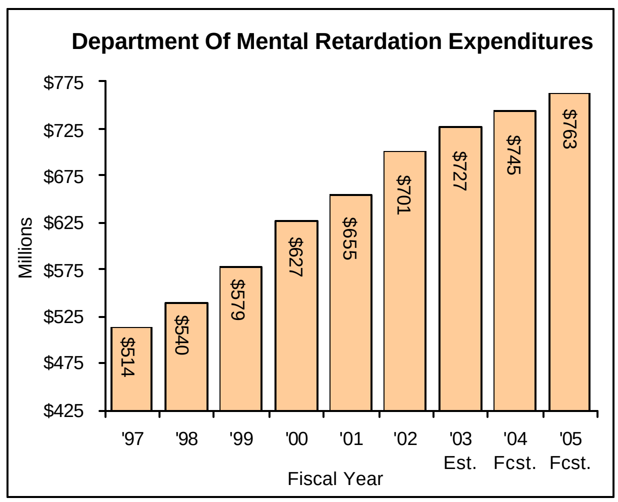
The current services recommendation for the Department's budget includes $500,000 to continue optional services such as psychology, physical and occupational therapy, and podiatry for persons with mental retardation. These services are no longer covered by Medicaid, but are critical to the continued support of people in the community.

Southbury Cottage Closure

The mandated closure of intake at the Southbury Training School results in the periodic closing of cottages as the census drops. The next closure is anticipated by December 2004 resulting in a savings of $350,000 in FY 2004-05.

Residential Unit Closures/Reconfiguration

DMR will close or reduce the census in nine state-operated residential units, resulting in the elimination of 22 residential beds and a savings of $2.4 million in FY 2003-04. Units were chosen for closure because the structures are not handicapped accessible, are not state-owned, and/or the changing needs of the clients who live there can no longer be supported at that location in a cost effective manner.



All clients would be moved to opportune beds at other locations. The staff involved in the phased-out units will fill other vacancies within the Department. Total savings is $2.9 million by the end of the biennium.

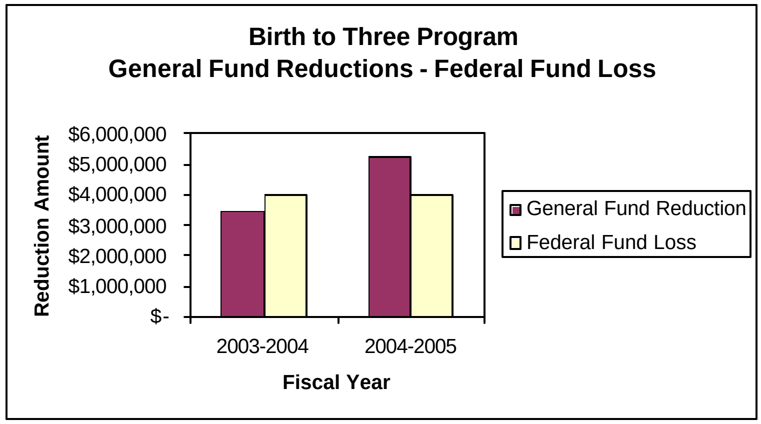
Home Health Services Reallocation

DMR can provide home health services for children through the use of a fiscal intermediary at a lower cost than the current DSS program. In addition, home health services provided in private community living arrangements and paid for by DSS are duplicative and will be prohibited by regulations slated to come out in April. DMR will instead pay for supplemental services required by clients as their needs change. Transfers from DSS total $1.9 million in FY 2003-04.

Making Birth to Three a Non-Entitlement

The Early Intervention Program is an entitlement and expenditures have continued to grow, long past the point at which they were anticipated to level off based on the size of the Birth to Three population and the incidence rate of developmental delay for that age group.

Governor Rowland is proposing to make the public and private portions of the Early Intervention/Birth to Three Program a non-entitlement. The department will have to live within its appropriation each fiscal year by limiting intake or reducing the menu of services offered. Even with these changes, the Early Intervention account, the private component, increases by about $2 million in FY 2003-04 from estimated expenditures this fiscal year.



Because the state will no longer be operating Birth to Three as an entitlement, the state will lose about $4 million in Part C of the Individuals with Disabilities Education Act (IDEA) funding. (An additional $1 million in other federal funding from IDEA will not be lost.) While state expenditures for this program have grown considerably, federal formula-based support has not. In effect, we are only receiving $5 million in federal funds and paying about $30 million this fiscal year from the general fund. For a little over 10 cents on the dollar, the receipt of these federal funds dictates that the program be an entitlement.

While $4 million in federal funding is lost in each year of the biennium, the state is reducing what it would have had to spend by $3 million in year one and $5 million in year two.

New Placements

Because of the state's fiscal exigencies, the budget does not provide for the pickup of children aging out of the DCF system into DMR or those expected to graduate from high school who will be in need of day and other services. In recent times of good revenue, we were lucky enough to fully fund these two groups each year.

At the same time, Governor Rowland is aware of the fact that the waiting lst continues to grow annually and is now up to about 1,700 individuals. The high school graduates and ageouts will unfortunately increase that number.

In an attempt to meet the need of emergency situations and other high priorities on the waiting list and to provide some services to the ageouts and high school graduates, Governor Rowland is proposing a flexible pool of money in FY 2003-04 of $5 million and in FY 2004-05 of $7 million to provide services to these populations. It is anticipated that the funding will, in great measure, be used for the highest priority needs clients.

While it will not meet all the needs of the clients, it is the best that can be done in this fiscal climate. Governor Rowland is committed to increasing available dollars during the adjustment year if resources allow it.

Public Health Changes

The Department of Public Health has numerous areas in the biennium where rescissions in the current fiscal year have been annualized. Several accounts, including the Young Parents Program, Pregnancy Healthline (which is duplicative with 211 Infoline), Tobacco Education, and the Connecticut Immunization Registry are being eliminated.

The Newborn Hearing Screening program is not being eliminated. It is being moved off budget and increased fees will sustain those tests and services.

The rescission of $2.9 million to Community Health Centers is continued in each year of the biennium, reducing their annual funding to $2.9 million in each year. Local and Districts Departments of Health will see a new reduction of $2.2 million bringing their funding to $2.5 million in each fiscal year. Over the past several years, funding in the account has gone up dramatically.

The School-Based Health Clinics rescission of some $1 million is carried forward, and each clinic will be reduced proportionately.

Renewing the Public Health Laboratory

The Department of Public Health and state health lab employees exhibited their great skills recently during the anthrax scare in Connecticut. Governor Rowland believes it is time for these employees to have a state-of-the-art facility.

There is an existing $5 million bond authorization for development. The Department of Public Works has begun the process of planning for a future site for the lab. The Governor is recommending $15 million in bond authorizations, to bring the total available monies to $20 million.

Immunization Assessments

One other major cost saving initiative is to eliminate general fund support for immunizations and assess all regulated insurers in the state (health and others) for the cost of the purchase of the vaccines. The majority of funding in the account goes to purchase routinely recommended childhood vaccines: MMR, DPT, polio, Hib, hepatitis B, and varicella. It also contains funding for antibiotics for STD clinics, antibiotics to treat and prevent tuberculosis, and selected adult immunizations (hepatitis A, B and polio).

Given the exigencies, we can no longer afford to fund the universal purchase of vaccines through the general fund. At the same time, it makes sense to continue the state purchase of the vaccines because DPH can get them from the federal government at greatly discounted rates. If insurers were to pay for the cost on their own, it would be a great deal higher.

Between $7 million and $8 million will be added onto the insurance regulatory assessments to fund the continued discount purchases.

Investing in Behavioral Health

Governor Rowland's biennial budget continues important investments made in the past in behavioral health care for both children and adults.

KidCare

Connecticut Community KidCare is the children's portion of the Behavioral Partnership described below to reform the publicly funded system of behavioral health services provided to children in Connecticut.

The system reforms are based on the cornerstone ideals of providing services to children in their community whenever possible, that are individually appropriate, that involve the family and are culturally competent.

The first phase of KidCare has been initiated over the past year. There are now 14 Emergency Mobile Crisis teams operating statewide. In the last six months of calendar year 2002, there were 2,700 calls received by the Mobile Crisis Teams. About 60 percent of these calls were from families that had no involvement with DCF.

There are also 60 Care Coordinators statewide providing intensive case management services to over 450 families.

The Department of Children and Families is in the process of contracting for additional community programs including Extended Day Treatment and In-Home Services.

The KidCare Initiative also involves training for service providers and families on system resources, behavioral health issues and effective service delivery models.

Family Advocacy is also a tenet of KidCare. The Department has entered into a contract with a consortium of family advocacy organizations to provide assistance to families in navigating the intricate system of behavioral health services.

As the system matures and with the help of information and Utilization Management services from the proposed Administrative Service Organization (ASO), it is anticipated that the use of expensive residential services will be constricted and the savings from fewer placements and shorter stays in residential programs will fund additional expansions in community services.

With this reform of the system for providing children behavioral health services in their communities, more children are receiving access to the level of service they need when they need it. In FY 2001-02, more than 20,000 children received community based behavioral health services. At the end of FY 2001-02, there were approximately 10 percent fewer children forced to leave their homes and communities to receive needed care than two years earlier.

About $13.3 million will have been expended this fiscal year specifically on the KidCare initiative. That will rise to $14.4 million next fiscal year before the Behavioral Health Partnership is implemented in FY 2004-05.

Behavioral health partnership

In August 2001, the Departments of Children and Families (DCF), Mental Health and Addiction Services (DMHAS), and Social Services (DSS) formed the Connecticut Behavioral Health Partnership to plan and implement an integrated system for financing and delivering public behavioral health services and programs for children and adults.

The Partnership will provide access to a more complete, coordinated and effective system of community-based behavioral health services and supports. The agencies have agreed to coordinate the administration of behavioral health services covered through the Medicaid and HUSKY B programs, the DCF Voluntary Services Program, and DMHAS General Assistance Behavioral Health Plan (GABHP).

Governor Rowland's Blue Ribbon Commission on Mental Health recommended in July 2000 that a complete continuum of behavioral health services be assured, that community services be enhanced, that care be locally managed, and that care be coordinated when a child transfers from the children's system to that of adults. The Partnership was formed to assure that such system improvements could be implemented.

The Partnership recommends that behavioral health needs be coordinated with physical health needs. However, management of these behavioral health services will require that they be "carved out" of the current managed care contracts for HUSKY and that state supported behavioral health services be managed by a single administrative entity.

The Partnership will contract with an administrative services organization (ASO) to manage behavioral health benefits. Although originally proposed to commence October 1, 2003, this budget anticipates that the contract will be deferred until July 1, 2004. The services provided by the ASO will include eligibility verification, utilization management, intensive care management, quality management, coordination of medical and behavioral health services, network management, recipient and provider services, and reporting. Utilization management will also be extended to DCF funded residential services.

General hospital inpatient acute psychiatric care for Medicaid recipients will be reimbursed at the current per diem and will be subject to the standard case rate per discharge cost settlement. A new code for late discharge/medically necessary care will be introduced for discharge delays secondary to lack of capacity at a lower level of care for Medicaid recipients under age 21. Acute inpatient psychiatric care rendered to HUSKY B, Voluntary Services, and GABHP recipients will be reimbursed at a per diem rate and will not be subject to cost settlement.

Since children with serious and complex disorders need access to a range of support services in order to live in the community rather than in institutional settings, DCF, in conjunction with DSS, will introduce new services necessary to support these children, particularly those discharged from residential and hospital settings.

A new class of specially qualified, enhanced care mental health clinics and hospital outpatient clinics will also be established. Existing clinics that meet the enhanced care clinic requirements will be eligible for rate increases of approximately 25 percent over the FY 2001-02 fee schedule. Utilization is projected to increase by 10 percent for these enhanced clinics as a result (weighted average increase of 6.3 percent for the clinic and outpatient category as a whole). Approximately 20 percent of the existing mental health clinics and hospital outpatient clinics are expected to qualify as enhanced care clinics.

DMHAS currently funds residential rehabilitation services in supported housing and mental health group home settings. These services are designed to assist individuals with serious and persistent mental illnesses in achieving their highest degree of independent functioning and recovery. DMHAS will convert selected portions of adult grant funded residential rehabilitation programs to fee-for-service when rendered to Medicaid eligible clients.

These converted services will be managed by the ASO. A total of six pilot programs will be established, three of which will focus on supported housing and three of which will focus on mental health group homes. The plan will address provider readiness, rate setting, service definitions, and certification requirements. The Partnership's Adult Implementation Team will oversee and evaluate these pilots and determine the feasibility and timing of a statewide expansion.

DCF will convert funding for its grant funded services to fee-for-service (FFS) with the exception of Child Guidance Clinics, Mobile Crisis Services and Care Coordination. The ASO will begin to manage these FFS services and expand utilization of these programs to support children diverted from, or returning from, residential treatment. Conversion to fee-for-service will allow these services to be expanded gradually, as they are needed to support redirection from higher levels of care. The ASO will also begin to manage services provided to Voluntary Services recipients.

Not only is the Partnership intended to provide more comprehensive care in the least restrictive environment, it is also designed to leverage federal Medicaid funding wherever possible and be cost effective. The scope of this project is significant and the deferral of its start will permit issues of provider readiness, provider reimbursement and policy development to be thoroughly addressed.

Behavioral Health Partnership Carveout
Sources of Funding FY 05

	FY 05
Medicaid	
Inpatient	$518,207
Inpatient - MH	12,784,000
Inpatient - SA	12,775,000
Outpatient	4,521,693
Physician	893,192
Clinics	15,399,568
Home Health	72,854,141
Managed Care	60,985,621
FQHC Passthrough	1,186,963
Reinsurance	15,321,614
Medicaid Carveout	**$197,240,000**
HUSKY B Carveout	**$2,760,000**
DCF KidsCare	**$93,482,059**
DSS	$200,000,000
DCF	93,482,059
Behavioral Health Partnership	**$293,482,059**

Excludes administrative cost resulting from the ASO contract

The chart shows that $293 million will taken out of the Medicaid, HUSKY and various DCF accounts and be placed in new Behavioral Partnership Accounts in DSS and DCF. DMHAS will participate by using its existing account structure. In FY 2004-05, about $10 million will still be in the Kid Care account, with about $4 million going to the BHP account.

Strategy board money

In the current fiscal year, about $10 million in funding was placed in the general fund to continue some important initiatives developed and undertaken by the Community Mental Health Strategy Board. The strategy board dollars were from the FY 2000-01 surplus and were not recurring.

While additional dollars were spent by the board that cannot be annualized, the biennial budget continues to provide $10 million in funding for the first initiatives that were developed.

Those initiatives are outlined in the accompanying chart and include wrap-around services for individuals in supportive housing, purchase of additional acute care bed capacity, increased residential and outpatient options and expansion of assertive community treatment teams.

Mental Health Initiatives

	FY 02	FY 03	FY 04	FY 05
Housing Supports and Services				
Supportive Housing PILOTS – new initiatives	$802,500	$1,011,533	$2,432,000	$3,000,000
Amount included in Appropriation	1,500,000	3,000,000	3,000,000	3,000,000
Managed Service System				
Wrap Around Services necessary to support client discharge	624,700	1,665,800	1,665,800	1,665,800
Purchase Additional Acute Care Capacity – Middlesex Hosp	200,000	300,000	300,000	300,000
Increase Residential Capacity	1,025,000	2,080,000	2,080,000	2,080,000
Enhance Outpatient Programs	789,600	1,400,000	1,400,000	1,400,000
Expand ACT Teams	570,000	1,300,000	1,300,000	1,300,000
Miscellaneous	23,000	79,266	79,266	79,266
Total	3,232,300	6,825,066	6,825,066	6,825,066
Amount included in Appropriation	$5,000,000	$10,000,000	$10,000,000	$10,000,000

Supportive housing

A total of $525,000 is removed from the Housing Supports and Services account in FY 2003-04 to reflect natural delays in Phase II of the Supportive Housing PILOTS implementation. Some $22.5 million remains between capital and operating budget resources to permit the Department to continue development and wrap around services for individuals in 650 units (up from the 200 that are currently operating) to provide stable housing for individuals who are homeless or at risk of homelessness who have mental health or substance abuse needs. It is expected that, once the immediate fiscal crisis subsidies, the necessary bond dollars for this project will be allocated by the Bond Commission.

DMHAS GA changes

Since there will no longer be individuals who qualify for general assistance given the proposed elimination of the SAGA program in the Department of Social Services, the Department of Mental Health and Addiction Services will reallocate $42.5 million in funding from their General Assistance managed care account which formerly funded behavioral health services for GA eligibles to their grants for mental health and addiction services accounts to continue to provide behavioral health services for these individuals. Four million dollars, which supported pharmaceutical costs for this population, was transferred from the Department of Social Services to DMHAS to continue to support pharmaceutical costs for these clients in DMHAS funded and operated programs. $7.5 million remains in the GA managed care account to pay the claims lag, which results from conversion from fee-for-service to a grant based system.

The proposed budget reduces several other accounts to reflect the annualization of FY 2002-03 reductions. Reductions include funding for Regional Action Councils ($466,498), Regional Mental Health Boards ($537,878), the Governor’s Partnership to Protect Connecticut’s Workforce ($400,000) in DMHAS, and the Governor’s Partnership funding in the Drugs Don’t Work account in OPM (about $250,000).

Behavioral health services for youth in the juvenile justice system

The biennial budget continues funding for an intensive in-home family based therapy and counseling and skill building program, known as Multi-Systemic Therapy (MST). MST is providing cost-effective services to more than 200 families with youth in the juvenile justice system. MST is as effective as residential services in reducing recidivism but is less than one-third the cost. A year of MST services costs approximately $18,000 compared to more than $65,000 for residential services. Studies have shown that MST reduces recidivism by half compared to youth who do not participate in the program.

Transfer funding for forensic psychiatric services

For the past several years the Judicial Branch has been partially funding the Forensic Psychiatric Unit at Riverview Hospital at DCF. Under the Memorandum of Understanding, the Judicial Branch is guaranteed access to at least six beds in the Unit. For accounting ease, this budget transfers these funds from the Judicial Branch’s budget to DCF’s budget. It is expected that DCF and the Judicial Branch will continue a Memorandum of Understanding to ensure the Judicial Branch’s clients have access to the six beds.

The success rate of children returning to the community from this intensive behavioral health program is impressive. In the period from July to September 2002, 89 percent of the youth discharged from the Sachem Unit returned home.

Intermediate forensic evaluations

This budget continues funding for Intermediate Forensic Evaluations. The Mental Health Strategy Board authorized funds for DCF to establish a program of Intermediate Forensic Evaluations. These are intermediate level, multidisciplinary, outpatient, psychiatric evaluations for youth involved in the juvenile justice system. These services expand the options for evaluations available to the courts beyond the previous available brief mental health screening/assessments of a few hours by the court clinics or the intensive 30-day inpatient evaluation done at Riverview Hospital.

These new evaluations will take place on an outpatient basis over a two-week period by a multidisciplinary team that will include a home visit as part of the family evaluation. It is assumed that these evaluations will provide judges with important timely information while helping to relieve the backlog of youth waiting for a bed in Riverview Hospital for the 30-day evaluation.

This program also responds to needs identified in the Emily J. Consent Decree.

Minor DMHAS operations changes

Savings will result from minor programmatic changes in agency operations. A one-time savings of $200,000 will occur through the temporary closure of one ward at Whiting while renovations occur. The unit is expected to reopen in October 2003.

About $525,000 in savings will occur from the creation of an inpatient residential program at Dutcher that will serve as a bridge for Psychiatric Security Review Board patients between the structured forensic units in existence now and discharge into the community. The proposal resulted from a forensic consultation last year that recommended the development of a broader continuum of care for the forensic population.

About $186,000 in FY 2003-04 and $489,000 in FY 2004-05 will be saved through a conversion of staffed third shift coverage for mobile crisis to “on call coverage” and the provision of phone coverage by other 24 hour state operated programs.

Changes because of the layoffs of state employees are discussed later in this document.

DMHAS revenue maximization

DMHAS is taking on a number of projects to maximize federal revenue. Additional revenue of $1.125 million will result from revisions in billing procedures for state facilities through Medicare intermediaries and the resultant changes in physician and clinician billing and documentation at the various inpatient facilities. Another $1.125 million will result from the extension of Targeted Case Management to substance abuse programs and new procedures for billing existing mental health programs.

Investing in alternatives to incarceration

The biennial budget continues the important Jail Diversion Program that was expanded statewide over the past few years. In addition, the Governor is continuing his commitment to the creation of Community Justice Centers, an innovative and effective program providing meaningful treatment alternatives in lieu of incarceration. Although the overall project, announced as part of his last biennium budget, has been scaled back due to budget constraints, the state is within months of opening its first center.

With an anticipated opening in July of this year, a 110-bed community justice center for female offenders will provide much needed treatment alternatives, and provide the state with a proven opportunity to avert prison terms and reduce recidivism. In particular, the center will provide the following:

- Manage offenders as a pretrial diversion option for non-violent drug dependent and non-violent mental health offenders.

- Serve as a pre-release treatment center for the reintegration of sentenced offenders near community placement.
- Function as a centralized revocation center for those offenders under community supervision (inclusive of parole, probation and the Department of Correction) in lieu of re-incarceration due to technical violations. These agencies, utilizing incremental sanctions, would first provide the offender with treatment options using re-incarceration as a final option.

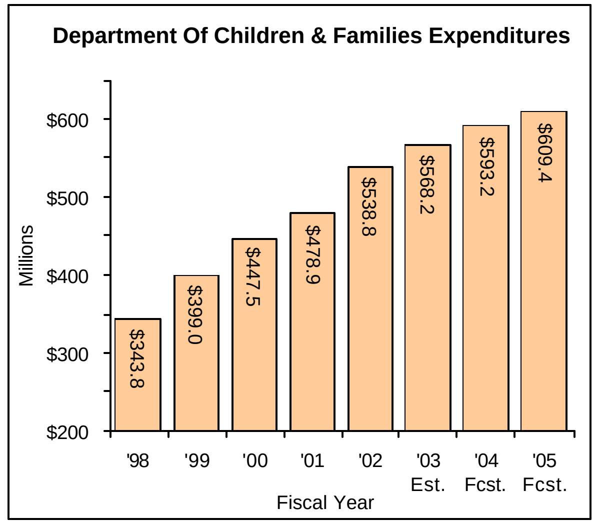
This new facility will be funded through federal funds, using the Violent Offender Incarceration Truth In-Sentencing (VOI/TIS) Program. In an effort to minimize expenses to the state, the Community Justice Center will be housed near the York Correctional Center in a recently renovated facility designed specifically for this type of operation. The center's location will allow for the utilization of all core services of the Department of Correction (DOC), such as food and medical services. All staffing and the provision of comprehensive treatment and counseling therapy will be contracted out to a private vendor who is a recognized expert in this area.

To the extent possible, to fund additional centers for male offenders, the state will seek to identify additional federal funding or seek to fund any more centers through existing budgetary resources.

Investment in Child Protection and Welfare

Since the tragic death of Baby Emily in 1995, Governor Rowland has set his mind to ensuring that the child protection system in this state does all it can to protect the safety and health of each one of our children. Over the past eight years, significant progress has been made toward improving the accountability of the child protection system, improving the juvenile justice system, and building a community mental health system.

Governor Rowland's efforts have certainly meant the investment of a huge amount of resources. The Department of Children and Families budget has leaped from $256.3 million in FY 1994-95 (the budget that the Governor inherited) to a proposed FY 2004-05 appropriation of $609.4 million – an increase of $353 million or 138 percent.



Spending next fiscal year from the estimated level this year will be up $24.9 million, with a further increase in FY 2004-05 of $16.2 million. Expenditures increase by more than $40 million over the biennium.

Safe and permanent homes

DCF continues an unusually successful effort to increase permanency for children in care through adoption and subsidized guardianship.

In FY 2001-02, DCF found 1,103 new permanent homes for children in need, an increase of 655 percent compared with FY 1995-96, and an increase of 38 percent compared with FY 2000-01.

In total DCF currently makes payments for subsidized adoptions for hard to place children for 4,122 children. The department also makes payments for subsidized guardians for children living in a relative's foster home while parental rights have not been terminated for 1,081 children.

Child welfare rules-- ensure HUSKY eligibility

Governor Rowland is proposing, as a way of ensuring Medicaid coverage, that the existing Child Welfare statute be amended to require guardians to apply for and renew eligibility for HUSKY coverage for children in their care. It is projected that approximately 400 children are Medicaid eligible but their guardians fail to seek such coverage. Requiring the subsidized guardian to seek such coverage is expected to save the state over $430,000 in FY 2003-04 and $700,000 in FY 2004-05.

Covenant to Care

This budget continues funding for Covenant to Care. For the current fiscal year, $150,000 was appropriated from surplus to pay for a contract with Covenant to Care. This provider acts as a liaison between church groups and social workers. The church groups help their social worker meet ancillary needs of their clients such as school supplies or Christmas presents. Covenant to Care also has an active program to recruit minority foster and adoptive parents.

Closing Long Lane School

The Department of Children and Families (DCF) has decided to close the Long Lane School in the spring of 2003. The facility has been serving adjudicated juvenile justice girls since the opening of the new Connecticut Juvenile Training School (CJTS), which serves only boys.

The Department is negotiating with private providers to develop gender specific and appropriate services for this population. Also, a 12-bed unit at DCF's Connecticut Children's Place was recently opened to serve some of these girls who have more severe behavioral health problems.

Savings are shown in the budget due to the closure of Long Lane School. Savings are anticipated due to the elimination of overtime currently being experienced at Long Lane and the reduction of overtime currently being experienced at CJTS when the Long Lane staff is reassigned to CJTS.

The agency also feels there will be savings to the Workers' Compensation account.

These savings are partially offset by the cost of providing a higher level of residential services by private providers than is presently the norm.

Reduce regions from five to three

In the spirit of consolidations and in an effort to garner administrative savings, this budget recommends the regional structure for DCF be reduced from five to three. Four administrative positions are eliminated in the budget for DCF.

It is anticipated that this reorganization will be an aid to the department to restructure as it deals with the loss of positions from the Early Retirement Incentive Plan. This proposal is in concert with revisions in the Dept. of Mental Retardation where eleven positions are eliminated through reorganization to three regions.

Realign funds in DCF

For accounting clarification this budget transfers monies between some accounts. Funds are consolidated into one account for the Supportive Housing for Recovering Families program as well as for Multi-Systemic Therapy services.

Economic and Workforce Development

It is difficult to discuss silver linings in these economic times, but Connecticut workers and businesses need to be thankful that the economy is fundamentally different than it was ten years ago. That is in no small measure because of the pro-business, pro-growth agenda of Governor Rowland.

Admittedly, the state economy had to diversify after the collapse of the defense, banking and insurance industries back in the early 1990s. But that the state has so many small business starts involved in cutting edge industry points to more than just sheer luck.

Indeed, since Governor Rowland came to office, he has championed the reduction of the corporate tax by one-third, the migration of S-corporations to the individual income tax, single-factor apportionment for manufacturers, and numerous research and development tax credits, including the ability for small entrepreneurial firms to exchange their credits upfront for 65 cents on the dollar so as to infuse their companies with capital.

Despite the economic turmoil, Connecticut had tremendous economic assets:

- Connecticut has been cited as one of the best “New Economy” states in numerous studies -- and rightfully so.
- Connecticut is ranked in the top 10 for percent change in merchandise exports and is an export leader because of its tremendous growth in exports.
- Connecticut, too, is a tremendous magnet for foreign investment. The state is ranked fifth in terms of percentage of workforce employed by foreign affiliates.
- Connecticut is a leader in high value-added manufacturing, it has the second most productive workers in the nation, and Connecticut is in the top 10 when it comes to its high-tech share as a percentage of total employment.
- Connecticut is in the top three in terms of the percentage of population with graduate or professional degrees and was ranked the “Smartest State” on the Morgan Quitno’s 2002 Smartest State survey.
- We are in the top five for patents and in the top 10 for venture capital investment.

In these economic times, Governor Rowland believes more than ever that the state and private industry need to work together to ensure that the right decision and right investments are made for the long run.

The cluster initiative

Under the guidance of the Governor’s Council on Economic Competitiveness and Technology, Connecticut’s Industry Cluster Initiative, launched in 1997, is the state’s long-term economic development and competitiveness strategy. This strategy is based on the premise that clusters of industries - not individual companies - will drive Connecticut's economic future. This initiative represents a concerted effort to increase the level of collaboration between businesses and education, government, and non-profit organizations. It is a truly comprehensive strategy that addresses a wide range of issues including workforce development, transportation, "lean manufacturing", and inner-city revitalization.

The state’s Industry Cluster Initiative has begun to reshape Connecticut’s industrial and economic landscape. To date nine clusters have been “activated”: Aerospace Components Manufacturers; Agriculture; BioScience; Insurance and Financial Services; Maritime; Metal Manufacturing; Plastic; Software and Information Technology; and, Tourism (already established). These established industry clusters have demonstrated unprecedented levels of economic cooperation and, with support and assistance from the state Department of Economic and Community Development (DECD) they have yielded impressive results.

Over the past four years the state has invested approximately $22.5 million in the Industry Cluster Initiative. This investment has leveraged $107 million in private and other public funding. In other words for each dollar invested by DECD, $4.80 million was invested by private industry and/or from other public funding sources. The indirect economic impact of cluster-based investment on Connecticut amounts to a gain in total state output of $130 million, an increase of $83 million in new personal income of $7 million in new state tax revenue. Currently there are 280 companies actively involved, involving more than 20,000 employees. It is important to note that the enhancements to Connecticut's business climate that have occurred as a result of the state's cluster initiative will, potentially, benefit nearly all business segments.

One good example of the success a concerted public-private partnership to drive economic excellence can have is the Bio-Science Cluster. Because of the work of the cluster, in conjunction with Governor Rowland and other public officials, in 2001, Bio-Science-related research and development rose 18 percent to more than $3.6 billion—a 139 percent increase from 6 years ago.

The cluster initiative is funded in the general fund at $857,000 in year one and $892,000 in year two. In addition, the initiative continues to have access to bond funding for its work through the Manufacturing Assistance Act authorizations.

Office of Workforce Competitiveness

The Office of Workforce Competitiveness (OWC) was established in 1999 to help guide the implementation of the Workforce Investment Act of 1998 (WIA) and to serve as the Governor's principal workforce development agency.

The biennial budget proposes to place the OWC within the Department of Economic and Community Development as an independent entity with all of the existing authority and responsibilities it has now.

Governor Rowland, however, is mindful of the need to keep the OWC as a truly neutral and independent force and consensus builder that can bring disparate entities in state and local government together to meet the mandate of WIA and state statutes.

The merger proposal was made to effect economies in the future, but even the Governor would argue in favor of keeping the OWC as a freestanding agency if its fundamental mission and independence might be compromised. Indeed, although WIA has been implemented in Connecticut, a number of challenges remain ahead, including the reduction in workforce development boards and the closure of job centers around the state. The Governor will consult with policy-makers in this area on the pitfalls of moving the OWC and whether it is better to keep it as a freestanding entity.

Reductions in the entire OWC accounts totaling $770,733 are recommended to effect economies. These reductions occur in the Other Expenses and the CETC Workforce account, which funds various innovative employment development initiatives. Even after the reductions, the OWC is funded at about $3.5 million in each year of the biennium.

Implementing the WIA Business System

As a result of the data collection and reporting mandates of the federal Workforce Investment Act of 1998 (WIA) a more robust computerized system is needed by all the mandatory and voluntary WIA partners.

The CT Works Business System is intended to link all WIA partners and produce all required federally reports and also serves as a repository for available employment opportunities. Since the federal government has not provided adequate funding to complete the system deemed necessary by the Department of Labor and other WIA partners, an infusion of state funds are required.

The CT Works Business System, once fully operational, will provide the tools that can be used by the Department of Labor, the Workforce Investment Boards and other workforce development partners.

One million dollars is recommended in year one and $433,000 in year two to complete the system.

A total of $21.4 million is appropriated for the actual federal WIA grant in each year of the biennium. The Jobs First welfare-to-work grant is funded at about $15 million in each year.

Eliminate funding for Vocational and Manpower Training

As a consequence of layoffs necessitated by the failure to achieve labor concessions, the staff positions associated with the administration and operation of the Apprenticeship and Customized Job Training programs have been eliminated. As a result of these staff reductions, and the fact that the Department does not have other resources available to operate these programs, the entire account of about $1.5 million per year is eliminated in the biennial budget.

Eliminate funding for the Occupational Health Clinics

The Department of Labor program to support the collection of injury data through grants to occupational health clinics is eliminated. This program in DOL has never been supported by the assessment process and it is necessary to preserve the financial position of the Workers' Compensation Administration Fund. Since occupational injury data are available from other sources, the elimination of this funding will have no adverse impact. Over $700,000 per year is eliminated.

Also, in an effort to effect economies, the Governor is recommending a reduction in funding for Rehabilitative Services within the Workers' Compensation Commission based on actual expenditures. About $500,000 per year is reduced.

Eliminate funding for Summer Youth

The federal Workforce Investment Act of 1998 (WIA) provides substantial funding for youth employment related activities and reflects the intent to move away from one-time, short-term interventions and toward a systematic approach that offers youth a broad range of coordinated services. These federally funded services include opportunities for assistance based on longer-term planning; academic and occupational learning; development of leadership skills; and preparation for further education, additional training, and eventual employment.

Thus, given the fiscal exigencies we face here in Connecticut, the Governor reluctantly is proposing that the state-funded Summer Youth Employment program of over $600,000 per year is to be abolished, as it is somewhat redundant of the WIA effort.

OIC funding eliminated

The Governor proposes to eliminate state financial support for the local affiliates of the Opportunities Industrialization Centers of America, Inc. These local non-profit organizations operate through a national network of 58 affiliates in 30 states across the country and the District of Columbia.

Since OIC of America receives additional funding from several private partners such as Anheuser Busch, The Annie B. Casey Foundation, The Coca Cola Company, The Brown & Williamson Tobacco Corporation, The Phillip Morris Company USA and PepsiCo, among many other major corporations, state funding is being eliminated on an ongoing basis.

One-time monies for two of the centers are included as carryforwards of funds as a temporary grant.

Jobs Funnel and School to Work

Because of the fiscal exigencies of the state, no further monies are being appropriated for the jobs funnel projects in New Haven and Hartford or the school-to-work program. These have been funded from one-time surplus monies. Up to $1 million is being authorized for carryforward from the CETC workforce account this fiscal year. A portion of this money, at OWC's discretion, could be used to continue one or both of these initiatives on a slightly smaller scale.

Office closures

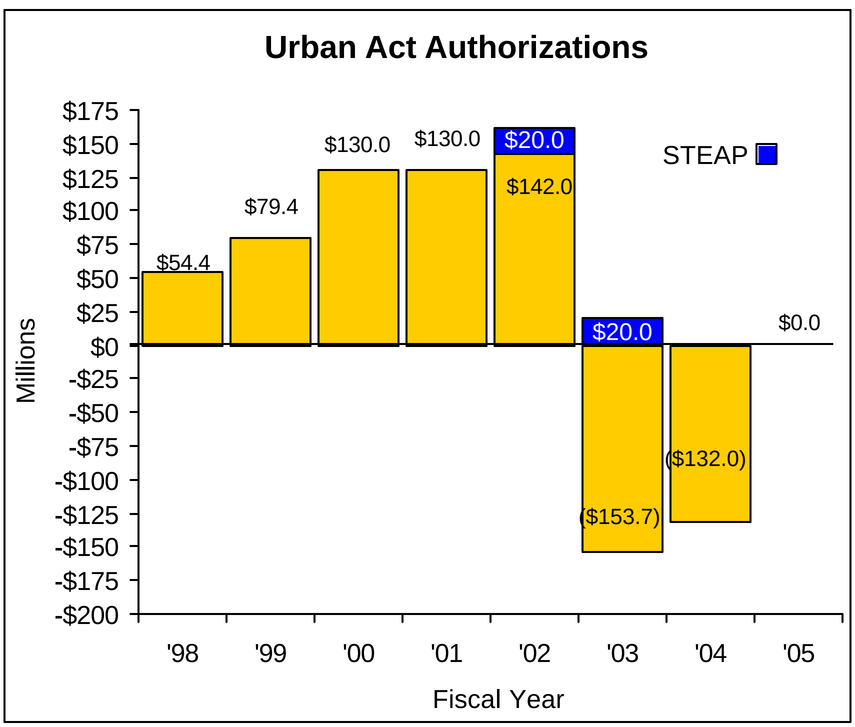
Because of the lack of labor concessions, layoffs in the Department of Labor caused the closure of a number of smaller offices. Those are discussed in greater detail later in this document.

Capital bonding for economic development

Because of the need to reduce bonding outlays in the near term, there are no new bonding authorizations proposed in the economic development area beyond the positive impact that the higher education capital program has on the state's vitality. Because of the economic crisis, the Governor is proposing the following reductions in the economic development area:

- A reduction of $285 million in the Urban Act. $153.7 million was reduced in the current fiscal year. Despite these reductions, about $60 million remains unallocated for priority project purposes.
- A reduction of $20 million in the Manufacturing Assistance Act $49 million remains unallocated for priority projects.

No new Small Town Economic Assistance Program authorizations are being proposed, but Special Act authorizations for economic development in New Haven, Norwalk, and New London remain in place.



Ending the Gridlock

The Transportation Strategy Board (TSB) was created by the Governor and General Assembly in 2001 and charged with developing a comprehensive transportation strategy for the state. A key goal of the legislation and the strategy is to assure that Connecticut's future includes a safe and efficient transportation system that strongly supports both its economic vitality and quality of life.

An initial strategy was submitted to, and approved by, the General Assembly, during the 2002 session. A comprehensive, statewide transportation strategy was submitted to the General Assembly prior to the start of the 2003 session.

The TSB submission consists of three parts:

- A proposed transportation strategy for the state
- A ten year plan identifying strategic actions and initiatives which advance that strategy and their cost
- A plan for financing the initiatives.

The Transportation Strategy Board's report is more than a series of projects and a plan for financing them. It is a strategic approach to meeting the state's transportation needs over the next decade. The Governor endorses this effort as being a valuable blueprint to guide Connecticut's future transportation investments. Specifically, the strategies in relation to economic growth, movement of people and movement of goods should be used as filters against which to measure current and future transportation investments.

Recognizing that goal, the Governor will direct the Department of Transportation in consultation with the Transportation Strategy Board and the Office of Policy and Management, to review its existing and planned operating and capital programs and to prioritize projects which support the transportation strategy.

Section 16 of Public Act 01-05 appropriated $50 million in general fund surplus funds (later reduced to $43,280,000 in surplus and bond funds). Those funds have been used to support a number of initiatives, designed to provide relief to Connecticut's commuters, that include:

<u>Demand Management</u>

- Deduct-A-Ride Marketing

<u>Rail</u>

- Shore Line East Service Extension to Bridgeport and Stamford
- New Haven-Hartford-Springfield Commuter Rail Implementation Study
- West Haven/Orange Rail Station Environmental Study and Design
- Site acquisition for the New Haven Line Rail Maintenance Facility

<u>Bus</u>

- Jobs Access and Reverse Commute Program
- Expansion of New Haven Line Commuter Connections Program
- Fairfield County Inter-regional Bus Service
- Danbury Area Feeder Service to Metro North's Harlem Line
- Expanded Hartford Area Express Bus Service
- Jobs Access for Southeastern Connecticut and Dial-a-Ride
- Bus Purchases for Fairfield County Inter-Regional and Hartford Express bus services.

Highways

- Study of the I-95 Corridor from Branford to Rhode Island Border
- Commuter Parking Lot Expansions
- 1-84 Improvements in the Danbury-Newtown area

Other:

- Transit Oriented Development/Station Area Planning for New Britain-Hartford Bus way
- Southeast Connecticut Intermodal Tourism Service

The national economy and the state's fiscal condition have changed drastically since the Transportation Strategy Board was created. Funding the initiatives, as well a maintaining the state's existing transportation system, will be a challenge. But, they remain vital to the state's economic future and quality of life.

The Governor's proposed budget supports and invests in the recommended strategy. First, it provides funding to continue initiatives originally funded under Section 16 of Public Act 01-05. Second, it begins the implementation of the strategic actions and initiatives recommended by the TSB.

On-going initiatives

The Governor's recommended budget proposes carrying forward the remaining amount of the funds available to the TSB (approximately $6.3 million) to continue on-going initiatives initially funded by the TSB at least through June 30, 2004. The initiatives are consistent with the TSB's proposed transportation strategy, and are:

- Extension of two Shore Line East trains beyond New Haven to serve Bridgeport and Stamford. This initiative increases connectivity between Shore Line East and points west of New Haven, increases express service between New Haven, Bridgeport and Stamford, and frees up existing capacity on Metro North between those cities. The ongoing cost is $1.7 million annually.
- Expanding bus service to and from rail stations in Stamford, Norwalk, Milford, Stratford in order to encourage use of Metro North commuter rail service. The ongoing cost is $320,000 annually.
- Enhancing commuter bus options along Routes 1 and 7 in Fairfield County. The ongoing cost is $900,000 annually.
- Continuing the highly successful bus service between the Danbury area and Metro North's Harlem Line. The ongoing cost is $200,000 annually.
- Expanding express bus service into downtown Hartford. The ongoing cost is $750,000 annually.
- Continuing a grant-in-aid to regional planning organizations. The ongoing cost is $640,000 annually.
- Continuing to provide funding to Tweed New Haven Airport. The ongoing cost is $600,000 annually.
- The remaining funds are to be used for new initiatives at the discretion of the TSB.

Bus Ridership

	Oct. 2002 Ridership
Fairfield Commuter Connection	1,965
Fairfield County Interregional Bus	25,319
Danbury-Katonah Feeder Bus *	5,835
Hartford Bus Service	1,945
Total	35,064

* Includes both the Ridgefield and Danbury services. Danbury is funded from a variety of sources, Ridgefield is primarily funded by the TSB project.

Rail Ridership

Month	**Total Rides**	**New Haven Line Local Rides**	**Shore Line East Thru Rides**
January	180	92	88
February	223	115	108
March	248	143	105
April	300	193	107
May	337	214	123
June	412	272	140
July	709	538	171
August	721	547	174
September	822	619	203
October	871	647	224
November	919	675	244

New strategic actions and initiatives

The Governor's recommended budget includes $14 million in capital expenses to begin implementing the expansion of rail station parking and roadway improvements.

The capital funding will result in an additional 900 spaces at the New Haven Garage and 400 spaces at the Bridgeport Garage at an estimated cost of $13 million.

In addition funding is provided for the planning and development of operational roadway improvements in Connecticut's coastal corridor. These bond funds of $1 million, in coordination with DOT's current planned projects, represent an investment in securing a quality transportation system and quality of life for Connecticut's future.

Transportation Strategy Board

Initiatives Continued with Surplus Carryforward		
New Haven Line Commuter Connection	$	320,000
Fairfield County Interregional Services		900,000
Danbury Area Feeder Bus Service - Harlem Line		200,000
Expanded Hartford Area Express Bus Service		750,000
Shore Line East Service through New Haven-Bridgeport-Stamford		1,700,000
Regional Planning Areas Support		640,000
Continuation of State Subsidy for Tweed New Haven Airport		600,000
Other Initiatives		1,200,000
Total	**$**	**6,310,000**
New Capital Funding Initiatives		
Planning & Development of Operational Roadway Improvements in Connecticut's Coastal Corridor	$	1,000,000
Expansion of Rail Station Parking		
New Haven Garage - 900 spaces		9,000,000
Bridgeport Garage - 400 spaces		4,000,000
Total	**$**	**14,000,000**

Bus and rail fare increases

Due to the rapidly increasing costs associated with the provision of bus and rail services, the Governor is recommending that fares be increased to offset the increasing subsidies for these services.

The CT Transit (Hartford, New Haven and Stamford Divisions) zone-one bus fares will be increased from the current rate of $1.00 to $1.25 effective on January 1, 2004. All other fares will be increased proportionally.

The subsidy growth for urban and commuter bus service since the last fare increase on October 30, 1995 through FY 2004-05 would be over 42 percent without the fare increase. An increase of $0.25 on January 1, 2004 will yield $2.476 million in FY 2003-04 and $5.183 million in FY 2004-05.

The bus transit users, prime beneficiaries of this service, are only being requested to pay a share of the cost increase associated with maintaining these services. It will take approximately six months to implement a fare increase.

In addition to the increase in bus fares, rail fares will be increased by approximately 20 percent. New York is expected to increase fares by 15 percent beginning March 1, 2003 The Connecticut increase will occur on October 1, 2003.

The last fare increase in Connecticut was a 4.5 percent increase in 1998. The last fare increase in New York was a 10.01 percent increase in 1996 . All users of the New Haven Line rail service would be impacted by increased fares. In FY 2001-02, the New Haven Line accommodated 32.7 million person trips. This increase will result in $12.5 million in FY 2003-04 and $14.7 million in FY2005.

Some would argue that raising mass transit fees is counter to the idea of increasing ridership. The fact is, costs in mass transportation and elsewhere are going up substantially. There is nothing inconsistent with asking riders to pay a fair share of the operating cost increase over time. After all, the state is maintaining an ever-increasing subsidy for both rail and bus. By FY 2004-05, rail subsidies will be $73.5 million with the bus subsidy at $76.1 million. This fiscal year rail and bus subsidies will be $69.7 million and $72.1 million.

Town Aid Road reduction and transfer

Because of the budget constraints in FY 2002-03, funding in the original budget for the Town Aid Road program was reduced from $35 million to $25 million. Both the Democratic budget, vetoed by the Governor, and the Governor's deficit mitigation plan in this document propose further reductions in TAR. The Governor is proposing a reduction to $12.5 million. The biennial budget proposes to continue that reduced level of funding of $12.5 million in the biennium.

In addition to this reduction, funds were provided from the Special Transportation Fund instead of from a General Fund appropriation for one year. The Governor is recommending that funding continue to be provided from the Special Transportation Fund at $12.5 million annually.

Miscellaneous DOT reductions

By using the existing carryforward funds, expenditures in the Highway Planning and Research Program will be reduced by $400,000 in each year of the biennium. These appropriation reductions will eliminate the carryforward over the next two years, while allowing the Department to match available federal funds and sustain the current program level. To maintain current services after FY 2004-05, the annual appropriation would have to return to the $2,768,400 level.

Annually the Department provides summer employment for ten engineering students and approximately forty non-engineering students. Due to budget constraints, this program will be eliminated. In addition, overtime increase for all non-snow and ice removal activities will be eliminated.

Protecting the Homeland and Ensuring Public Safety

The horrific events of September 11th and the subsequent anthrax crisis, has had, and will continue to have, a significant effect on our country and state -- its people and its institutions. In the wake of the tragedies, here in Connecticut, and throughout our nation, the emotional and economic climate changed profoundly in a remarkably short period of time, and concerns involving our emergency response and preparedness were propelled to the top of the public agenda.

Governor Rowland has led an unprecedented effort to plan and implement a comprehensive strategy to improve Connecticut's capacity to prevent, manage, and mitigate emergencies, as well as recover from them. The process to date has demanded a significant investment of time and resources, and an historically unequaled level of collaboration among federal, state and local officials, as well as representatives of private interests. His strategy has focused on three major areas of preparedness planning, including safety and security, public health, and individual and family assistance.

Safety and Security

To better address safety and security preparedness, Governor Rowland established a Domestic Preparedness Senior Steering Council with local, state and federal representation to assure that all efforts aimed at increasing our state's preparedness and incident response capability are coordinated and uniformly implemented. In addition, he established a state counterpart office to the Federal Office of Homeland Security to assure effective intergovernmental communication and system coordination around a broad range of safety and security issues.

Consistent with the results of intensive local and regional vulnerability assessments, the Governor directed the purchase of essential equipment for local and state public safety agencies and their personnel, as well as provide security enhancements at key state assets. Purchases have included basic protective gear, a bomb containment unit, hand-held interoperable voice communication devices for command level emergency services personnel, several decontamination trailers to be strategically located throughout the state, and training opportunities for emergency services personnel in the areas of counterterrorism and civil preparedness.

The Governor also directed the Department of Environmental Protection to purchase and implement a detailed visual information system of the State. This technology will allow visual inspection of every square foot of the state for a variety of applications, with a special emphasis on having the capacity for computer-aided planned response to all types of crisis/emergency situations.

The Governor's proposed bond package includes $3 million to properly equip Connecticut's new Urban Search and Rescue (USaR) Team affiliated with the Division of Homeland Security and $88,000 in capital equipment to purchase personal protective equipment for troopers. $500,000 in federal Byrne money has been designated to provide training and basic start up for the USaR team and fund the Statewide Anti-terrorism Task Force.

The Governor's bond package also includes $1.1 million in capital equipment funding for the Military Department to purchase a mobile command post and related equipment. About $15,000 in "United We Stand" License plate funding has been designated to support a spring 2003 Municipal Symposium sponsored by the Domestic Preparedness Senior Steering Council that will update municipal leaders on the activities of the state since the last one in early 2002.

Public Health

To better address public health preparedness, DPH, along with Connecticut's two hospital Centers for Excellence, other medical providers, representatives from local health districts and other public health providers developed a federally required plan for Smallpox Preparedness and Response, which calls for the vaccination of up to 6,200 health care workers over the months of February through April 2003, and a plan for the mass vaccination of the entire population of the state over a 10-day period should that ever become necessary.

Individuals to be vaccinated include members of Hospital Smallpox Medical Care Teams at the state's 31 acute care hospitals and Public Health Smallpox Response Teams, which are comprised of individuals who will do investigation and surveillance if there should ever be a case in Connecticut or have volunteered to staff mass vaccination clinics should they ever be necessary.

The plan also calls for the purchase of a 100-bed mobile and surge hospital, which could support disaster response or provide surge capacity in any location of the state during a mass casualty event or provide isolation care for any type of infectious disease.

The plan will also support the HEPA filtration of 65 isolation rooms in emergency rooms across the state that could provide interim care should a hospital see the state's first smallpox patient. The mobile hospital and HEPA filtration initiatives will bring the number of beds that comply with CDC guidelines for treatment of smallpox patients to 165 from the current 6 statewide.

The mobile hospital and HEPA filtering matching grant program will be supported by bond authorizations totaling $10 million in the capital budget request.

This budget also has the Governor renewing his commitment to the development of a new Public Health lab with a Level 3 capacity, capable of detecting any bioterrorism agents, thereby greatly aiding in the rapid response of the public health community to any incident. An additional $15 million has been authorized for this purpose, bringing total authorization for this facility to $20 million, and deliberate planning continues.

In addition to the funding for the mobile hospital, HEPA filtration and state lab, $75,000 has been designated for the Department of Public Health out of a Special 9-11 federal grant to outfit, train and equip Connecticut's new Disaster Medical Assistance Team (DMAT).

The DMAT will be able to provide medical triage support at any major trauma event in Connecticut and could be federalized to respond to a trauma event nationally.

Individual and Family Assistance

In order to address the needs of individuals and families during a time of crisis, the Governor established the Connecticut Helps Oversight Council, which consists of 19 state agencies and volunteer organizations. The Council will be charged with coordinating all post 9/11 recovery activities and planning for future crises. The Governor also established the Connecticut Helps Office of Family Support to provide staff to the Council and direct service and advocacy for Connecticut victims' families from 9/11.

Through the leadership of DMHAS and DCF, the Center for Trauma, Response/Recovery and Preparedness was created, which is a collaboration between Yale and UCONN aimed at promoting the safety and recovery of people affected by crisis. Through the Center's planning and training functions, new regional networks of disaster response volunteers has been established to provide behavioral health services at time of crisis. $75,000 has been designated out of the Special 9-11 federal grant to the Department of Mental Health and Addiction Services to provide seed funding for the Behavioral Health Crisis Response Teams. An additional $100,000 out of that funding will provide continued services to the families of the 9/11 tragedy, and $200,000 more is designated for the State Department of Education to support comprehensive training for School Crisis Response.

Connecticut Justice IT System

An integral part of Connecticut's war on criminal activity is an ability to communicate and manage information on criminal offenders. Timely, complete and accurate data on persons involved in crimes immediately available to law enforcement officers are necessary to ensure these persons are apprehended and prohibited from continuing their criminal activity.

Governor Rowland's biennial budget provides continued support towards the implementation of the Connecticut Justice Information System (CJIS), an initiative aimed at using the benefits of technology to bring greater cohesion and improved effectiveness to our criminal justice system.

One of the major projects, the creation of the Offender Based Tracking System (OBTS), will streamline a series of Information Technology (IT) systems by routing federal and state criminal justice data from many different information sources into a single, central repository so that law enforcement personnel can more effectively and efficiently track offenders, and so that critical public safety information is available to police officers in the field instantaneously.

As part of the initiative, the state has also set up the Statewide Mobile Data Communications System. This system gives officers in the field instantaneous critical information including, criminal history, driver and vehicle information, and photo images of offenders when available. This system is currently serving some 80 municipal police agencies throughout the state with over 1200 Mobile Data Terminals (MDT's) in police vehicles. This system is being evaluated by the Department of Public Safety to provide even greater functions by including the receipt of justice data and incident/accident reporting capabilities.

Governor Rowland has included additional projects under the umbrella of CJIS, which would essentially modernize the entire criminal justice system. The additional projects include making the current COLLECT management system web-based, upgrading the state's fingerprint system and its transmission capabilities, enhancing online booking, accessing the national instant check system for firearms, and integrating a number of separate registry systems, including the sexual offender, protective and restraining order, and warrant management systems.

Connecticut will be the first state in the country to integrate executive and judicial branch criminal justice agencies and systems and create and maintain a new centralized data repository. The new system will permit and facilitate the exchange of critical offender and case information among all criminal justice agencies. In another sign that this initiative has progressed, the development of the Offender Based Tracking System is at a stage where baseline data sharing between legacy source systems and the OBTS software can be done successfully.

Connecticut has taken a leadership role in the use of technology in the criminal justice arena. Through the continued support and vision of projects like CJIS, we will maintain public confidence in, and the integrity of, the criminal justice system. To date, a total of $38.4 million has been authorized for the projects and it is anticipated that many of them will be brought to completion during the next biennium.

Drug Enforcement Program

Begun in 1989, the Drug Enforcement Program (DEP) has provided critical support to local law enforcement agencies and key state agencies in the fight against drugs. These funds have historically supported direct enforcement activities, prevention and education programming, and personnel costs for police overtime and enhanced prosecution of drug kingpins.

Because of the state's continuing fiscal crisis, funding for local DEP has been reduced over the past several years. The Governor, however, is proposing to continue a scaled down DEP. It is an important investment and is central to his overall plan to improve public safety.

Funding will be reduced to just over $1.8 million, sufficient for approximately five to ten targeted grants per year. The chart below depicts the distribution of this amount for this fiscal year. Although in previous years the DEP was available to most communities, and to two state agencies, the program's new funding level does not allow that. The new allocation system has changed to avoid many very small grants, which would be ineffectual and costly to administer, and to give priority to those municipalities, large and small, that are the most impacted by drug crime.

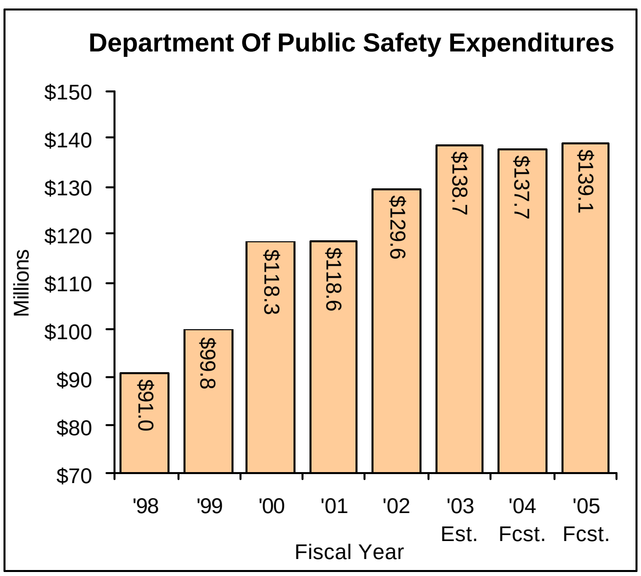
In determining the most effective way to prioritize funding to communities, only two reliable and relevant statistics could be found: year 2000 population figures and the State Police Crime in Connecticut arrest data for drug abuse violations in municipalities. In order to give smaller drug-impacted towns a chance to obtain grants, each town's total drug arrests is divided by its population, creating a *per capita* drug abuse violation rate list. Then, based on funding levels, the number of municipalities that can reasonably be accommodated by DEP will be funded in accordance with each eligible town's share of the total pool population and drug arrests.

Drug Enforcement Program
Biennial Grant Award

Muncipality	2000 Population	Drug Arrests	Per Capita Drug Arrests per 10,000	Grant Award
Hartford	121,578	2,796	229.98	$ 490,286
New Haven	123,626	1,813	146.65	$ 417,310
Bridgeport	139,529	1,781	127.64	$ 453,171
New Britain	71,538	859	120.08	$ 243,980
Waterbury	107,271	978	91.17	$ 266,907
Total				$ 1,871,654

In the current fiscal year, just the five most distressed large towns qualified for grants in the amounts shown in the accompanying chart.

DPS budget and personnel



Governor Rowland's commitment in the area of public safety is significant. In FY 1994-95, DPS expenditures were just $80.4 million. The FY 2004-05 budget is estimated to be $139.1 million, a growth of $58.7 million or 73 percent.

In 1998, Governor Rowland supported a statutory change to increase the number of sworn police personnel covering Connecticut. The statute mandated 1,248 sworn personnel by July 1, 2001. The current sworn staffing meets the statutory mandate.

State troopers were made exempt from layoffs so as not compromise public safety. But because of the continuing fiscal exigencies, the Governor was forced to cancel a trooper training class in December and one scheduled for this May.

The suspension of the classes were necessary to help balance the budget and will occur at least through June 30, 2004 and perhaps through June 30, 2005. Because of the lack of funds for classes and fully staffing the department, the Governor is proposing to suspend the 1248 statutory mandate through December 31, 2005. Even with the suspension, it is anticipated that the number of troopers protecting Connecticut will be well higher than before the statute was put into effect.

Overtime also has been reduced by $843,000 in FY 2003-04 and $732,000 in FY 2004-05 in an effort to reflect historical trends, while accounting for current circumstances. While attrition of State

Troopers is likely to impact overtime costs, the funding provided in the biennium is expected to cover such an occurrence.

One area of higher costs is the need for maintenance on the new state police helicopter. After 2,500 hours of flight time, which is expected to occur by December 2003, the helicopter will require a major inspection and replacement of several components. $723,810 is provided in FY 2003-04 for such maintenance. Such funding is then reduced in FY 2004-05 to $73,000 for the replacement of parts after 3,000 and 4,000 flight hours.

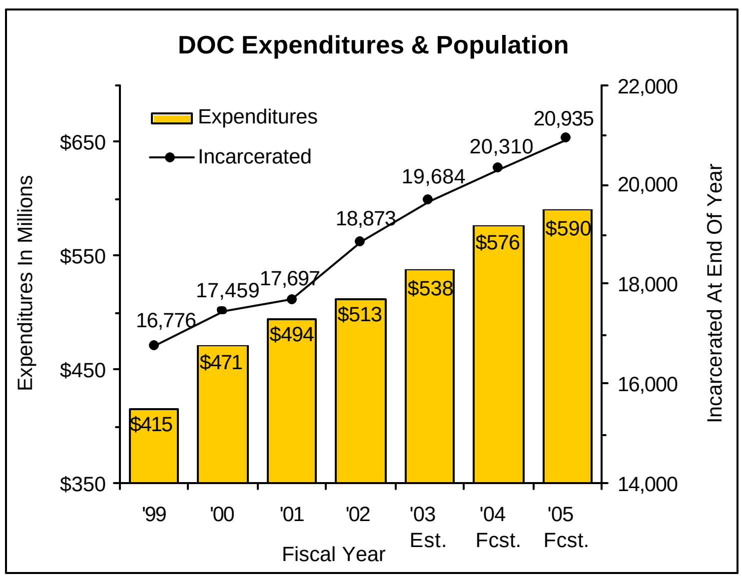
POST class cancellations

Continuing with the “back to basics” theme, reductions to various training courses for municipal, state agency and state university police officers have been made in the Police Officer Standards and Training Council. Remaining funding is expected to be sufficient to provide the basics in training that will maintain current standards of public safety.

Increased funding for DOC and sending more prisoners out of state

Prison populations and expenditures in Connecticut continue to explode and with it has come burgeoning prisons. At the end of FY 2000-01, the prison population stood at about 17,700. In FY 2001-02 alone, inmates incarcerated within facilities in and out of state have increased by 1,176 – an alarming 6.6 percent. From the onset of the current fiscal year, the number of inmates has increased by 730 – a 3.87 percent increase. At the end of the current fiscal year, the population is expected to be 19,700. And by the end of the biennium, those incarcerated should reach over 20,900. DOC expenditures have surged from $415 million in FY 1998-99 to an estimated $590 million at the end of the biennium.

In an effort to manage the growing population, the Governor included nearly $8.89 million in FY 2003-04 budget to annualize 142 staff and facility costs for a 600-bed expansion at the MacDougall Correctional Institution in Suffield and to adjust direct in-state inmate costs to latest projections. An additional $4.48 million was added in FY 2004-05 for direct inmate costs within the state to correspond to the latest population projections.



Governor Rowland is proposing a few initiatives to reduce the financial impact on Connecticut taxpayers moving forward. Currently, the Connecticut correctional system is made up of 18 facilities sited across the state. Since October 1999, a contract has been in place with the Commonwealth of Virginia to house up to 500 inmates out of state. That contract has been renewed as of October 2002 for an additional three-year duration. Though this arrangement has eased overcrowding initially within the State’s institutions, Connecticut’s inmate population continues to increase at an alarming rate.

The Governor’s budget includes enabling legislation to send an additional 1,000 inmates out of state, increasing the allowable number from 500 to a total of 1,500 inmates. To this end, the Governor is proposing a reallocation of funding to phase-in these additional inmates out of state – for an anticipated savings of $1.6 million in direct inmate costs the first year of the biennium. As important, the ability to send another 1,000 inmates out-of-state would temporarily if not permanently mean putting off the prison expansion (to connect the Northern and Osborn Correctional Institutions in Somers) being studied right now.

In FY 2004-05, with full phase-in out of state beds coupled with the elimination of the planned January 2005 expansion, the state will save an additional $9.2 million in operating costs. The State would also be saving nearly $1.2 million in fringe benefit costs associated with staff and hundreds of thousands of dollars for Payments in Lieu of Taxes to Somers. In addition, nearly $61 million in costs would be avoided - $40 million in one-time construction costs and $21 million in debt services interest over a twenty-year period.

Merger of DOC community funding

Currently, the Department of Correction's appropriation includes segregated funding for residential and non-residential services for inmates within the community. Residential services are comprised of a network of private facilities contracted to the Department, located throughout the State, providing 24 hour per day custody and supervision for sentenced inmates. As of mid February, there are 680 halfway house beds developed across the State.

Non-residential services are made up of a network of non-profit contracted agencies located across the state. These agencies provide pre- and post- release services including pre-release planning, pre-employment counseling, job development and placement counseling, drug and alcohol counseling, mental health crisis intervention and follow-up to inmates.

The Governor's budget includes a reallocation of existing funding to a newly created Community Support Services account. This cost neutral merger will allow better utilization of existing community support services funding through greater flexibility in allocating resources. It will also assist those current and future operators that provide both residential and non-residential services to adjust their contract services between program categories.

DOC community pilot

Since January 2000, the Department of Correction has maintained a unique Community Enforcement program piloted in its Southern District. Twenty-four Correction Officers 1st Class and five Correctional Sergeants serving Waterbury, New Haven, Bridgeport and their surrounding communities staffed this program. These positions were due to expire at the end of fiscal year 2003.

In measuring a one-year period through the end of the 2002 calendar year, this pilot has proven to be very successful. With the concentrated community supervision of inmates by these staff, offenders with sentences of 2 years or less and released to the Department's Transitional Supervision program have increased by 41 percent. Also, the number of offenders transitioned to residential halfway houses prior to release has increased by 5 percent. Both these efforts have saved prison beds and taxpayer dollars.

The Governor's budget includes an increase of twenty-nine positions to the agency's authorized position count making these now durational staff permanent positions.

Merge the Boards of Parole and Pardons with the Department of Correction

It is proposed that the Department of Correction assume the responsibilities of the Board of Parole and the Board of Pardons. Sufficient resources of funding and staff will be transferred to the Department of Correction to carry out the major functions of the two Boards.

It is expected that over time further savings can be achieved as efficiencies are realized through the streamlining of all activities. It is also anticipated that these mergers could give the Department of Correction some added flexibility in managing the prison population.

Judicial funding

The Governor's budget includes nearly $3.3 million in FY 2003-04 to annualize staff costs for 25 Juvenile Probation Officers and 63 staff and facility costs for an expansion at the Hartford Detention Center, which was partially funded in FY 2002-03.

Operating costs of $3.6 million are included in FY 2004-05 for 49 staff and facility-related costs for a new Bridgeport Detention Center scheduled to open in July 2004. Capacity at each of these facilities will provide 88 beds for a total of 176 beds for children in detention.

Reallocate from OPM to Judicial/Criminal Justice monies for grant pick-ups

The Governor's budget includes a reallocation of $536,435 from the Drug Enforcement Program grant within the Office of Policy and Management to the Judicial Department and the Division of Criminal Justice. These transfers will be used to offset a portion of the expenditures to continue essential programs paid from federal funds that have expired.

Judicial's portion of $251,700 will allow a partial offset to continue the Intensive Supervision of Sex Offenders project in Hartford. Additional funds of nearly $280,000 in FY 2003-04 and $655,000 in FY 2004-05 are included to annualize this program and also allow continuation of an alternative to detention program for girls and Juvenile Justice Centers in Danielson and Middletown.

The Division of Criminal Justice's portion of $285,000 from OPM and additional funds of $132,000 in FY 2004-05 will allow the Elder Abuse Unit and the Nuisance Abatement and Hartford Career Criminal Programs to continue.

Reduce Trial Activity in the Courts

The Governor's budget includes savings generated from a continuation of reduced court activity successfully piloted in FY 2002-03. A total savings of approximately $300,000 was possible from temporary staff savings resulting from not initiating any new jury trials during the holiday weeks of Thanksgiving, Christmas and New Years.

Agency Consolidations and Downsizing

Downsizing and consolidations are two hallmarks of Governor Rowland's biennial budget submittal.

Closures as a result of layoffs

Some of the downsizing was necessitated by the fact that no meaningful and permanent labor concessions were put forward by the State Employees Bargaining Agent Coalition. Unfortunately, without those savings, the Governor had to resort to layoffs as a last resort to save money and to close a portion of the current fiscal year's deficit and next fiscal year's structural gap.

There is no question that the layoffs will have service impact. While the layoffs were designed to ensure that critical services are delivered, the office closures and other downsizing will disrupt some services and impact clients and taxpayers alike.

In the accompanying chart, the major areas of office closure as a result of layoffs are shown.

Closures of Offices/Branches Due to Layoffs

Department of Motor Vehicles
Five Photo Licensing Centers:
New Milford, Derby, Middletown, Milford & Waterbury
Two Satellite Offices:
Putnam & Stamford
Two Branch Offices:
Northwestern (Winsted) & Willimantic

Department of Economic & Community Development
Three Regional Offices:
Waterbury, Willimantic & Bridgeport

Department of Social Services
Ansonia, Bristol, Killingly, Norwalk, Meriden, & Willimantic

Department of Education
Bristol Technical Education Center
Stratford School for Aviation Maintenance Technicians

Connecticut Historical Commission
State Museums:
Prudence Crandall Museum
Henry Whitfield State Museum
Old New-Gate Prison
Sloane-Stanley Museum

Department of Labor
Four Branch Offices:
Ansonia, Bristol, Manchester & Stamford

Board of Education & Services for the Blind
Industries Division

In the case of the Departments of Social Services, Labor, and Motor Vehicles, the offices chosen for closure were either small and had limited caseloads or were located close to another agency office. While there will be inconvenience, services are offered near by.

WALK-IN PARKS

The following parks may be converted to "walk-in" parks to effect economies:

Cockaponset State Forest	Kollar Wildlife Management Area
Haddam Meadows State Park	Scantic River State Park
Millers Pond State Park	Scantic River Boat Launch
Pattaconk Reserve	Crystal Lake Boat Launch
Devil's Hopyard State Park	Nipmuck State Forest
Gardner Lake Boat Launch	Osbornedale State Park
Gardner Lake State Park	Silver Sands State Park
Hopemead State Park	Charles Island Natural Area Preserve
Lake Hayward Boat Launch	Wheeler Marsh Wildlife Management Area
Mooween State Park	Housatonic River Boat Launch
Minnie Island State Park	Penwood State Park
Mansfield Hollow State Park	Stratton Brook State Park
Natchaug State Forest	Horse Guard State Park
Quaddick State Park	Talcott Mountain State Park
Old Furnace State Park	Heublein Tower
Ross Pond State Park	Windsor Locks Bikeway
Airline State Trail	Windsor Meadows State Park
Shenipsit State Forest	Massacoe State Forest
Bigelow Hollow State Park	Mattianuk Natural Area Preserve
Mashapaug Pond	Great Pond State Forest
Black Pond Boat Launch	

"Walk-in" Parks will mean that all of the above will be:
- Gated to vehicular traffic
- On-site staff eliminated
- Maintenance will be limited to public health and safety
- Pedestrian access only

In addition, because of layoffs in the Department of Environmental Protection, numerous parks are targeted for reduced hours or will be changed to so-called "walk-in" parks. Such parks do not accomodate vehicular traffic or provide on-site staff and maintenance is limited to public health and safety. Parks that may end up with reduced hours or have more limited use are listed in the accompanying chart.

Agency consolidation

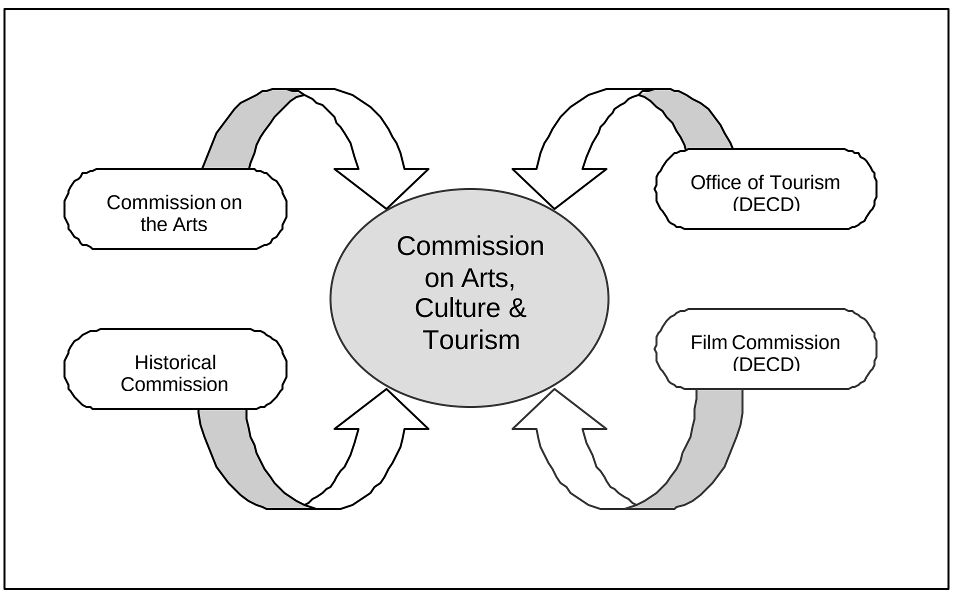
While some downsizing was a direct result of the lack of labor concessions, Governor Rowland is also proposing a number of consolidations or downsizing initiatives in his biennial budget in an effort to get the fat out of government. In a budget year that taxes are being raised by hundreds of millions of dollars, duplication of services and inefficiency cannot be tolerated.

The accompanying chart shows the breadth of the consolidation effort:

Consolidations, Eliminations and Mergers

Current Agency	Specific Functions Transferred	New Agency
Community Technical Colleges	Chancellors Office Only	Board of Regents for Higher Education
Connecticut State University	Chancellors Office Only	Board of Regents for Higher Education
Department of Higher Education		Board of Regents for Higher Education
Commission on Arts		Commission on Arts, Culture and Tourism
Film Commission		Commission on Arts, Culture and Tourism
Historical Commission		Commission on Arts, Culture and Tourism
Office of Tourism		Commission on Arts, Culture and Tourism
Elections Enforcement Commission		Commission on Fair and Open Government
Ethics Commission		Commission on Fair and Open Government
Freedom of Information Commission		Commission on Fair and Open Government
Department of Agriculture		Department of Consumer Protection and Agriculture
Regional Market Fund		Department of Consumer Protection and Agriculture
Board of Pardons		Department of Correction
Board of Parole		Department of Correction
Office of Workforce Competitiveness		Department of Economic and Community Development
Board of Education and Services to the Blind	Education of Blind Children Only	Department of Education
Board of Education and Services to the Blind		Department of Social Services
Commission on Deaf and Hearing Impaired		Department of Social Services
Dept of Economic & Community Development	Certain Housing Functions	Connecticut Housing Finance Authority
Office of the Managed Care Ombudsman		Insurance Department
Office of Victim Advocate		Eliminated
Council on Environmental Quality		Eliminated

- As noted in the education section, the Department of Higher Education and the Chancellor's Offices of the state university system and the community colleges will be merged into a new Board of Regents for Higher Education.



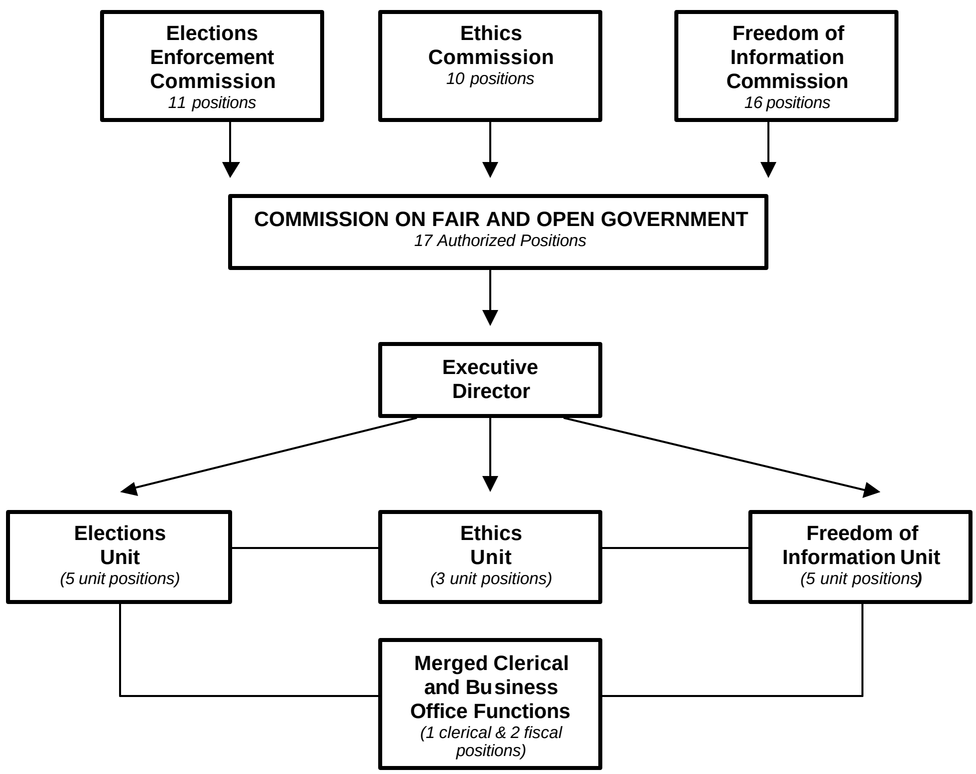
- The Commission on the Arts, the Historical Commission, the Film Commission and the Office of Tourism in the Department of Economic and Community Development merge to become the new Commission on Arts, Culture and Tourism. Such a merger has worked in other states. Much of Connecticut tourism is linked to art and history, so the merger creates a symbiosis that will help further promote tourism and preserve our natural heritage. The additional revenues to the General Fund resulting from this consolidation are $9.7 million in FY 2003-04 and $10.7 million in FY 2004-05.

- The Ethics, Elections and Freedom of Information Commissions all perform ad judicatory functions, yet each of them operate separately and have tremendous duplication. The Governor is proposing that the three commissions merge into one Commission on Fair and

Open Government. The statutory missions of the commissions will continue to be achieved via the respective units within the Commission on Fair and Open Government. This merger will result in savings of approximately $1.4 million in FY 2003-04 and $1.5 million in FY 2004-05 and will

- result in the loss of 20 positions.

Merger of the Elections Enforcement, Ethics and Freedom of Information Commissions



- As noted earlier, the Boards of Parole and Pardons are being merged into the Department of Correction. It is hoped that efficiencies can be gained between Parole and Corrections as they each run residential and non-residential services.

- As noted earlier, the Board of Education and Services for the Blind is being split up between DSS and the Education Department in anticipation of more efficient administration and improved client services. The Commission on the Deaf and Hearing Impaired is merged into DSS.

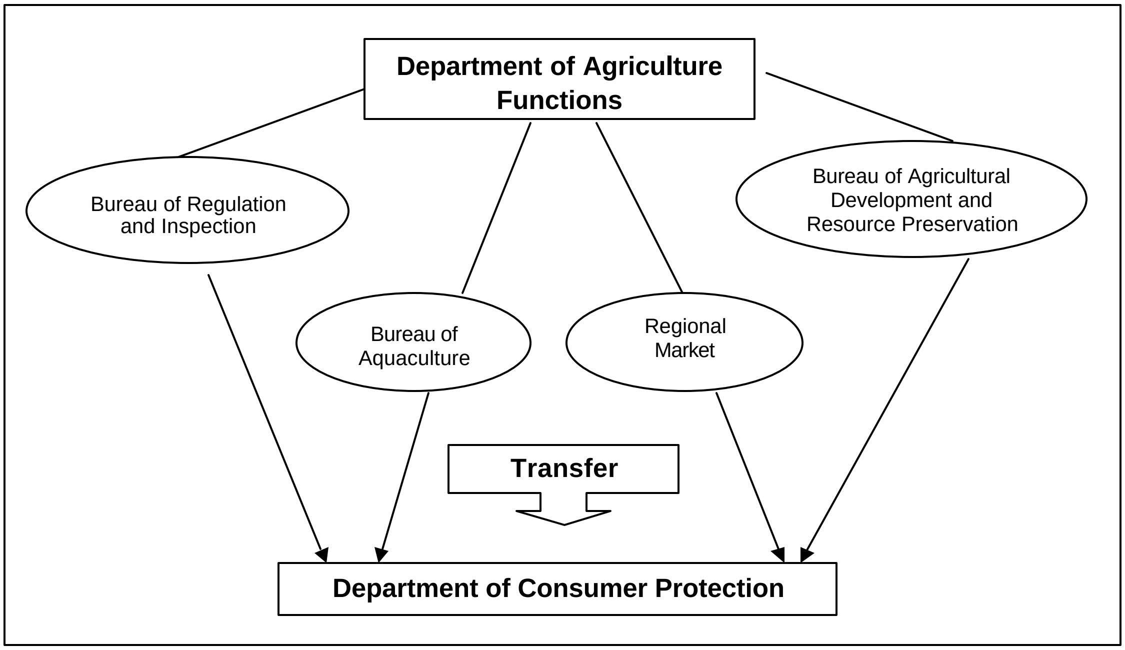
- The Office of the Managed Care Ombudsman is being downsized and merged with the Insurance Department via a partial reallocation of resources to effect economies. A Managed Care Advocacy Unit will exist within the Consumer Affairs Division of the Insurance Department and continue to fulfill the statutory requirements of providing managed care/HMO health plan assistance to Connecticut residents.

- The Office of Victim Advocate is being eliminated as part of the Governor's initiative to streamline state government.

- The Council on Environmental Quality is being eliminated as part of the Governor's initiative to streamline state government.

- The Governor's recommended budget merges the Department of Consumer Protection and the Department of Agriculture into the new Department of Consumer Protection and Agriculture. The functions of Agricultural Regulation and Inspection, Aquaculture, Agricultural

Development and Resources Preservation, and the Regional Market will now be performed in the new Department of Consumer Protection and Agriculture. Again, duplication is being eliminated as both agencies right now perform a great deal of inspection, regulation, and oversight. 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.



- The Business Offices of the Connecticut Siting Council and the Department of Public Utility Control are being merged. Per C.G.S. 16-50j, the Connecticut Siting Council exists within the Department of Public Utility Control for administrative purposes. This merger effectuates a commitment to continuous improvement and greater efficiency of state resources.

- Certain housing administration functions of the Department of Economic and Community Development will be transferred to the Connecticut Housing Finance Authority. Details are still being worked on, so no savings are shown in the general fund at this point.

  Legislation is being proposed to direct the two agencies, in consultation with the Office of Policy and Management, to determine what functions will be consolidated into CHFA and the savings that will accrue to the general fund. Any savings in FY 2003-04 is included as part of the $40 million revenue contribution from CHFA to the general fund. The Governor will memorialize the savings when he submits his FY 2004-05 adjusted budget next year.

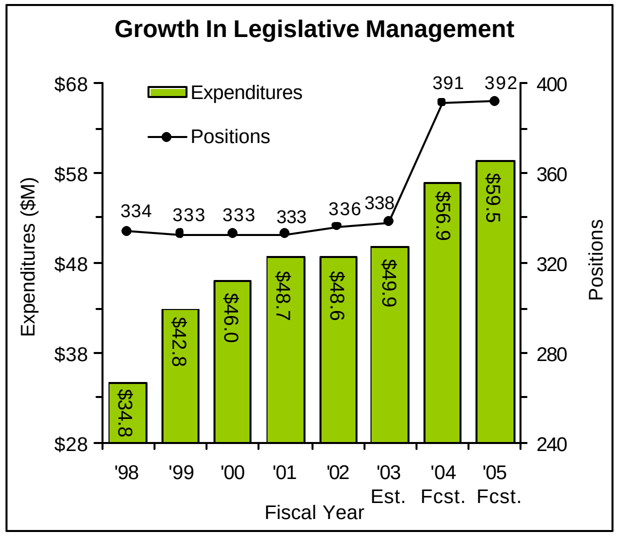
General Government Changes and Efficiencies

Beyond the consolidations and downsizing of state government, the Governor's biennial budget proposal recommends a series of other changes in the general government area to effect economies and save taxpayer dollars.

Reining in Legislative Management

As lawmakers clamp down on executive branch agencies and institute hiring and wage freezes, they don't seem to be watching their own store.

The growth in the Legislative Management (LM) budget over the past eight years has been stunning. Since FY 1994-95, LM's budget has increased from $31.7 million to $49.9 million, a 57 percent increase. This last number is before counting any lapse or the Governor's rescissions. LM has not yet indicated they will lapse any dollars nor has it indicated how or if it will hit the 10 percent reduction the Governor mandated. Further, earlier in the fiscal year, the branch was as many as 45 positions over its authorized position count per the budget.



Whatever the reasons for the hefty growth over the last eight years, what is truly outlandish is that lawmakers would request an almost 20 percent increase in their budget submission to the Governor. If LM is to lapse money this year or meet the 10 percent reduction, the actual percentage increase is even more.

Under law, the Governor cannot adjust the budget submitted to him by the legislative branch. But he can recommend lapses for the branch and outline here in the budget summary where he thinks those cuts should come from.

Proposed Legislative Lapse

Legislative Management	FY 04	FY 05	Commission on Children	FY 04	FY 05
New Position Funding	91,810	91,810	Other Expenses Restoration	44,717	44,717
Other Positions	-	1,069,630	New Position Funding	23,464	23,464
Overtime	16,780	16,780	Social Health Index	30,000	30,000
Other Expenses Restoration	196,608	595,264	Annualization of FY 03 Reductions -- 4-85	26,787	26,787
Flag Restoration	50,000	50,000	Annualization FY 03 Reductions -- Sec. 52	26,787	26,787
Industrial Renewal Plan	180,000	180,000	Remove Inflation	1,352	3,996
Eliminate CTN	1,800,000	1,850,400		**153,107**	**155,751**
Annualization of FY 03 Reductions -- 4-85	1,750,877	1,750,877	**Latino and Puerto Rican Affairs Commission**		
Annualization FY 03 Reductions -- Sec. 52	2,450,639	2,450,639	Other Expenses Restoration	42,292	42,292
Remove Inflation	382,733	781,361	Annualization of FY 03 Reductions -- 4-85	19,044	19,044
	6,919,447	**8,836,761**	Annualization FY 03 Reductions -- Sec. 52	19,044	19,044
			Remove Inflation	1,663	4,557
Commission on the Status of Women				**82,043**	**84,937**
Other Expenses Restoration	62,681	62,681	**African American Affairs Commission**		
Annualization of FY 03 Reductions -- 4-85	28,639	28,639	Other Expenses	11,983	11,983
Annualization FY 03 Reductions -- Sec. 52	28,639	28,639	Annualization of FY 03 Reductions -- 4-85	16,465	16,465
Remove Inflation	2,044	5,900	Annualization FY 03 Reductions -- Sec. 52	16,465	16,465
	122,003	**125,859**	Remove Inflation	1,859	4,103
				46,772	**49,016**
			Total Proposed Legislative Lapse	**7,323,372**	**9,252,324**

The accompanying chart does just that. The major components are:

- Getting rid of new positions asked for by LM.
- Getting rid of the Industrial Renewal Plan appropriation, which was supposed to be a short-term item but has turned into a supplemental kitty for the majority party.
- Eliminate CTN coverage.
- Annualize all the rescissions the Governor made against LM. If all executive branch agencies are weathering the cuts again, why shouldn't the legislative branch?

The total reductions amount to $7.3 million in year one and $9.3 million in year two. These reductions have been counted as legislative lapses and the overall budget has been reduced accordingly.

Elimination of vision screening

Beginning July 1, 2003 the Department of Motor Vehicles is required to screen the vision of driver license holders on every other renewal. Approximately 300,000 renewal applicants would have to have their vision screened annually. Approximately 10 percent or 30,000 applicants will fail their vision test, which will require a second or third contact with DMV. Each vision test will add approximately 3 minutes to a renewal transaction.

License holders who fail would be given a temporary license and would be required to submit information from a eye professional stating that their vision meets the DMV standards. License holders that fail would also be eligible for administrative hearing if they request one.

The additional time for issuance of a license would require additional staff in each branch office. Also, as AAA offices will not perform vision screening, more license holders seeking a renewal would have to go to a branch office, two of which are scheduled for closure due to lack of concessions with the unions.

The Governor is proposing to eliminate the requirement to establish a vision-screening program saving approximately $1.1 million annually.

Elimination of social security number gathering

Section 14-12l of the CGS requires the DMV to capture the social security number or federal employer identification number of registrants prior to issuing a new or renewal registration. This information must then be provided to the Department of Revenue Services.

The Department issues approximately 207,000 new registrations and 1,000,000 renewal registrations annually. The mandate to collect Social Security numbers or Federal Employer ID numbers for the Department of Revenue Services would require that DMV modify their current registration and lockbox system to accept Social Security numbers and verify them prior to issuing a new or renewal registration.

The Governor, in part due to privacy concerns, is proposing to eliminate the requirement that DMV collect social security numbers prior to issuing a new or renewal registration in order to reduce expenditures by more than $600,000 annually.

Elimination of the local property tax check

Section 14-33 of the CGS requires the DMV to check each new and renewal registration to ensure that the registrant does not have delinquent property taxes or parking tickets. Registrants with delinquent property taxes or parking tickets are prohibited from registering any vehicle until they provide DMV with proof that the taxes or parking tickets have been paid to the municipality. On renewals, the registrant with delinquent taxes must come to a branch or mail in proof, which then must be handled manually.

The enforcement of delinquent property taxes and parking tickets is not part of the department's core processes but is required by law. To achieve savings the Governor is proposing that this statutory requirement be repealed.

Eliminate safety inspections by DMV

When the requirement to inspect ten year old and out of state vehicles was eliminated, the number of safety inspections performed by the DMV was reduced by 90 percent. Due to staffing reductions, some of the remaining high volume inspections have been eliminated, such as the inspections of campers, trailers and motorcycles.

Currently, the Department is required to inspect service buses annually and taxis semiannually. The Governor is recommending that the inspection requirements for these vehicles be changed to a biennial inspection coinciding with the vehicle's registration renewal and that the inspections no longer be performed by the DMV. Inspection of these vehicles would be completed by any licensed dealer or repairer. The proposed change will allow the Department to close all but three inspection lanes, which will be utilized to perform totaled and salvage inspections by appointment.

Eliminate auto racetrack inspector requirement

The DMV is required to have an inspector present at auto races while the racetrack is open. The Governor is recommending this requirement be eliminated. Since most races take place on weekends or in the evenings, this change will result in a reduction in overtime. The requirement that auto races, which have received a permit from the DMV, provide police, fire and ambulance services during the race will remain.

In-house insurance verification system

Currently the DMV uses a contractor to receive data from insurance companies regarding registrants' insurance coverage. This data is then matched against the DMV's registration file to identify registrants who have not maintained the required insurance coverage. The Department contacts the registrants who have been identified and requires them to provide proof of coverage. The current contractor has requested an increase in their fee. The Department will develop an in-house system that will be maintained at less than the expected increased contractor cost.

Teacher retirement pension funding

The Retirement Contributions for the Teachers' Retirement Board for FY 2003-2004 and FY 2004-2005 are being funded at the FY 2002-2003 level. FY 2002-2003 was paid in one lump sum in the beginning of the fiscal year. Effective in FY 2003-2004, the state's contributions will revert back to being paid on a quarterly basis. The state is funding approximately 68.5% of the certified amount for FY 2003-2004 and 65.9% of the certified amount for FY 2004-2005. The savings in each year of the biennium is $85.2 million and $96 million, respectively.

Teachers health insurance legislation

The Teachers' Retirement Board and the Office of Policy and Management reached an agreement that will further maintain the solvency of the Retired Teacher Health Insurance Premium (RTHIP) account. As a result, the Governor is proposing legislation to increase the active teachers' contributions to the RTHIP account from 1 percent to 1.25 percent effective July 1, 2004.

The state's share and the retirees' share for the board's health insurance plan are proposed to increase from 25 percent to one-third of the estimated cost of the plan effective July 1, 2005.

The state's share of the municipal health insurance subsidy is also proposed to increase from 25% to one-third of the $110 subsidy effective July 1, 2005. According to an agreement, the Board has agreed not to propose or support legislation that would increase the municipal health stipend for at least the biennium.

Delay gaming study

The Governor proposes to change the requirement that the Division of Special Revenue conduct studies concerning the effect of legalized gambling on the citizens of Connecticut from seven years to ten years.

The studies are to be conducted as often as is deemed necessary by the Executive Director but no less than once every ten years. Foregoing the gaming study will result in a savings of $600,000 in FY 2003-04.

Eliminate state support for greyhound testing

The Division of Special Revenue's payments to the University of Connecticut Microchemistry Lab for the testing of Greyhound urine specimens represents the single largest "Other Expense" item in its budget.

Since urine testing of greyhounds is a cost necessary to ensure the integrity of the sport, it is an expense that should be borne by the operators. Therefore, funding in the amount of $486,000 in FY 2004 and $499,650 in FY 2005 has been removed from the agency's biennial budget.

However, to reduce the burden on the tracks, the DSR statute is being changed to allow the executive director to determine when tests are needed and how many will be done. DSR will have the flexibility to ramp up tests if random tests show that the integrity of the sport is being compromised.

This permissive statute will mean greatly reduced costs for the tracks and allow them to continue to operate.

Relocate Elected Officials from 55 Elm Street to 20 Church Street

Relocating the Elected Officials
To 20 Church Street

	FY 04	FY 05	FY 06
DPW Operating Costs $2,350,00/yr - 11/15/04 Occupancy	-	$ (1,575,000)	$ (2,350,000)
Moving Costs $1,000/person	-	(803,000)	
Lease Costs Avoidance at 55 Elm 11/15/04 - $4,068,600/yr**	-	2,772,600	4,626,868
Furniture ($5 M with debt service beginning in FY 06)	-	-	(487,778)
Debt Service on Purchase ($18 M) Renovations ($11.8 M) Property Taxes $840,000 - 1 year	-	(2,985,198)	(3,308,378)
PILOT	-	-	(378,000)
Income from Tenants	1,400,000	1,400,000	1,400,000
Net Savings	$1,400,000	($1,190,598)	($497,288)

** Lease costs for 55 Elm are expected to reach $6 million by 2024.

The Department of Public Works has been determining the most cost-effective location for the constitutional officers once the current 55 Elm Street lease expires. The 20 Church Street location provides 285,000 net usable square feet vs. 185,520 net usable square feet at 55 Elm Street, a better parking facility, the ability for the Attorney General to consolidate approximately 103 positions from his Sherman Street office into one building (the current building he is in on the UCONN Law campus which belongs to UCONN), and additional help with other space needs in the Capitol area.

For the price, this purchase or lease

purchase is a good long-term cost effective solution to the state's space needs in the Greater Hartford area. Although annual operating costs for 20 Church Street would increase DPW's budget by $2.35 million annually, lease costs would drop by approximately $4.6 million per year with the elimination of the 55 Elm Street lease.

The current lease, and any future one, is cost prohibitive. Despite the fiscal climate, purchase of a building that is suitable is far wiser than leasing and will mean overall savings of approximately $45 million over a 20-year period.

Tobacco settlement enforcement

PA 00-208 requires DRS, on behalf of the Attorney General's Office, to collect certain information on in-state cigarette and tobacco product sales activities to support the Tobacco Master Settlement Agreement. Manufacturers that were not part of the multi-state tobacco settlement agreement will be required to pay into an escrow a certain percentage of their sales in this state. The escrow payment is a requirement of the settlement and will ensure that adequate funds are available to address future health problems resulting from the use of cigarette and tobacco products.

For FY 2001-02 and FY 2002-03, a supplement was provided from settlement funds to sustain the compliance program. An appropriation is provided to DRS to replace Tobacco Funds that are no longer available.

Approximately $77,000 is provided for existing compliance employees who are dedicated to this effort. This amount includes funding to support replacement equipment and software upgrades. DRS will absorb some of the administrative expenses associated with this initiative.

Streamline CHRO operations

The commission counsel and two referee positions are being eliminated as part of the streamlining of the Commission on Human Rights and Opportunities. Based on workloads at CHRO, these positions are not necessary for the efficient operation of the agency.

Eliminate Sunday and Non-Monday holiday autopsies

As a cost-saving measure, the Office of the Chief Medical Examiner will no longer perform autopsies on Sundays or holidays that do not fall on a Monday. Autopsies will still be performed on holidays that fall on a Monday.

<u>Close armories</u>

In the Military Department, in order to maximize the use of state funds, several outdated or unnecessary state armories will close and our state military personnel will share physical plants with federal military personnel. Savings anticipated by such co-locations will be achieved primarily through cost reductions in building repairs, maintenance, and utility expenses.

The uniquely dual missions of state and federal military personnel, makes the sharing of facilities not only feasible, but practical as well. The re-deployment of National Guard troops to other facilities would be made in a manner not compromising to public safety and support.

Health Insurance Portability and Accountability Act

The HIPAA Program Office at the Department of Information Technology (DOIT) is organizing the efforts of State Agencies to ensure full compliance with the Health Insurance Portability and Accountability Act of 1996 (HIPAA) mandate. The law impacts more than 11 state agencies, and establishes federal policy for security of electronic health care transmissions and privacy protections for medical information and medical records.

The HIPAA program office is currently working to complete the privacy and transaction and code set compliance requirements by the end of 2003. The program office will continue to work on the security and electronic signature standards and unique identifier requirements into 2004.

The Governor has proposed an additional $5 million in bonding in FY 2004 to complete the project.

Transfer Centralized Voter Registration System Costs to the Commercial Recording Fund

Under the budget plan, the Secretary of the State's Centralized Voter Registration System expenses will be moved off budget. These expenses will be paid out of the Commercial Recording Division Fund, saving the general fund $617,000 in FY 2004 and 2005.

Transfer of air staff to Title V fund

The Governor is recommending that fourteen air staff positions currently paid from the general fund be transferred to the Title V account. The Department of Environmental Protection will ensure that the federally mandated level of funding continues to be used for Title V program work, but anything in excess will be made available for other air programs.

The Department of Environmental Protection's Air Bureau has attained a level of permit issuance that has satisfied the Environmental Protection Agency. Since the level has been accomplished, the EPA is receptive to granting the expanded use of Title V generated revenues. Legislative and regulatory changes will need to be made in order to allow for the expanded use of the account.

Eliminate payments to volunteer fire companies

It is proposed that payments to volunteer fire companies cease during these difficult financial times. Legislation will be submitted to repeal Section 13a-248 of the Connecticut General Statutes, which provides payment of $100 to volunteer fire companies responding to calls on limited access highways. This will save the State of Connecticut over $250,000 in both years of the biennium.

State Marshal Commission fee increases

Currently, each State Marshal serving process pays an annual fee of $250. The Governor's budget includes an increase of this annual fee to $500. This change will generate an additional $62,500 to be deposited into the State Marshal Account, allowing a like decrease in the Commission's general fund appropriation.

The Governor is also proposing to eliminate the provision to carry forward unexpended balances of the account by changing it from non-lapsing to a lapsing account.

Add funding for DECD positions

The current fiscal year budget contains a one-time cash infusion to the general fund of $85 million from the Connecticut Housing Finance Authority. In exchange for these funds, the Department of Economic and Community Development has transferred a portion of its housing assets to generate earnings for CHFA that would have been generated by the cash assets transferred to the state. Income from the DECD assets, however, fund general support staff and staff dedicated to housing.

In the second year of the biennium, $1.3 million is added to support the staff that are still needed.

Graduate Assistants

It is proposed that the statutes providing the State Employees Health Insurance Plan to the University of Connecticut and the University of Connecticut Health Center graduate assistants be eliminated, as these individuals are not State employees.

The University of Connecticut and the University of Connecticut Health Center will provide separate health insurance plans more closely tailored to the specific needs of graduate assistants.

For the biennium, up to $1.9 million per year will be transferred from the State Employees Health Services account to the University of Connecticut.

The State Employees Health Services account will save a net $2.1 million in FY 2003-04 and $2.7 million in FY 2004-05 due to this change.

Reduce funding for OPM grants

In response to current economic conditions, the following OPM accounts have been either reduced or eliminated:

- Drugs Don't Work – eliminated
- Leadership, Education, Athletics in Partnership – eliminated
- Children and Youth Program Development – eliminated
- Justice Assistance Grants – reduced to $3.5 million from a current services level of $5.7 million
- Neighborhood Youth Centers – eliminated
- Boys and Girls Clubs - eliminated

Generally Accepted Accounting Principles (GAAP)

Public Act 93-402 required the State to convert to a GAAP (Generally Accepted Accounting Principles) basis of budgeting beginning with FY 1995-96. In order to implement the 1995-97, 1997-99, 1999-01 and 2001-03 biennial budgets, legislation was passed (Public Acts 95-178, 97-306 and 99-1, of the June Special Session) that postponed the implementation of GAAP budgeting until the beginning of the 2003-05 biennium.

The reasons for the continual delay in the implementation of GAAP include:

First, there are very few states that budget totally on a GAAP basis. However, states, including Connecticut, prepare their financial statements on a GAAP basis.

Second, in FY 2003-04, additional appropriations of approximately $50.4 million would be required to fund the incremental amount necessary to change from our current modified cash basis of accounting to the modified accrual basis required under GAAP. While these additional appropriations would be offset by a $17 million increase in revenues recognized under GAAP, the net bottom line increase in the general fund would be $33.4 million.

Third, the law also calls for the amortization of the cumulative GAAP deficit over a 15-year period. The current estimated cumulative GAAP deficit is approximately $800 million. This provision would require additional revenues of $53.3 million be raised in the second year of the biennium to offset this deferred charge.

Finally, the law as passed requires the State to follow all generally accepted accounting principles. Future changes adopted, not by the State but by the Governmental Accounting Standards Board (GASB), may require additional budget expenditures in the future, not because of state public policy decisions, but simply as a result of the application of revised accounting rules.

Therefore, as part of this recommended budget, legislation to repeal the requirement to budget on a GAAP basis is being submitted.

Sizing Government To Fit The Times

Since December, Governor Rowland has worked in good faith trying to arrive at a labor concession package with the State Employees Bargaining Agent Coalition. Admittedly, the requests the Governor has made would mean sacrifice on the part of state workers, but the structural gap in the budget demands real and lasting concessions if the state is to get its budget balanced and keep our bond rating.

It is important to remember how generous the state is to its workers. Under Governor Rowland's tenure, wage increases – either through general wage increases, annual increments or workweek increases – for unionized workers have increased on average 43 percent. Today, the average unionized employee wage is about $51,000. Even the median wage for a unionized employee – where half the salaries are above and half are below – is about $47,000.

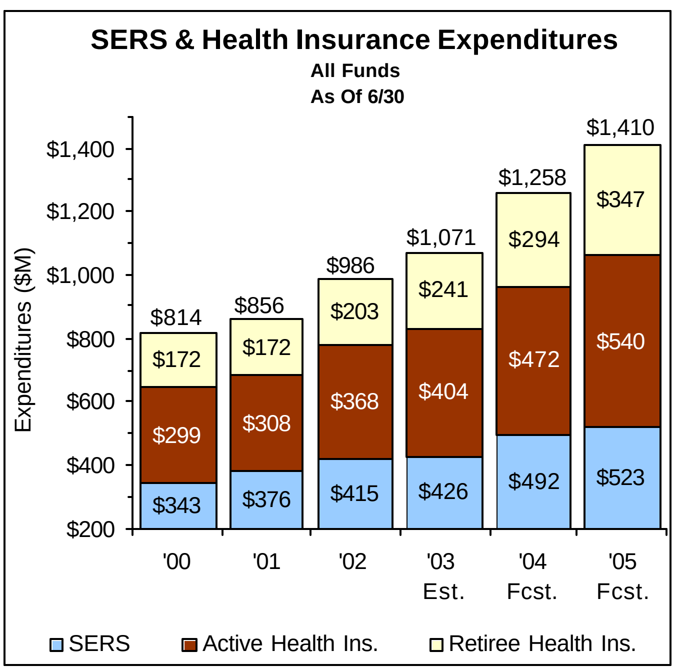
More importantly, fringe benefits are among the best that can be found in Connecticut. Premium payments for health insurance are reasonable. Drug co-pays are either $3 generic or $6 brand for a 90-day supply of medication. Compare that to the plan by legislative Democrats to increase the ConnPACE elderly drug program co-pay from $12 to $16.25, much less those of private sector drug plans.

Further, state employees participate in a defined benefit plan that gives them, on average, between 1.3 percent and 2 percent for each year they worked as a pension benefit.

State of Connecticut Full Time Employee Wage Growth From FY 95 to Present

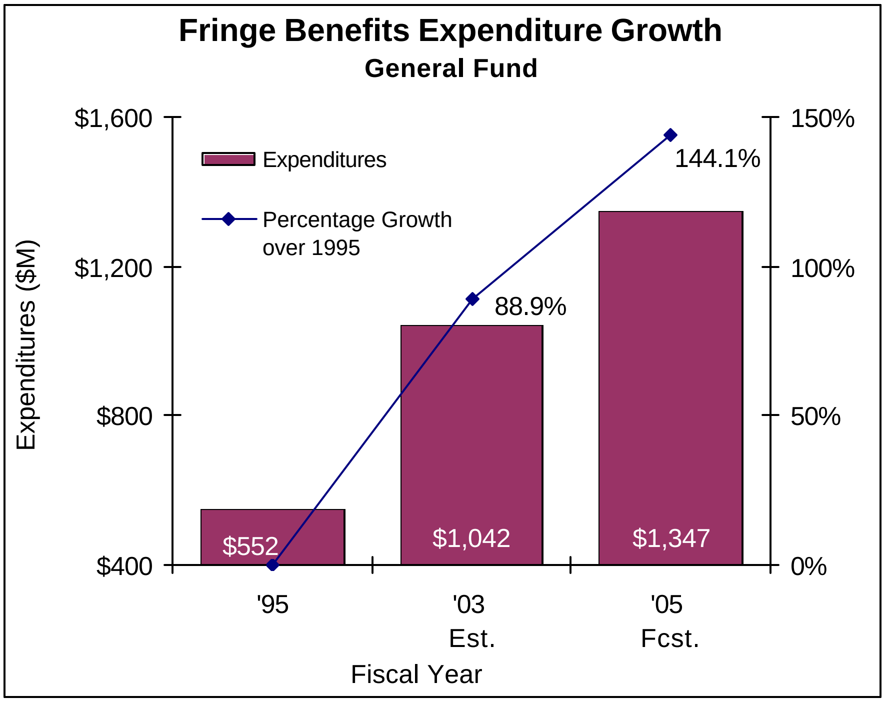
Employee Group	**Avg Full Time Annual Salary ***	**Avg Full Time Annual Salary ****	**Percent Increase**
Unionized Employees	$35,696	$51,047	43.00%
All Employees	$38,304	$54,218	41.55%
Employee Group	**Avg Full Time Hourly Salary**	**Avg Full Time Hourly Salary**	**Percent Increase**
Unionized Employees	$19.48	$26.61	36.60%
All Employees	$20.47	$27.78	35.71%

* Effective last pay period of FY 95 (6/23/95).
** Effective 11/1/02.
Source: Office of the State Comptroller's payroll records.



Indeed, the health and pension benefits are so generous that costs have been skyrocketing. In FY 1999-00, costs for pension and health contributions in all funds was $814 million. This fiscal year it will be an estimated $1.07 billion, an increase of $257 million in three years, or almost one-third. And costs are accelerating from there. Estimates suggest that in the next two years costs in all funds will go up another $339 million, or almost one-third, in just two years this time.

Indeed, since FY 1994-95, general fund fringe benefit costs have increased 89 percent through this fiscal year and are estimated at 144 percent through of FY 2004-05.



Administration's labor offers

Recent Labor Developments

- Met informally with unions and later in two formal sessions
- State lowered its wage demands (became less structural and more of a roll out nature)
- State lowered its health care demands - current employees would have some health care reform, while new employees would have plan proposed by state in first proposal
- Premium increase demands by state cut in half
- Added third free year to ERIP
- No layoffs through December 31, 2006 if union allowed second targeted ERIP
- Unions still refused to have major deferrals on wages, reform health care, allow second targeted ERIP and wanted no privatization language above and beyond what is called for in current contracts

Since December, the administration has been flexible in its concession requests from the unions. Indeed, the Governor moved a great deal from his first demand of $450 million in annual, ongoing concessions. He even developed a plan that would have brought every state employee back and offered unprecedented job protection through December 31, 2006.

But the SEBAC union leadership still refused to consider anything but modest deferrals and little more than window-dressing changes in health care.

All of the administration's requests were good-faith offers to address the unions' concerns. Governor Rowland modified his position in negotiations significantly as can be seen from the chart above.

The Governor lowered his wage giveback demands. Although he was initially looking for significant structural givebacks, he would have settled for a partial permanent freeze and deferrals that safeguarded the budget for the next several bienniums.

The SEBAC coalition takes issue with the fact that the administration is asking to open up the 20-year pension and health agreement signed in 1997. The truth is that, in retrospect, the agreement forged was unaffordable. At any rate, simply because there is a 20-year agreement shouldn't mean meaningful health concessions are off the table.

That is especially true when you consider the benefits structure. As we noted earlier, the legislature just voted to increase the co-pay for elderly recipients on ConnPACE to $16.25 per prescription. One need only look at the retired teachers drug benefit run by the state to see how rich the state employee and retiree plan is.

Retired teachers, not on municipal plans, pay 25 percent of the cost of their Medicare Supplement policy plus deductibles and then between 15 and 35 percent of each drug's cost.

Retired Teachers Drug Benefits

- $250 deductible per person per year
- Maximum of $1,000 out-of-pocket expense per member per year
- Drug supply limitations:
  - 34 day supply for retail pharmacy prescriptions
  - 90 day supply for mail order prescriptions

State retirees receive excellent medical coverage for themselves and their dependents at no cost to them and the drug co-pay is $3 or $6 for up to a 90-day supply. The State even pays their Part B Medicare premiums.

The Governor's original pharmacy proposal back in December was significantly better than what the teacher retirees on the state plan have. Nonetheless, the Governor cut his health care premium increase request in half and moved to a pharmacy proposal that required just a $5 and $10 co-pay for a month's supply (double the co-pays for 90-days) and removed most of the utilization management, except for the use of generic drugs unless a brand is medically necessary.

Plan Comparisons

- Retired teachers - 25 percent of premium for Medicare supplement policy plus deductibles and 15-35% of each drug's cost
- State employees - Between 1 and 24 percent of premium
  - Near 0 percent for single for POE HMO gatekeeper with $3/$6 for 90 day supply for each drug
  - Near 25 percent for family on richest wide-access Preferred PPO plan with $3/$6 for 90 day supply for each drug
- Retirees - Same as above except that the highest premium share is less than 10 percent

Retired Teachers Drug Benefits Coinsurance

- Non-Maintenance Medications:
  - 85% Generic Drugs
  - 80% Preferred Drugs
  - 70% Non-Preferred Drugs
- Maintenance Medications:
  - 80% Generic Drugs
  - 75% Preferred Drugs
  - 65% Non-Preferred Drugs
- Mail Order Pharmacy:
  - 85% Generic Drugs
  - 80% Preferred Drugs
  - 70% Non-Preferred Drugs

AAUP deal

On the wage front, at least one union has already recognized that the administration's position is not unreasonable. The American Association of University Professors agreed to a wage concession that is similar to the Governor's first proposal. No layoffs shall occur, with limited exceptions, through June 30, 2007. Health care could not be negotiated because state law requires that to be done through SEBAC.

Tentative Agreement between the University of Connecticut Faculty (AAUP) and the University of Connecticut
All Funds

	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Cost of Existing Contract	$4,829,300	$10,785,800	$17,053,800	$22,342,900 *
AAUP Tentative Agreement Cost	-	$4,829,300	$10,785,800	$17,053,800
Savings of Tentative Agreement	**$ 4,829,300**	**$ 5,956,500**	**$ 6,268,000**	**$ 5,289,100**

Summary of Proposal:
- Salaries are frozen at the current FY2003 levels for FY2004
- The existing contractual increases for FY2004, FY2005, and FY2006 will become effective one year following the existing language.
- Through 6/30/2007, layoffs will be limited to those personnel reductions necessitated by programmatic changes in the University's operations, student services, and/or academic and research programs.

* The current contract expires 6/30/2006. Increase of 4% for 22 pay periods assumed as the FY2006-2007 increases.

As this document went to print, other unions were considering a similar wage settlement with the promise that they would support the administration's health care and pension proposals in the future.

The AAUP concession package alone saves the University and the state $4.8 million next fiscal year and $6 million the year after.

Layoffs

Because of the lack of reasonable concessions agreed to by the SEBAC coalition, Governor Rowland found a compelling need to resort to layoffs to save dollars. In fact, the current fiscal year budget was passed with $94 million in general fund savings targeted to come from state employee concessions. The decision to layoff, when no labor concessions were forthcoming, had to be made in December in order to save some money this fiscal year to help close the budget deficit.

Early on in the development of the 2003-05 biennial budget, it was clear that structural labor concessions would be needed to help close the budget gap, especially because labor costs represent almost one-third of total spending. Further, because of unemployment costs (the state is self-funded), the state commenced layoffs when it did in order to achieve full-year savings in FY 2003-04.

In the absence of labor concessions, a total of 3,006 employees have been issued layoff notices, most of whom have already been separated from state service. Total appropriated fund savings due to layoffs and separations, including fringe benefits, are estimated to be $142.3 million in FY 2003-04 and $163.0 million in FY 2004-05. Savings in the general and transportation funds is about $140 million in year one and $160 million in year two.

Savings from the layoffs in the general fund in the current fiscal year will be $23 million.

Summary of Layoffs and Other Separations
All Funds

Agency	Layoffs & Other Separations	Agency	Layoffs & Other Separations
Secretary of the State	8	Department of Consumer Protection	15
Elections Enforcement Commission	1	Department of Labor	75
Ethics Commission	1	Office of Victim Advocate	1
Freedom of Information Commission	1	Commission on Human Rights and Opportunities	6
State Properties Review Board	1	Office of Protection and Advocacy for Persons with Disab	4
State Treasurer	3	Workers' Compensation Commission	17
State Comptroller	16	Department of Agriculture	4
Department of Revenue Services	116	Department of Environmental Protection	62
Division of Special Revenue	10	Council on Environmental Quality	1
Office of Policy and Management	11	Connecticut Historical Commission	5
Department of Veterans' Affairs	30	Department of Economic and Community Development	19
Department of Administrative Services	29	Agricultural Experiment Station	7
Department of Information Technology	19	Department of Public Health	71
Department of Public Works	19	Office of Health Care Access	4
Attorney General	12	Office of the Chief Medical Examiner	2
Division of Criminal Justice	69	Department of Mental Retardation	266
Department of Public Safety	60	Department of Mental Health and Addiction Services	250
Police Officer Standards and Training Council	2	Department of Transportation	270
Department of Motor Vehicles	101	Department of Social Services	245
Military Department	8	Soldiers', Sailors' and Marines' Fund	1
Commission on Fire Prevention and Control	2	Department of Education	77
Department of Banking	14	Board of Education and Services for the Blind	46
Department of Insurance	15	Commission on the Deaf and Hearing Impaired	3
Office of Consumer Counsel	2	State Library	15
Department of Public Utility Control	14	Department of Higher Education	4
Office of Managed Care	1	University of Connecticut	120
Department of Consumer Protection	15	University of Connecticut Health Center	66
Department of Labor	75	Charter Oak State Colleges	2
Office of Victim Advocate	1	Teachers' Retirement Board	2
Commission on Human Rights and Opportunities	6	Community - Technical Colleges	103
Office of Protection and Advocacy for Persons with Disabilities	4	Connecticut State University	150
Workers' Compensation Commission	17	Department of Correction	180
Department of Agriculture	4	Board of Parole	5
Department of Environmental Protection	62	Department of Children and Families	78
Office of Consumer Counsel	2	Judicial Department	232
Department of Public Utility Control	14	Public Defender Services Commission	33
Office of Managed Care	1	**Total - All Funds**	**3,006**

Early Retirement Incentive Plan

In addition to the layoff savings above, an early retirement incentive plan with a window from March 1, 2003 through June 1, 2003 is proposed in an effort to effect savings. The plan will also be available to those employees who were laid off or whose positions were abolished between November, 2002 and March, 2003. A substantial number of the positions vacated by employees taking advantage of this ERIP will not be refilled. Savings will occur principally due to this reduction in the State workforce. This will allow workforce reductions without having to resort to significant additional layoffs and will create re-employment opportunities for some previously laid off workers. Additional savings will accrue due to the lower average initial compensation of replacement workers and due to the anticipated savings from the interim valuation of the State Employees Retirement System that will be done.

The ERIP will provide “three chips” (three bonus years) to be used for age or service, or a combination of the two. All employees age 52 or older with at least ten years service or hazardous duty employees with at least twenty years service will be eligible. Payments for accrued leave will occur over a three-year period starting July 1, 2005.

Over 10,500 employees will be eligible for the incentive and it is anticipated that at least 4,300 will take advantage of it. Combined general fund and special transportation fund savings of $22.7 million in FY 2002-03, $164.4 million in FY 2003-04 and $150.5 million in FY 2004-05 are anticipated.

A second targeted ERIP is being proposed for the FY 2005-07 biennium. Under this proposal, the administration would have the ability to offer early retirement to individuals in certain agencies, programs, or classifications to reduce costs in the outyears.

Employees Eligible for the Proposed Early Retirement Incentive Program*
(State Employees Retirement System - All Funds)

Agency	Eligible Employees	Agency	Eligible Employees
Legislative Management	64	Commission on Human Rights and Opportunities	31
Auditor of Public Accounts	22	Office of Protection & Advocacy for Persons with Disabilities	6
Commission on Children	2	Workers' Compensation Commission	31
Governor's Office	3	Department of Agriculture	19
Secretary of the State	22	Department of Environmental Protection	200
Ethics Commission	2	Connecticut Historical Commission	8
Freedom of Information Commission	3	Department of Economic and Community Development	47
State Property Review Board	4	Agricultural Experiment Station	24
State Treasurer	35	Department of Public Health	203
State Comptroller	69	Office of the Chief Medical Examiner	14
Department of Revenue Services	174	Department of Mental Retardation	1,103
Division of Special Revenue	45	Department of Mental Health and Addiction Services	885
Department of Administrative Services	102	Department of Transportation	705
Office of Policy and Management	71	Department of Social Services	656
Department of Veterans' Affairs	93	Soldiers, Sailors and Marines Fund	4
Department of Information Technology	72	Department of Education	574
Department of Public Works	82	Board of Education and Services for the Blind	31
Attorney General	98	Commission on the Deaf and Hearing Impaired	10
Division of Criminal Justice	95	State Library	39
State Marshall Commission	3	Department of Higher Education	6
Department of Public Safety	328	University of Connecticut	845
Police Officer Standards and Training Council	12	University of Connecticut Health Center	300
Department of Motor Vehicles	220	Charter Oak State College	2
Military Department	24	Teachers' Retirement Board	7
Commission on Fire Prevention & Control	21	Regional Community - Technical Colleges	551
Department of Banking	24	Connecticut State Universities	608
Department of Insurance	31	Department of Corrections	395
Office of Consumer Council	6	Board of Parole	10
Department of Public Utility Control	36	Department of Children and Families	447
Department of Consumer Protection	43	Judicial Department	544
Labor Department	355	Public Defender Services Commission	72
		Total - All Funds	**2,161**

* Governor Rowland's offer of 1/27/03.

Total work force reduction and savings

Taking the layoffs and ERIP together, the state's work force will be reduced by at least 4,544 after some refills of positions throughout the biennium. The total savings between the two work force reductions is $304 million in FY 2003-04 and $310.8 million in FY 2004-05.

In essence, at least $304 million in workforce savings would be achieved in FY 2003-04. The latest state offer might have saved $40 million more, or $342 million, but $50 million of this is a one-time savings in pension funding. Thus, this package of layoffs and ERIP is roughly equivalent to the general and transportation fund savings that were being requested from labor givebacks. More important, it is real ongoing savings without inhibiting the state's ability to manage its business.

Impact of Layoffs, Separations and ERIP* on FY 03-05 Budget
General Fund & Special Transportation Fund
(In Millions)

	Est FY 04	**Est FY 05**
Estimated Savings of Layoffs and Other Separations		
Personal Services	$112.2	$127.2
Fringe Benefits	27.4	33.1
Total Estimated Savings due to Separations	$139.6	$160.3
Early Retirement Incentive Program Estimated Savings		
Personal Services	$151.5	$143.5
Fringe Benefits	12.9	7.0
Total Estimated Savings due to ERIP	$164.4	$150.5
Total Estimated Savings - Separations & ERIP General & Special Transportation Fund	$304.0	$310.8
Total Estimated Savings by Fund		
General Fund	$277.7	$284.5
Special Transportation Fund	$26.3	$26.3

* Governor Rowland's offer of 1/27/03.

Impact of Layoffs, Separations and ERIP*
on FY 03-05 Budget - All Funds

	Est FY 04	**Est FY 05**
Workforce Reductions		
Total Layoffs & Other Separations	(3,006)	(3,006)
Early Retirement Incentive Program (ERIP)	(4,338) **	(4,338) **
Total Workforce Reductions as of 6/30/03	(7,344)	(7,344)
Workforce Increases		
Additional Filled Through 6/30/04	2,000	2,000
Additional Filled Through 6/30/05		800
Total Workforce Increases	2,000	2,800
Net Impact on Workforce - All Funds	**(5,344)**	**(4,544)**

* Governor Rowland's offer of 1/27/03
** Estimated participation (all funds) in the Governor's proposed Early Retirement Incentive Program (ERIP)

Other potential work force reductions

The administration will continue to look at opportunities that can save money beyond the net savings assumption for the ERIP.

ERIP provides opportunities to reduce the scope of public sector services and transfer responsibility to the private sector without having to lay staff off. For example, in the Department of Mental Retardation, group homes currently operated by the public sector could be put out to bid for operation by private, nonprofit providers at a cheaper cost. Early Connection services could be transferred from public to private providers in a similar manner. Similar opportunities may also exist in the Department of Mental Health and Addiction Services.

As a result, taxpayers would benefit from lower overall costs. Further, portions of any unanticipated savings could be infused back into the system by dedicating it to private provider salary increases to help close the wage gap between the public and private sectors and to augment critical services, such as beginning a new program to reduce the waiting list or augmenting mental health services.

Also, the implementation of a new human resources, payroll and accounting systems in Core-CT in the coming year will provide the State with the opportunity to streamline business procedures and to review the most efficient ways to organize these administrative functions. It may be possible to absorb significant reductions in these areas due to early retirement.

Other personnel services savings measures

Removing money for unsettled contracts

Because the State is facing substantial financial problems in the current fiscal year as well as the upcoming biennium, and in an effort to achieve the $94 million in additional lapses attributable to employee concessions as required by P.A. 02-1of the May 9 special session, increases for unsettled contracts are being removed.

For those units that were unsettled as of June 30, 2002, no funds have been built in for any contract increases for FY 2002-03, FY 2003-04 or FY 2004-05. For those units that were unsettled as of June 30, 2003, no funds have been built in for any contract increases in FY 2003-04 or FY 2004-05. For those units that were unsettled as of June 30, 2004, no funds have been built in for any contract increases in FY 2004-05. Over half of the unionized employees are covered by contracts that are either unsettled now or will expire by June 30, 2004.

The administration will argue in negotiations and arbitration that the lack of union concessions and the fiscal exigencies of the state call for wage freezes for these unsettled units throughout the biennium.

Funding Removed for Unsettled Collective Bargaining Contracts
Appropriated Funds

	Recommended FY 03-04	Recommended FY 04-05
Appropriated Funds		
General Fund	(58,260,486)	(117,142,974)
Special Transportation Fund	(2,883,241)	(5,251,036)
Soldiers', Sailors' and Marines' Fund	(37,710)	(41,548)
Regional Market Fund	(5,902)	(13,968)
Banking Fund	(369,796)	(787,468)
Insurance Fund	(488,036)	(1,025,386)
Consumer Counsel & Public Utility Fund	(408,404)	(838,995)
Worker's Compensation Fund	(485,855)	(863,546)
TOTAL - Appropriated Funds	**(62,939,430)**	**(125,964,921)**

Notes:

Collective bargaining contracts unsettled as of 6/30/2002 - No funds are included in the budget for FY 03, FY 04 and FY 05. Bargaining units are: Administrative Clerical (NP-3), Charter Oak College Professionals, Correctional Supervisors, Judicial Employees, Judicial Professional Employees and Social & Human Services (P-2).

Collective bargaining contracts unsettled as of 6/30/2003 - No funds are included in the budget for FY 04 and FY 05. Bargaining units are: Administrative & Residual (P-5), DCJ Prosecutors and Juvenile Prosecutors (Assistant Public Defenders - statutorily related non-union group), Higher Education Professionals, Vocational-Technical Directors and Vocational-Technical Faculty.

Collective bargaining contracts unsettled as of 6/30/2004 - No funds are included in the budget for FY 05. Bargaining units are: Connecticut State University Faculty (wage reopener), Corrections (NP-4), Judicial Marshals, Protective Services (NP-5) and State Police (NP-1).

Sweeping the Reserve for Salary Adjustment account

Funds were conventionally built into the Reserve for Salary Adjustments (RSA) account based on anticipated collective bargaining requirements. We can no longer afford to provide funding for potential requirements. Funds in the FY 2002-03 account that are committed for specific contract requirements will remain; the balance of the funding will be transferred to help cover the FY 2002-03 deficit. The FY 2003-04 and FY 2004-05 recommended amounts are also limited to specific contract requirements.

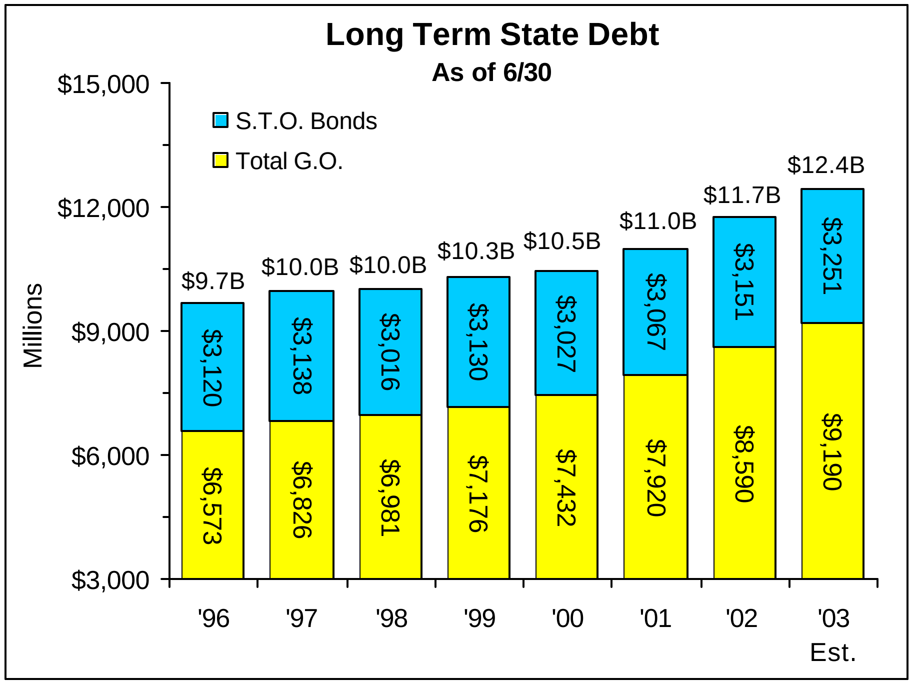
During any negotiations or arbitrations over unsettled matters related to the RSA monies, the administration will argue that the fiscal exigencies of the state forced the removal of dollars for these matters.

The Capital Budget

Because of the current fiscal crisis and the downturn in the economy, Governor Rowland has massively scaled down his bonding authorization and allocation program. He has come up with a prudent capital budget that meets the minimum requirements of state government while making a priority of the investments that will have major benefits in the future.

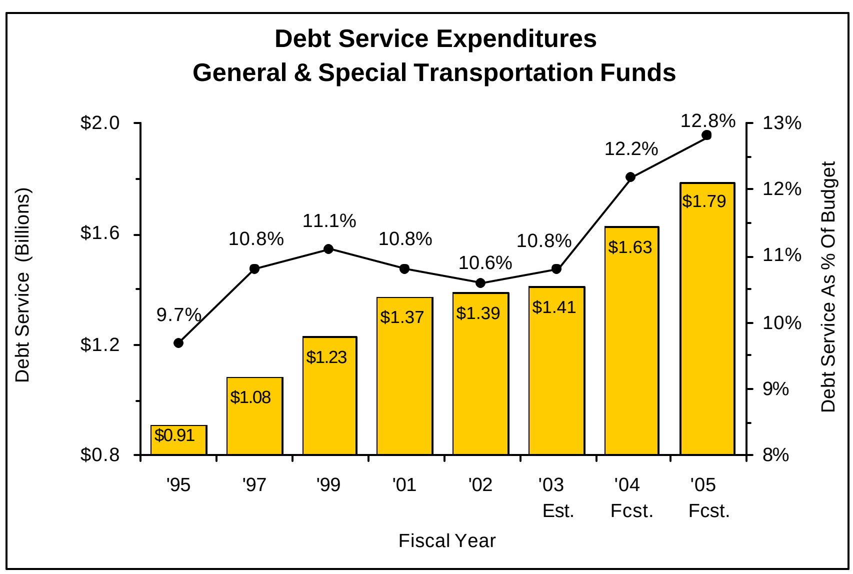
The statutory bond limit no longer comes into play because of the major tax increases in this budget. Including this capital budget submission, the state's debt incurring margin would be $2.179 billion as of July 1. We would sit about $750 million below the soft 90 percent debt cap.

However, given the uncertain times prudence dictates that our capital program and debt issuance be reined in significantly. Thus, Governor Rowland has put a moratorium on discretionary bond projects. For the foreseeable future, only school construction, higher education, transportation, and emergency needs will be bonded. This policy has already reduced the allocations at the State Bond Commission by hundreds of millions of dollars.



As can be seen from the accompanying chart, long-term GO state debt continues to increase over $600 million on average per year, much of that driven by the school construction conversion. After leveling off for a period of time, our debt service as a percentage of general and transportation fund expenditures is again rising, principally because school construction activity is vigorous, debt service on the economic recovery funds will kick in, and surplus allocations for debt avoidance have gone away.

Debt service as a percentage of general and transportation fund expenditures is expected to leap from 10.8 percent this fiscal year to 12.2 percent in FY 2003-04 and 12.8 percent in FY 2004-05. The actual amount of debt service will increase next fiscal year by $203 million and another $159 million in year two of the biennium. About $50 million of the increase in each year is attributable to payments for the five-year notes to retire the FY 2001-02 deficit.



Net new general obligation authorizations for FY 2003-04, including the UCONN 2000 program already in law, are $900 million, up from $537 million in the current fiscal year but still substantially down from the authorizations from FY 1998-99 to FY 2001-02. In 2004-05, net new authorizations, including UCONN 2000, will be $1.05 billion. As will be noted later, the majority of the capital package is school construction authorizations.

School construction authorizations for FY 2003-04 will be $488 million and $623 million in FY 2004-05. That is between 50 and 60 percent of all bond authorizations each year. This compares with authorizations in the early to mid 1990s of between $73 million and $130 million annually.

Total education-related authorizations are $843 million, or 94 percent of total net authorizations in FY 2003-04, and $891 million, or 85 percent of total net authorizations in FY 2004-05.

The Special Transportation Fund will see net new authorizations of $242.7 million in FY 2003-04 and $195 million for FY 2004-05.

Local School Construction Bond Authorizations*

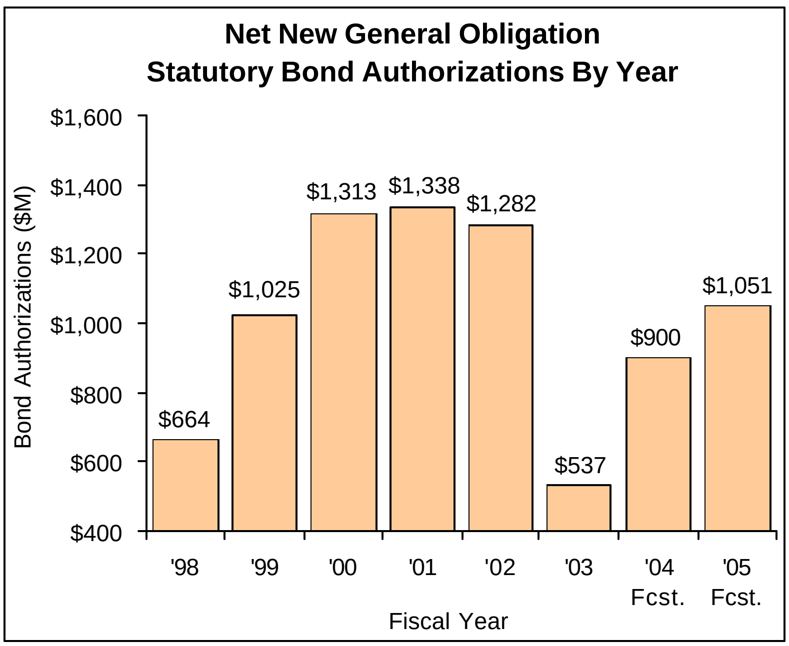
(In Millions)

Fiscal Year	**Total**
91	73.0
92	148.0
93	112.0
94	129.1
95	138.0
96	130.0
97	130.0
98	176.8
99	301.6
00	376.8
01	410.0
02	120.0
03	430.0
04-Est	488.0
05-Est	623.0

***Does not reflect subsequent legislative cancellations**

Major cancellations proposed include:

- $132 million in the urban act in FY 2003-04, on top of $154 million reduced in FY 2002-03. Over $60 million will be available for projects.
- $20 million in the Manufacturing Assistance Act. About $50 million remains for use for projects.
- $100 million in Clean Water GO bond authorizations. $25 million will be available to match about $100 million in Revenue bonds.
- About $10 million in open space preservation funding.



School construction changes

The school construction conversion program as well as vigorous school construction activity in urban areas and the vocational-technical schools are creating some short-term spikes in our bond authorizations and debt service. Returning to the old program – where the state essentially bonded twice for the same school project – is tremendously costly. The current system, while costly now because we are paying off the old bonds and issuing new ones, will save the state hundreds of millions in the long run.

Worrisome, though, is the fact that the latest priority school list was still at the $1 billion level, after being $1.7 billion the year before. The Governor does not want to retreat from his commitment to keep issuing the state's share of school projects to towns upfront, but we need to limit the annual exposure of school priority lists.

To this end, the Governor proposed and gained passage of a number of reforms last session:

- The reimbursement rate was lowered from 100 percent to 95 percent for the construction of Vocational Agriculture Centers, Regional Special Education facilities, and Interdistrict Magnet schools. It is only appropriate that communities financially contribute to the facilities that they will use. It should be noted that this is still a more generous reimbursement formula than the 20 percent to 80 percent for non-specialized School Construction projects.

- Effective for the December 2003, communities are required to gain local approval before any project is submitted for inclusion on the School Construction priority list. Too often, communities submit major projects that ultimately fail in local bond referenda. Having communities receive approvals prior to priority list inclusion should result in more thoughtful, more cost-effective projects (or the voters simply will not approve them.)

- School construction lists are limited to $1 billion annually for two lists beginning with the list submitted in December 2003.

Because of surging debt service and our fiscal exigencies, the Governor is proposing further reforms to reduce the amount of growth in the school construction program. The State will continue its new cheaper form of funding, but will delay some school construction projects to save on debt issuance and service. The legislation will:

- Reduce the December 2001 school construction list of about $1.7 billion and move $400 million to the December 2002 list.

- The current December 2002 school construction list is about $1 billion. This list will be reduced to $600 million in new projects in addition to the $400 million moved from the December 2002 list. The $400 million removed from the December 2002 list will be moved to the December 2003 list.

- The December 2003 list will be limited to $600 million in new projects in addition to the $400 million moved from the December 2002 list.

- The December 2004 and 2005 lists will be limited to $600 million. Thereafter, lists will be capped at $800 million.

- State reimbursement for new (not delayed) projects on the December 2003, 2004 and 2005 lists will be 10 percentage points below current statutory levels, meaning the scale will change from 20-80 percent to 10-70 percent for the three years. Thereafter, reimbursement will return to current levels.

  In terms of the limitations to the 2001 and 2002 lists, all efforts will be made to delay only those projects that have not yet received local approval or those that are not significantly through the planning stage. If reductions are not enough from those items, the commissioner will judge what is delayed by whether it is in the best interests of the state for the project to move quickly (overcrowding, safety or racial isolation issues, for example) and how often a town has participated in the program.

- In order to further control the staggering growth in the local school construction program, Governor Rowland is recommending one year delays in the starting dates of numerous vocational-technical school construction projects. For example, the initial Prince and Cheney Regional Vocational Technical School construction costs would have been required in FY 2003-04 and the balance of funds in FY 2004-05. The Governor's proposal is to move these initial costs to the second year of the biennium and the balance to FY 2005-06. This delay, and the delay of the other vocational-technical schools along the way, will result in a reduced bond authorization of $70 million in FY 2003-04 and $30 million in FY 2004-05.

Even with these changes, school construction authorizations continue to increase dramatically. For example, payments to towns for schools is expected to be just shy of $500 million in the current fiscal year. They will reach $623 million in FY 2004-05.

Capital initiatives

As noted above, the vast majority of capital bonding over the biennium will be school construction and higher education. Other projects included in the bond package not already noted:

- $20 million more for the core financial system overhaul in FY 2004-05.
- Local capital improvement program monies for towns of $30 million in each fiscal year.
- As noted earlier, the continued development of the integrated tax administration system will receive $20.1 million in each year.
- $10 million in year one for affordable housing.
- $25 million in year two for Clean Water GO bonds.
- $7 million over the biennium to repair a building at UConn Law School.
- $10 million annually for prison infrastructure.

Limitation on allocations in biennium

Governor Rowland will continue the aggressive scrutiny of bond projects throughout the biennium. Hundreds of millions in reductions are planned. The following chart shows that, by and large, only school construction and higher education authorizations will be allocated at the State Bond Commission. Just $200 million in each fiscal year is programmed for all other allocations.

Allocation Schedule Calendar 2003 & 2004

Agency/Fund	Est. 2003	Est. 2004
CTC	$80.0	$80.0
CSU	80.0	80.0
UConn	100.0	100.0
School Const/ASD/VT	450.0	600.0
All Other	200.0	200.0
Total	**$910.0**	**$1,060.0**
Average per meeting	82.7	96.4

Municipal Aid

The last hundred plus pages of this budget summary have described the numerous affected constituencies throughout the state of Connecticut. The message has been that the pain of tax increases and spending cuts is being shared across the board. Like labor costs, municipal aid is a big portion of the state budget. Consequently, towns must be part of any plan to balance the state budget.

The backdrop to any discussion about municipal aid reductions must be the tremendous increase in state support over the past eight years. From FY 1994-95, even with the municipal reductions in this budget, statutory aid will have increased from $1.558 billion to $2.143 billion, a growth of $585 million over a decade, or 38 percent. Total state spending grew about 43 percent, but it's clear that the state budget shoulders the burden of high-growth entitlement programs, something municipalities do not deal with in this state anymore. The bottom line: we have not skimped on municipal aid.

True, there have been reductions in the current fiscal year to municipal aid. If the Governor's package is agreed to, the cuts reach over $100 million. But moving into next year, funding levels would not dramatically go down from the new current fiscal year aid levels. They would drop $9 million in FY 2003-04, and then go up about $12 million in FY 2004-05.

Summary - Estimated Formula Grants to Municipalities (In Millions)

Grant	Estimated Fiscal 2003	Recommended Fiscal 2004	Fiscal 2005
State-Owned PILOT	$65.0	$65.0	$65.0
College & Hospital PILOT	100.9	100.9	100.9
Pequot Grant	77.5	85.0	85.0
Town Aid Road Grant	12.5	12.5	12.5
LoCIP	30.0	30.0	30.0
Miscellaneous General	22.6	16.8	16.8
Machinery & Equipment	48.1	47.7	44.3
Sub-total - General Government	$356.6	$357.9	$354.5
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	1,516.3	1,488.0	1,488.0
Miscellaneous Education Grants	203.4	221.2	236.5
Sub-total - Education	$1,784.0	$1,773.5	$1,788.8
Total - Formula Grants	$2,140.6	$2,131.4	$2,143.3

The truth is, whatever municipal leaders think of the reductions Governor Rowland has proposed, he has been consistent in the monies he has asked for since December. Despite the rising budgetary gap since that time, the budget you see before you asks for no more reductions in statutory grants in the aggregate.

The most prominent point in this debate, however, is the fact that many municipalities have significant undesignated fund balances to fall back on, even though the state has run through its entire $600 million Rainy Day Fund. While it is not prudent for towns to live off their reserve funds, it also is not unreasonable to ask them to use portions of them this fiscal year and next and move toward realigning town expenses just as the state is doing in this biennial budget.

Notable municipal formula aid changes are as follows:

PILOT Payments

Both the PILOT on State Owned Property and the PILOT on Private Tax Exempt Property are being funded at the FY 2002-03 level of $65 million and $100.9 million, respectively.

Fully funding the PILOT on State Owned Property would have cost the state $69.9 million in FY 2003-04 and $87.4 in FY 2004-05. Fully funding the PILOT on Private Tax Exempt Property would have cost the state $104.5 in FY 2003-04 and $125.2 in FY 2004-05.

Pequot aid

About $6.75 million was reduced from the Pequot grant utilizing the Governor's extraordinary rescission authority this fiscal year. The Governor is proposing a further cut of $50 million this fiscal year, bringing estimated funding to $77.5 million. The grant would be funded at $85 million in each year of the biennium.

June 30, 2002 Fund Balances for Selected Municipalities

Muncipality	Total Fund Balance (Deficit)	Reserved Fund Balance	Unreserved Designated Fund Balance	Unreserved Undesignated Fund Balance
Bridgeport	41,155,512	2,584,394	0	38,571,118
Bristol	21,831,000	2,013,000	4,014,000	15,804,000
Cheshire	6,101,138	1,528,949	380,000	4,192,189
Danbury	12,194,220	788,134	0	11,406,086
East Hartford	5,975,000	473,000	495,000	5,007,000
East Haven	7,135,707	246,124	2,926,432	3,963,151
Enfield	17,651,006	3,835,074	6,245,000	7,570,932
Hartford	31,783,000	3,629,000	5,341,000	22,813,000
Killingly	3,146,424	204,193	592,699	2,349,532
Mancherster	9,535,000	1,582,000	2,828,000	5,125,000
Middletown	8,595,000	1,528,000	2,239,000	4,828,000
New Britain	6,594,000	1,417,000	0	5,177,000
New Haven	17,658,226	0	0	17,658,226
New London	11,646,963	330,645	5,466,666	5,849,652
North Haven	10,798,705	2,953,717	600,000	7,244,988
Norwalk	15,480,460	0	3,750,000	11,730,460
Norwich	8,446,511	288,424	0	8,158,087
Stamford	5,202,300	4,089,821	0	1,112,479
Torrington	9,390,213	3,174,396	1,626,711	4,589,106
West Hartford	11,605,000	453,000	0	11,152,000
West Haven	7,749,000	270,000	0	7,479,000
Wethersfield	4,350,233	318,976	475,000	3,556,257
Windham	10,454,449	2,186,378	462,600	7,805,471

Note: The following Municipalities audit reports are on extension: Greewich, Groton, Hamden, Meriden,Stratford, Wallingford and Waterbury. **Waterbury is expected to register a fund balance on June 30, 2002 of about $12 million.**

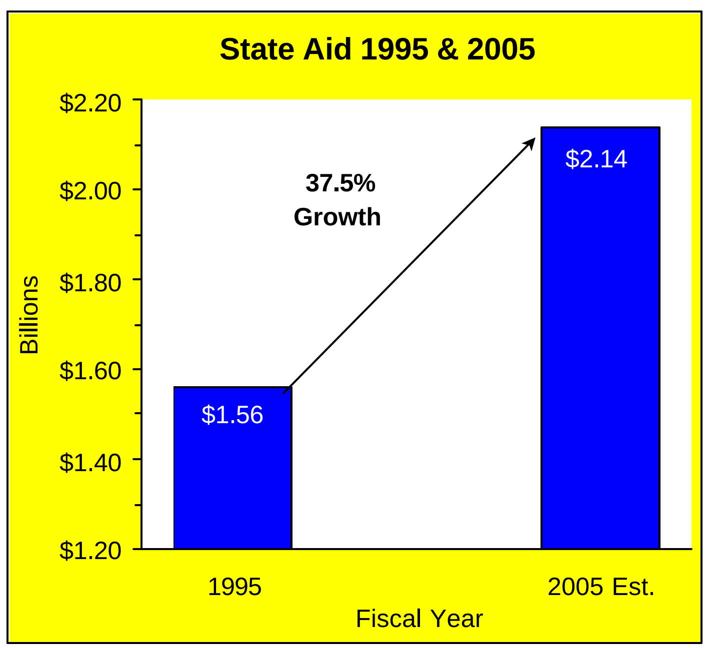
Town Aid Road

Town Aid Road was reduced in the original FY 2002-03 adjusted budget to $25 million from $35 million in FY 2001-02. The Governor's deficit plan proposes to reduce the funding level to $12.5 million and carryforward that level throughout the biennium.

Manufacturing Pilot

Given Connecticut's current economic condition, the Governor proposes to modify the manufacturing pilot to return it to its original form as a grant to support and encourage the purchase of new manufacturing machinery and equipment. Over the years, amendments to this grant have resulted in the inclusion of items for exemption that do not meet the original intent of this grant. As a result, the Governor proposes the following amendments in recognition of the fact that current revenues cannot support the grant in its present form.

- The program immediately will no longer cover motion pictures, video and sound recordings, and machinery and equipment used in direct or indirect mail distribution services (i.e., property used in presorting, sorting, coding, folding, printing, stuffing and delivery).



- Removes exemption eligibility effective for the October 2003 grand list for used manufacturing machinery and equipment and makes only those primarily engaged in manufacturing or biotechnology eligible for an exemption.

- Removes eligibility immediately for commercial vehicles, including trucks for hire.

- The biennial budget reduces reimbursement to towns from 80 percent to 65 percent effective next fiscal year. Businesses that continue in the program cannot be charged any tax by the town for the eligibility period. The Governor believes this reduction is fair. The state will still be paying two-thirds of the abated tax and towns would not have seen the aggressive grand list growth many of them did without this program. It should be noted, too, that this program was originally meant to be temporary and as an aid to help firms convert from defense contracting.

- The grant is flat-funded in year one and drops about $3 million in year two to $44.3 million. Because the state is not even funding at the 65 percent level, permanent pro-ration language is being proposed for the statute.

Other municipal changes

- The vast majority of major school grants, with the exception of ECS, are flat funded. ECS is funded at $28 million below the current fiscal year level. An explanation of the reduction from current services is in the education section of this summary.

- Magnet school grants are growing profoundly. Efforts to reduce racial isolation and improve urban education are described in the education section.

- As was the case last fiscal year, the $5.1 million for two housing PILOTs to towns are being eliminated. Charts listing the towns affected in each grant are included here.

- The Local Capital Improvement Program is funded at its current level of $30 million for both years of the biennium.

- The Distressed Municipalities Program, which pays towns for enterprise zone abatement benefits, is being capped at this fiscal year's level through the biennium.

- Consistent with the Governor's deficit mitigation plan, the $50,000 grants to five towns that host wastewater treatment plants are being eliminated permanently.

Level Funded Grants

General Government

Distressed Municipalities
Property Tax Relief Elderly - Circuit Breaker
State-Owned Pilot
College and Hospital Pilot
Town Aid Road
LOCIP
Machinery and Equipment Pilot

Department of Education

Vocational Agriculture
Transportation of School Children
Adult Education
Health and Welfare Pupils in Private Schools
Bilingual Education
Priority School Districts
Young Parents Programs
School Breakfast Program
Excess Costs-Student Based
Non Public School Transportation
School to Work Opportunities
Youth Service Bureaus
Lighthouse Schools
Early Reading Success

State Library

Grants to Public Libraries
Connecticard Payments

Eliminate Property Tax Exemption for the Disabled.

This change will result in the removal of exemptions for totally disabled persons for which the state currently pays approximately $419,000. Most totally disabled persons receive benefits under more than one state-reimbursement program.

Tax Abatement Payments

TOWN	FY 2001-2002
City of Ansonia	12,334
Town of Bethel	41,526
Town of Bloomfield	53,449
City of Bridgeport	151,299
City of Danbury	26,039
Town of Granby	12,334
City of Hartford	609,000
Town of Kent	7,812
Town of Middletown	69,214
City of New Britain	34,536
City of New Haven	465,936
Town of Norwalk	128,186
City of Stamford	393,968
Town of Waterbury	237,643
Total	**$2,243,276**

PILOT Payments

TOWN	FY 2001-02	TOWN	FY 2001-02
City of Bristol	98,933	Town of New Cannan	11,310
City of Danbury	213,300	City of New London	161,011
Town of Darien	59,746	City of Norwich	203,551
Town of East Hartford	63,219	Town of Ridgefield	17,892
Town of Enfield	183,144	Town of Seymour	94,761
Town of Greenwich	211,175	Town of Sharon	11,566
City of Hartford	330,222	City of Stamford	467,911
Town of Mansfield	18,725	Town of Stratford	76,692
Town of Meriden	133,849	Town of Westport	27,819
Town of Middletown	141,603	Town of Wethersfield	18,852
City of New Britain	276,083	Town of Windham	78,636
Grand Total	**$2,900,000**		

Eliminate Non-income Qualified Veterans from the Additional Veterans Exemption.

The non-means-tested portion of the veterans reimbursement program would be eliminated. Although they would not be reimbursed by the state, towns would be obligated to continue offering this additional exemption. Reimbursement for low-income veterans would continue. A savings of $5.9 million would occur by not reimbursing towns for the non-means-tested veteran exemption. The state would continue to pay $2.9 million for the means-tested portion of the program.

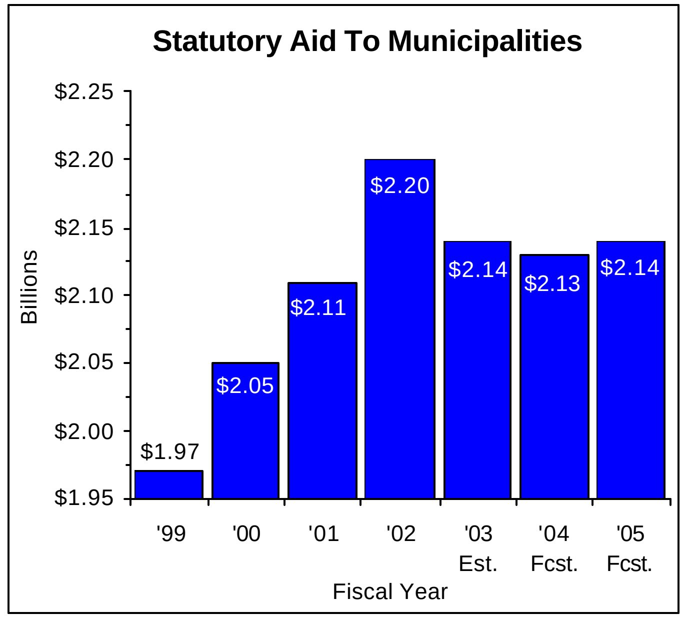
About 185,000 veterans would still get a property tax break, but the state would not reimburse towns for them. About 22,000 mean-tested veterans are unaffected.

In addition, legislation would remove the cumulative increase provision in veterans' exemptions due to revaluation, effective for assessment years commencing on or after October 1, 2003, and provide a hold harmless provision so that veterans cannot receive an exemption that is less than the amount available to them on October 1, 2002.

Remove the COLA adjustment for needs-based programs

The budget proposes to remove the annual Social Security Cost of Living Adjustment provision for a number of OPM grants. Income limits for various need-based programs are automatically increased each year. It would also provide that the income levels for these programs remain at $26,400 for unmarried persons or $32,300 for married couples.

This will not affect income levels under §12-81g(a) for veterans with a disability rating of 100% from the United States Veterans' Administration, for whom only taxable income is counted. Income limits for such veterans would remain $18,000 for unmarried persons or $21,000 for married couples.



School-based child health reimbursement

The Governor proposes to restructure the current payment methodology for the sixty-four (64) Local Education Agencies (LEAs) that participate and receive Medicaid funding for costs associated with the school-based child health program. This program provides health services for eligible special education students. The program provides the opportunity for the towns and the state to share federal reimbursement for these services. Currently, the state retains 40 percent of the federal Medicaid revenue received and distributes the remaining 60 percent to the LEAs.

The budget proposes an equal sharing of the revenue. This change offsets higher Medicaid costs that would have to be budgeted next fiscal year.

Significant collective bargaining relief

Knowing the pressure that towns are under financially because of municipal aid reductions, Governor Rowland believes the time has come for additional collective bargaining and binding arbitration relief.

As such, the Governor is sponsoring a bill that allows a municipality to bow out of collective bargaining and arbitration for any unsettled contract for up to three years. The legislative body of the town would have to approve a resolution notifying a union with an open contract that it desires to keep the contract language, including wage levels and benefits, status quo for one to three years.

This proposal would provide more relief than state aid, and would more than offset the state aid cuts being proposed for the current fiscal year and into the biennium.

The Governor is proposing a similar state statute that allows the state employer as defined by statute to notify collective bargaining units of a desire to keep wages and benefits status quo for up to three years.

Conclusion

It's an understatement to say that no one will like this budget proposal. Frankly, the Governor and policy-makers who labored to get to the bottom line don't like it either. It is heavy on tax increases and heavy on spending cuts. It impacts the lives of tens of thousands of residents in negative ways.

Before critics go casting aspersions on the proposal, however, they need to step back and ask themselves: "What are the alternatives? Do we have any? Are they realistic?"

As has been outlined throughout this document, the twin pillars of a revenue gap and spending cap have come together to give the administration and now the legislature a monstrous chore.

The spending cap must be abided by and, thus, hundreds of millions of dollars in spending cuts must be passed. Revenue can be a part of the solution – but it cannot be all of it for a variety of reasons.

At the same time, no one can rationally argue that it can all be done on the spending side, either. That is unless they believe that we don't have an obligation to educate our children, provide for our elderly and disabled, pave the roads, and limit property tax increases.

Like the stock market, over the last several years, surpluses afforded to those involved in the budget process the ability to be everything to all people.

And like the stock market – that too has come to an end.